HOUSING ADVISORY COMMITTEE
Policy Formulation and Best Practices Subcommittee
Minutes
Neighborhood Development Services Conference Room, City Hall
April 16, 2014
12:00 pm

Attendance Record	Present	Absent
MEMBERS		
Chris Murray	X	
Dan Rosensweig	X	
Frank Stoner	X	
Jennifer McKeever		X
Joy Johnson		X
Kristin Szakos		X
Mark Watson	X	
Lesley Fore	X	
Ridge Schuyler	X	
STAFF		
Kathy McHugh	X	
Margot Elton-Ratliff	X	

The meeting was called to order by Dan Rosensweig at approximately 12:05 pm.

Dan Rosensweig began the meeting by explaining to everyone that this group had been convened to discuss Policy 1, specifically in reference to homeownership. Overall, the HAC had thought that the rental and rehab pieces of the Policy update was a good approach, but that the homeownership end needed to be reconsidered to think further about the central question: how much equity to invest in the house and how much in the family. There are organizations across Charlottesville that operate on all stages of this spectrum. He then continued to say that, as was the case with the ADU regulations that the HAC had worked on recently, the desire is to keep the use of CAHF funding as flexible as possible. Today, the Charlottesville Affordable Housing Fund (CAHF) is a successful and desirable source of funding, and it ought to be kept that way.

He then said that he had spoken with Kathy McHugh the previous week and had come up with some language that could be written into the policy that would provide the desired flexibility while still giving the City some mechanism for accountability. Dan then turned the discussion over to Kathy.

Kathy McHugh thanked Dan for his efforts, but stated that she was struggling to put this into a written policy to ensure the ability to provide accountability as well as flexibility. To try to sort through everyone's ideas, she made a chart that allowed some organization between rental versus homeownership, and the different types of projects that utilize CAHF funds and possible periods of required affordability. She passed copies of this chart to all in attendance.

Chris Murray asked whether, as of now, if there was an established policy for required periods of affordability, or whether this was currently at the discretion of Kathy McHugh as recommended to Council. Kathy McHugh responded that there is a policy (i.e., November 3, 2008 Housing Policy #1 which is the subject of the current update), but that it is not being enforced, as was the case when she was hired in 2010. This policy requires a 30-year guaranteed affordability period for homeownership projects and an affordability period for the life of the City's investment for rental projects. These provisions were never incorporated into the City's grant agreement documents and were not being enforced when Kathy started, and so she has continued this practice. In fact, it was upon realizing that the agreement did not reflect the requirements in

Policy #1 that Kathy McHugh became interested in updating Policy 1. With respect to what is included in recommendations to Council for CAHF funding allocations, Kathy responded that there is no discussion of long term tracking or the required affordability periods.

Chris Murray asked whether anyone had ever protested / legally objected to any of Kathy's recommendations to Council for funding, to which Kathy McHugh responded that there had been objections to some of her recommendations, but that there had never been any lawsuits. At this early phase, however, the only thing in question is getting the funding in place, and not tracking it after the fact, so this question doesn't completely apply to the current discussion. Chris Murray responded that, if there aren't any legal problems with how things are run now, that he likes the current flexibility and would advocate for minimal changes.

Ridge Schuyler highlighted something that Kristin Szakos has said in the previous meeting, stating that the Policy was meant to eliminate discretion. He posed a question to the group: what is the end goal of the policy? – is it guidelines, or discretion? He understands the benefits to certainty for organizations, and for the City, but also understands the benefits of discretion, especially for unique projects. He proposed the possibility of a system that involves guidelines that can be followed for a quick approval process, but then would have a built-in mechanism that would allow for greater discretion tied to a longer process for projects that chose that route.

Kathy McHugh responded that the conversation was getting off onto a different topic – and that the group seemed now to be talking more about the process of *securing* a CAHF funding committment, rather than the process of tracking units and guaranteeing affordability after the fact. Since adopting the original Policy #1, the 2025 goal was adopted by Council, which aims for 15% supported affordable units. In order to have supported affordable units, there must be some mechanism for that support, but current Policy #1 mechanisms are not deemed to be satisfactory to either staff or the HAC>

Dan Rosensweig disagreed, saying that in nearly every CAHF project, there is some mechanism that supports affordability. That is true, Kathy McHugh acknowledged, but these mechanisms are not formalized as part of the Policy or the agreements, which makes them very difficult to track. The HAC often asks Kathy McHugh for updates on how many supported affordable units there are in the City, but without documentation and a uniform process, it is difficult for staff to track progress towards this goal.

Ridge Schuyler then stated that the way he sees it, there are two categories: rental and homeownership. Inside each of these categories, there is a decision to subsidize the unit or the family. Within each of these subcategories, there can be a different way to track, and different tracking mechanisms. He suggested using this to develop some sort of flow chart that would allow for the flexibility that the HAC wanted while still having a set system of accountability.

Dan Rosensweig proposed a system that would base the number of homeowner units tracked on a historical percentage of units that remain affordable long-term. To come up with this number, each organization (PHA & Habitat primarily) would be asked to look back through historical data and determine a ratio of families that are still in their homes versus families that have sold and gained equity from the sale of their homes. If this percentage showed, for example, that 75% of homes remained in the families for 30 years, then each unit from this organization could be tracked as 0.75 units at the time or original sale and it would not be important to try to track them down later on, for the City could assume that 75% of them would remain affordable units and thus the tracking would be accurate.

Ridge Schuyler added that this would fit within his flow chart idea – if money is allocated to facilities, the units themselves can be tracked (as whole numbers). If money is provided to families, then perhaps there is a way to track people.

Chris Murray said that the way he sees it, CRHA gets to double dip by having CAHF money and also getting Section 8 vouchers. He is a strong advocate for using CAHF funding to level the playing field between non-profit and for-profit developers, and sees that aiding with land purchase as being the best way to do this.

Ridge Schuyler said that there are two ways to make things affordable: by lowering the cost of the building, or by lowering the price of purchasing/renting the unit for a family. Lesley Fore asked about the idea of income phasing out – what happens when a family's income increases beyond the allowable level? Ridge Schuyler responded that it is only important that they qualify when they enter into the unit. The overall point would be to get people into a higher-income bracket and out of supported affordable housing, so there ought not to be penalties associated with an income increase.

Dan Rosensweig then asked the group to take a step back, saying that the conversation was getting too deep into the details when there are issues that need to be looked at from a higher altitude. The larger questions that need to be answered are: What does the group want Housing Policy #1 to do? What is the purpose and intent of the policy? He sees it as twofold: (1) to invite creative solutions to building housing; and (2) to help low-income families in building equity / wealth. If the group agrees to start with these goals as the premise, then a policy can follow.

Ridge Schuyler asked whether this type of twofold purpose would exclude using CAHF funding to subsidize rents. He sees this as a gap not covered by Dan Rosensweig's proposed end goals, but recognizes that this is done through Section 8 and perhaps doesn't need to be undertaken by the CAHF. Kathy McHugh added that there is a public housing program called Earned Income Disregard that allows for tenants whose incomes increase to remain in their units for 4 years while increasing the amount of rent being paid over time. This program is designed to help them build some savings while remaining in a low-cost unit. Chris Murray added that since rental subsidy is what Section 8 is specifically designed for, that he doesn't think that CAHF funding ought to be siphoned off for this type of program, which is already in existence, when it could be used for land acquisition which would ultimately allow for lower rents. Ridge Schuyler disagreed, saying that in his opinion reducing the cost of land is not the only appropriate way to achieve lower rental costs.

Dan Rosensweig suggested wording the policy so that it gives additional consideration for projects that recycle CAHF funds or provide long-term affordability. As part of this process, he suggested that the reputation of the organization should be considered – if the organization is an established one that has a reputation of providing affordable housing, this should be considered as a factor in its favor just as strongly as long-term affordability might be. He then asked the group how they could word the policy to ensure that they are supporting family equity while not allowing for houses to be flipped. He continued to talk about how Habitat uses hybrid models, which is not on either end of the spectrum of support – they are not solely supporting the family's equity nor ensuring permanent affordability of the unit. He isn't sure how this type of hybrid model, which he believes is the rule rather than the exception, would fit into Ridge Schuyler's framework.

Ridge Schuyler responded that in these cases, where projects are mixed-income and units are sold with some equity sharing, that the group would have to come up with some combination of both models to determine the appropriate required affordability. Perhaps the percentage of units under a specific set of requirements must remain affordable for a set amount of time, but not the specific units themselves, for example.

This solution does not provide adequate flexibility, said Dan Rosensweig. He wants to allow for the market to dictate how these developments change over time, and does not want to be held to ensuring that a set number of units (even if just a percentage, and not specific units) remains affordable in a specific development for a long period of time. Mark Watson agreed with this assessment, saying that this model of requiring a set number of units to remain affordable, would not allow for neighborhoods to evolve organically.

Ridge Schuyler said that he understood this point, but from a City perspective, he thinks that there needs to be some level of expectation of affordability. Dan Rosensweig again disagreed, saying that neighborhoods have to grow and change. Instead of requiring a set percentage of units to remain affordable, that the Policy ought to be written to allow for creative solutions that recycle funding. He suggested using very soft criteria, such as historical production of housing, as part of the application, along with a plan for continued production of affordable units. In his opinion, it ought to be sufficient to say that the money is going to a reputable organization (such as Habitat or PHA) and not require more information about specific numbers of units created and maintained.

Ridge Schuyler posed an example to help clarify what Dan Rosensweig and Mark Watson were advocating: Habitat builds a development, funded using CAHF monies, that included 20% affordable units, and then as the market evolved, this percentage decreased to 10%. Because when these units are sold, some of the money returned to Habitat in the form of shared equity, the City should presume that this money will be used to build other units, and because of the solid reputation of Habitat, the City should not worry about trying to track these units in the future?

Mark Watson responded that when a unit is sold, it is not about creating an affordable unit for another family – it's about building wealth for the original family. Money put into PHA is a gamble, inherently – it is possible that the market will take a turn down and families helped with CAHF money through PHA will not be able to sell their homes at a profit. When the model works, however, PHA receives their original down payment assistance back as well as a percentage of the equity built, and they are able to recycle this into other homes and families.

Chris Murray mentioned the Lochlyn Hills model, where a trust will be created that can be used to recycle funds. He suggested creating a similar trust from the CAHF that could be used to cycle funding into and out of the City for homeownership, which would allow families to build equity but also would allow the funding to come back to the City to be re-used after homes are sold. This would, he said, be a model that would be both flexible and provide accountability for the City. To this, Kathy McHugh responded that the idea is interesting but in reality, she isn't sure it would work. We have legal guidelines that dictate who the City can and cannot give funds to, and she isn't sure that this type of Trust would be allowed. Because of these legal limits, we typically only give money to non-profit organizations. We are also legally allowed to give or loan money to individuals to buy land/buildings/dwellings, but requirements vary and in certain cases the unit must be in designated need areas, as defined by CRHA. Currently, the City does not have any of these areas designated. Frank Stoner said that this sounded like a good program to fund, and wondered why CRHA hadn't created any of these designated areas to date.

Chris Murray asked whether funds could be delegated to a third party Trust legally. Kathy McHugh asked about where the money would come from to run this Trust. To this, Chris Murray responded that the money would come from CAHF. If, over the course of a few years, $1 million was put into this Trust, then from then on, some small amount could be taken out annually to pay administrative costs.

Lesley Fore asked whether there is an existing model of this, to which Frank Stoner responded that it's based upon the Trust that is being established at the Lochlyn Hills development. In this Trust, money cycles through the neighborhood, providing subsidies to low-income qualifying families to purchase homes. When they sell, the equity is shared and some of the proceeds are returned to the Trust to be used by another qualifying family to buy within the neighborhood. There is no cap on how much money can go towards the purchase of a single unit, making this trust a very flexible model.

Chris Murray asked how this Trust is being administered, to which Frank Stoner replied that PHA is administering it for them. PHA receives some small fee to cover their administrative costs.

Chris Murray advocated for this being one tool in the toolbox of strategies used by CAHF. It would involve funding over a period of several years (he suggested five years), but then he believed that it would be a flexible and useful homeownership model to employ.

Frank Stoner asked Dan Rosensweig about what tools Habitat uses to ensure affordability in its units. Dan Rosensweig responded that they use a variety of tools, including appreciation sharing, forgivable loans, non-forgivable loans, and others. Frank Stoner asked if there is a maximum subsidy that is provided, to which Dan Rosensweig responded that that's not something that Habitat tracks. They don't sell homes to families making less than 25% AMI or greater than 60% AMI, but as long as the family qualifies, they put in whatever it takes to make the deal work. Mark Watson added that until recently, PHA had not had a maximum cap, but that they had recently instituted a 20% maximum cap on loans.

Dan Rosensweig continued to say that he doesn't believe there should be any mandatory periods of affordability. He would support the Policy saying that it gives preference to proposals that have support mechanisms, fund recycling plans, or policies where funds are reinvested in the organization to provide for future use in other housing projects. He does not think that a model involving repaying to the CAHF would work, necessarily – this seems like it would get too complicated.

Kathy McHugh brought up the point that, in the current City tracking system, there is both a start and an end date listed for all units. This would not be possible under the new system Dan Rosensweig is proposing. Dan Rosensweig responded that this length of affordability should be a consideration, but not a requirement. Mark Watson agreed, saying that PHA often has difficulty selling some of their units due to the overload of restrictions on their funding. To place more restrictions on the sale would make some of the units virtually impossible to sell.

Ridge Schuyler acknowledges this point, but stated that the government needs to know where the money is. Knowing that the money returned to an organization from shared equity is used for another home is nice, but a formal mechanism is needed to assure this, given that the money is tax payer dollars. Chris Murray disagreed, saying that as long as the money is coming through an accountable organization, that Council should be satisfied, and not need to know the exact mechanisms of affordability and the duration of support. It is important for Council to trust in these reputable organizations. Frank Stoner agreed with this, saying that when CAHF funds are allocated oftentimes there is a lump sum given for site work, and this is not allocated house by house, so knowing what would need to be repaid and what went to each specific unit would be too complicated.

Dan Rosensweig asked about the mechanism for bringing new organizations into the system, if the reputation of the organization plays such a key role in the application. Kathy McHugh added on that this system also makes tracking difficult with respect to the 2025 goal. Chris Murray responded that Council could require, as a stipulation in receiving funds, that each organization track their own unit production and provide reports to the City on their progress. In order to receive funding the following year, their reports would have to be submitted from the previous year, which would act as an incentive for them to do this. New organizations could be asked to track and if their numbers are satisfactory, they could continue to receive funding.

Kathy McHugh pointed out that in order to use CAHF to create a Trust Fund, that there would need to be a permanent source of funding for CAHF. Currently, CAHF is funded through the CIP process annually, and does not have a permanent and guaranteed source of funding.

Dan Rosensweig said that in private organizations that give grants, they are often not specific requirements with respect to period of affordability. Instead, these foundations look for established organizations doing a certain type of work, with a plan to continue this work or expand it, and provide additional considerations for mechanisms of long-term guaranteed support. He suggested that our Policy mimic this format.

Chris Murray added that we could limit the wording to only allow for non-profit organizations to apply. Frank Stoner didn't agree with this, saying that there are other organizations in town doing affordable housing that are not non-profits that ought to be eligible for funding.

Mark Watson asked about the possibility of using PHA's CDFI to create this Trust.

Lesley Fore asked whether the group was advocating turning the entire CAHF into a Trust Fund, to this Chris Murray responded negatively – this was only intended to be one use of many inside the CAHF that could be used specifically for homeownership.

Kathy McHugh asked Frank Stoner who will actually own the trust fund at Lochlyn Hills, to which Frank Stoner said that they were still working on those final details.

Ridge Schuyler brought the conversation back to its fundamental question, saying that the government needs to be able to ensure that money invested in housing is actually creating units, but also that the Policy wants to be designed to allow this without tying the hands of those creating that housing.

Kathy McHugh said that while she likes Dan Rosensweig's suggestion of a general policy that would leave a lot to the discretion of the HDS, she also thinks that from the perspective of the organizations, she would think that they would want a little but more rigidity to fall back on. She thinks that there needs to be something more rigid in the Policy, because of the need to track units for the 2025 goal. Dan Rosensweig responded that all other funding from government sources is rigid, and that he is trying to keep this as a sole source that is the opposite. He then reiterated his idea of tracking on the basis of a percentage of units historically deemed to remain affordable in the longer term. Any home that is sold without restrictions on affordability would be tracked as a percentage of a unit, while any unit sold with restrictions could be tracked as a whole unit.

Ridge Schuyler asked about when this funding is recycled to a new family, and whether this would allow these units to be tracked as a whole since they are continually being recycled. Dan Rosensweig countered by saying that this is not always the case – while shared equity is often the case, sometimes 100% of the equity goes to the family and this needs to be taken into account. Ridge Schuyler suggested that perhaps models where 100% of the equity goes to the family aren't the best programs for City government to use tax dollars to support. Dan Rosensweig responded that if this proposal came in, that it might not be highly scored because of that fact, but that it ought to be considered. If the HDS is considering multiple proposals at one time, this proposal might not get a recommendation because of the lack of recycled funding and longer-term affordability.

Chris Murray reiterated that once proposals are accepted and given funding, that a condition of this funding ought to be tracking. Push the accountability down the chain to the recipient organizations. In response to this, Kathy McHugh said that a member of Council had recently asked to see a map of supported affordable units. They are interested in seeing where and how many units we have, which is difficult to provide when the organizations themselves are the only ones tracking. Currently, the City gets no notification when a PHA

DPA assisted house is sold, so we have no way of knowing whether the houses should still be in the database or should be removed. Chris Murray said that to solve this, Council could require annual tracking as a condition of being able to apply for CAHF funding in the next year.

Ridge Schuyler added that the problem lies more with when a house is sold, and the money returns to the organization (PHA, for example). At this point, the City has no idea what it is being used for. To this, Dan Rosensweig responded that his idea of generalized historical statistics is the only way to handle this problem.

Ridge Schuyler asked Kathy McHugh what she needs to physically show to Council, so he had an idea of what tracking is required. Kathy McHugh responded that she maintains a database of all supported affordable unit addresses along with start and end dates for the period of affordability, as well as type of assistance received. Council gets updated with the total number of affordable units, but they would like to have a map showing locations as well.

Ridge Schuyler continued to say that this tracking piece seems to be the sticking point for the group. There needs to be a way to show taxpayers how their money is being spent to help create affordable housing. The group needs to figure out a way to show that tax dollars are helping to meet the goals of increasing supported affordability if the money is circulated – given to a house that is then sold and reused for another house sale. How can this be tracked? Not really at the individual level, Ridge Schuyler said, but perhaps at the level of what the Trust Fund is doing (if the Trust Fund was created). Rather than trying to track each individual house, the City could track the use of the Fund.

Mark Watson suggested a system where money received by organizations from shared equity sales be returned to the City. For example: PHA is given $20,000 from the CHAF, which it puts into a house sale. 3 years later, this house is sold and PHA receives $30,000 as its portion of the sale equity. Perhaps PHA could keep a piece of this (possibly 10%) to cover administrative costs, and then return the remainder to CAHF so it can be reused and reallocated. Kathy McHugh responded that this was what had been originally proposed and turned down by the group. Dan Rosensweig added that this is not the only model that needs to be considered.

Chris Murray added that all that really is important is accountability, and if the organizations have accountability, then this should suffice for Council. He then suggested that the subcommittee try to put something on paper to draft out what the proposal could be, and give to Kathy McHugh.

Ridge Schuyler agreed with this, saying that he feels the group has gotten much further along but that it would be a good idea to try to write it down so that Kathy has something to go off of with rewriting the policy. He advocated for writing an accountability metric that isn't so tight that it restricts the fund usage but still provides assurance back to the funder (the City) that the money is being used for the intent that it was originally provided. This meeting has gotten them closer, in that they understand now that there are different categories that require different answers, and the answer on one category (homeownership with investment in family equity) is very difficult. This is still an excellent tool, however, and it shouldn't be thrown away just because the accounting is hard. So it is the responsibility of this group to determine how the accounting can be done, understanding that there is an obligation to the taxpayer, who has a right to know how the money is being spent. We don't want a policy that just builds rental, which is easy to account for and track. The flexibility of the money to be used for all other types of support is important, so those members of the group who are advocating for this flexibility need to sit down and come up with some way of allowing staff to account for the money while maintaining flexibility.

Kathy McHugh said that she is ok with some ambiguity on this end of the Policy, but she still needs some guidance.

Dan Rosensweig agreed with all of the above, and suggested appointing himself and Ridge Schuyler to a subcommittee of the existing subcommittee to flesh this out.

Chris Murray then said that the CHAF needed to be a fixed City obligation, and not funded through the CIP. Kathy McHugh responded that this had been a key project of Dave Norris', but that since his departure from Council, Kathy McHugh isn't sure that this is a priority at this point.

Lesley Fore asked about the payment mechanism of the CAHF – is it all reimbursement? Kathy McHugh responded that this was not always the case – if the organization is credible, it can be given upfront, but that in all cases that the City tries to work with the recipient organization to identify what is necessary to make the project work.

Frank Stoner said that he had just read a review of a book that speaks right to the challenge that this group is up against. Too often there are principles upon which policies are formed, which require regulations. As these regulations get fleshed out to the level of detail needed for administration, often they lose sight of the principle behind the whole thing. The book suggests moving back to reconsider the policy, and Frank Stoner sees this as where we are at with Housing Policy #1 revisions. Chris Murray agreed that the great thing about the flexibility of the Policy and the group is that they can go back and do this work.

Kathy McHugh then asked if the group would find it beneficial to hear from Mark Watson how PHA tracks their units and their funds. Mark Watson responded that there are seven funds that PHA uses, but that beyond that, he would have to gather additional data from his organization and present it at a later date, if the group desired. Each of these seven funds has different rules and regulations.

Kathy McHugh added that this level of complexity was not where the City wanted to end, but that there still has to be a mechanism for her to provide a solid number of supported affordable units for Council.

Mark Watson then added that when PHA gets CHDO funds, they are required to fill out some paperwork. When a house that used these funds sells, PHA takes out a percentage for administrative purposes and then the remainder of the funds have to be accounted for again. This has to happen a set number of cycles, and then PHA is released from the obligation to track this money. Perhaps this could be a system that could serve as model for CAHF.

Dan Rosensweig responded that often, money goes into *projects,* not units. So this type of tracking is complicated and doesn't apply to all projects.

At this point, the meeting was adjourned. It was decided that Ridge Schuyler and Dan Rosensweig would meet independently of the rest of the group and try to flesh out a written document that would reflect the conversation and allow for flexibility and accountability, and could be given to Kathy McHugh for incorporation into Housing Policy #1.