



**Council  
Communication**  
Office of the City Manager

<b>Date</b>	March 20, 2006
<b>Agenda Item No.</b>	<b>64</b>
<b>Roll Call No.</b>	<b><u>06-</u></b>
<b>Communication No.</b>	<b><u>06-140</u></b>
<b>Submitted by:</b>	<b>Larry Hulse, Community Development Director</b>

**AGENDA HEADING:**

Resolution adopting new policies and procedures for administration of the HOME Investment Partnerships Act (HOME Program)

**SYNOPSIS:**

The following policies and procedures establish a sixty-month work program for HOME funds, a budget for expenditure of the 2006 HOME funds, and an annual allocation process for the funds. Staff was directed to establish such procedures by Roll Call No. 05-2812 and Council Communication 05-651 on November 21, 2005. The procedures and policies follow recommended approaches from a recent "HOME Wellness Visit" by the U.S. Department of Housing and Urban Development (HUD) funded consultants, particularly the policies that guide commitment of HOME dollars for large projects using Low-Income Housing Tax Credits.

**FISCAL IMPACT:**

Amount: \$1,021,591.00 (This figure is for the calendar year 2006.)

Funding Source: HOME Entitlement Dollars Page 315 of Operating Budget ending June 2006.

**ADDITIONAL INFORMATION:**

The City of Des Moines has received HOME funds administered through the U.S. Department of Housing and Urban Development (HUD) since 1992 as a part of its Entitlement funds. Expenditure of HOME funds must be directly related to housing construction or housing renovation, for those households or persons below 80% of median income. Federal regulations provide for a sixty-month expenditure period for HOME funds, because a high percentage of HOME funds are used for housing development which can take a large amount of time to develop, build, and occupy. The City's past requirement for a one-year project year for HOME funds is incongruous with the HOME regulations for a five-year expenditure period.

In Council Communication No. 05-651 on November 21, 2005, the City Manager's Office directed city staff to develop a sixty-month work program agreement to facilitate expenditure and tracking of the

HOME funds. This involves determining an annual HOME budget for eligible activities and changing the City's allocation process to nonprofits and for profits. Over the past two months, Community Development and Housing Services Staff have worked with the Neighborhood Revitalization Board (NRB) and communicated with nonprofit housing providers to develop a new process for allocation of HOME funds. The NRB recommended approval of the HOME Loan Pool Procedures and Policies at its January 11, 2006 meeting.

**Five-Year Work Program**

Over the years, the City has funded five activities with HOME dollars:

- Owner-occupied Rehabilitation
- Owner-occupied New Construction
- Investor-owner Rehabilitation\*
- Investor-owner New Construction\*
- Home Buyer Assistance

\*In recent years, the largest expenditures of Investor-owner dollars have been leveraged with a Low-Income Housing Tax Credit (LIHTC) Project funded by the Iowa Finance Authority.

This basic outline of programs will continue. The NRB and staff do not propose beginning new types of HOME activities as dollars are declining.

**HOME 2006 Budget**

Des Moines will receive a total of \$1,021,591 HOME dollars in 2006. Determining an approximate percentage of HOME dollars to be spent annually for different categories of housing assistance is essential to the work program of the City of Des Moines, Community Housing Development Organizations (CHDO) and other nonprofit organizations.

The following is a recommendation for allocation of HOME dollars to be spent in 2006 consistent with the goals of the consolidated plan:

- 30% Owner-occupied Rehab; *(priority to households with children with elevated lead blood levels. Funds will provide a match for requests from HUD Lead Reduction Grant and Polk County Housing Trust Fund (PCHTF) Lead Reduction Grant.)*
- 10% Owner-occupied New Construction; *(Unexpended 2005 Investor owner HOME funds will be transferred to this account to increase this total. Developers must respond to a city issued Request for Proposal (RFP) to utilize this funding)*
- 40% Investor-owner Rehab *(This includes the Acquisition/rehabilitation Program of Community Development even if the property is ultimately sold to a Homeowner)*
- 20% Investor-owner New Construction.
- American Down Payment Assistance: *Special allocation that can be used for down payment assistance for low-moderate income households to become a first time homebuyer. The funding has been tied to homeownership in areas with an adopted neighborhood revitalization plan.*

	<b>2006</b>
HOME Allocation	\$1,021,591.00
10% City Administration	(\$102,159.10)
5% CHDO Administration	(\$51,079.55)
Program Income	\$100,000.00

<b>Total to be Allocated</b>		<b>\$968,352.35</b>
Owner-occupied Rehab	30%	\$290,505.71
Owner-occupied New Construction	10%	\$96,835.24
Investor Owner Rehab	40%	\$387,340.94
Investor Owner New Construction	20%	\$193,670.47
American Down payment Assist.(ADDI)	NA	\$22,908.00

### **HOME Annual Allocation Process**

Another change caused by enacting a sixty-month HOME work program is that the nonprofit and for profit agencies will no longer present requests to the NRB for an allocation of annual funding for projects. It is important to agencies, however, to know the amount of HOME funding that will be available for projects for the coming year so a process for allocation of funds needs to be followed:

- In early summer, Neighborhood Conservation Services (NCS) staff will distribute a letter to outside agencies asking for projects that meet the goals of the Consolidated Plan and providing information on the annual percentages of HOME dollars to be expended.
- If a project fits the goals of the Consolidated Plan, a nonprofit or for-profit agency has performed well, and other criteria to be developed, HOME dollars will be reserved and a “preliminary commitment of funds letter” will be issued. Financial underwriting according to the HOME regulations will be utilized in judging applications.
- In order to assure quality and meet deadlines for building seasons, the City annually issues a RFP for single family new home construction. In circumstances that enhance neighborhood revitalization efforts, the City will accept a developer initiated proposal after the RFP response period has been closed if HOME funds for new construction are still available.
- Except for single family new construction projects, a nonprofit or for profit can make application to NCS at any time for a preliminary funding commitment according to the allocation of funds in a category.
- Approximately 40% of the HOME dollars received will be reserved for LIHTC projects.
- NCS staff will provide a periodic report to the NRB indicating the preliminary commitment of HOME funds and status of committed funds.
- Staff will advise the NRB on any changes to the allocation percentages. There may be instances when mid-year corrections are necessary because more or less funding is needed for a particular project depending on demand for a program.

### **HOME Funds and Large Projects**

HUD staff recently recommended that Des Moines work with consultants on a “HOME Wellness” visit to ascertain the effectiveness of Des Moines commitment of HOME dollars. The consultants recommended that the City of Des Moines institute more strict underwriting and subsidy layering analysis prior to committing HOME dollars to projects. Large projects funded with City and State HOME funds and utilizing Low-Income Housing Tax Credits (LIHTC) particularly needed specific policies to guide city investment of HOME dollars. Three general policies for allocation of HOME dollars for LIHTC projects are proposed under the new budget and allocation process:

1. LIHTC projects may receive no more than 40% of the total HOME funds, unless the amount is exceeded because a developer is a nonprofit CHDO. That will leave some funds for new construction and rehabilitation of rental housing other than through the tax credit process.
2. LIHTC projects may receive no more than \$250,000 with all the money repaid to the city at a minimum 1% interest rate. The repayment does not have to begin immediately but can wait until the project has sufficient debt coverage ratios.

3. LIHTC projects must request State HOME funds in an amount equal to or greater than the City HOME funds requested.

### **Additional Requirements - Allocation of HOME funds to CHDOs**

Federal regulations require that least 15% of all HOME dollars be allocated to and spent by a CHDO. Typically Des Moines allocates more than 15% for CHDOs. At the current time, only Community Housing Development Corporation (CHDC), Spectrum Resources, and The Home Connection are CHDOs. Staff will monitor the applications/expenditures to ensure the 15% amount is allocated.

### **Operating Funds for Community Housing Development Organizations (CHDO)**

5% of the annual allocation of HOME funds can be provided to CHDOs for administration and/or capacity building. This amount is limited to \$50,000 or 50% of the operating costs of the CHDO, whichever is greater. This funding will be awarded to CHDOs that have met performance goals, are generally in compliance with HOME regulations and will be using HOME project funds in 2006. For 2006, CHDC has met these requirements and is recommended for operating funds

### **PREVIOUS COUNCIL ACTION(S):**

Date: November 21, 2005

Roll Call Number: 05-2812

Action: On proposed Second Year Action Plan (2006) for the 2005-2009 HUD Consolidated Plan. (Council Communication No. 05-651) Moved by Hensley to adopt the City Manager's recommendation, the City Manager to come back after January 1 with a recommendation on the reprogramming dollars with priority given to Demolition, CHDC and Excel. Motion Carried 6-1. Nays: Brooks.

### **BOARD/COMMISSION ACTION(S):**

Date: January 11, 2006

Roll Call Number: Neighborhood Revitalization Board

Action: Recommend approval of HOME policies and procedures

### **ANTICIPATED ACTIONS AND FUTURE COMMITMENTS:**

The City Council will review commitments of funds for new construction projects and any development using Low Income Housing Tax Credits.