



CITY OF HARRISONBURG
OFFICE OF THE
CITY MANAGER

HARRISONBURG CITY HALL
409 SOUTH MAIN STREET, HARRISONBURG, VA 22801
OFFICE (540) 432-7701 • FAX (540) 432-7778

To: Ande Banks, City Manager
From: Liz Webb, Housing Coordinator
Date: August 20, 2024
Re: Requested Change to Funding Terms for Commerce Village II Annex Project

Summary:

The Harrisonburg Redevelopment & Housing Authority (HRHA) desires for the City to convert its ARPA Housing Development Fund award from a \$1.3 million loan with interest-only payments for thirty years at three percent interest to a \$1.3 million grant.

Background:

In December 2022, City Council approved a \$2 million Housing Development Fund as part of ARPA appropriations. The goal of the Fund was to support preservation and new construction of affordable housing, including affordable homeownership opportunities.

The Notice of Funding Opportunity (NOFO) was issued on August 8, 2023 and applications closed on October 6, 2023. Applications were evaluated by a committee comprised of the Housing Coordinator, the Director of Community Development, the Deputy City Attorney, the Grants & Programs Analyst, Atlantic Union Bank, and Chesterfield County. The evaluation criteria were available to applicants as part of the NOFO. Priorities included overall project feasibility and readiness, contribution to affordable housing, effective use and leveraging of funds, and consistency with identified housing needs. Ten applications were received.

In December 2023, the evaluation committee recommended two awards: a \$700,000 grant for 11 homeownership units to Habitat for Suter Street, and a \$1.3 million loan for 16 rental units to HRHA for the Commerce Village Annex. HRHA's application was for \$1.5 million in the form of a loan with interest-only payments for 30 years at 3% interest.

As City staff was finalizing HRHA's funding agreement in June 2024, Michael Wong, Executive Director of HRHA, communicated that he would like the City to consider conversion of HRHA's loan to a grant with all funds available up front, stating this would reduce HRHA's project costs and lessen its administrative burden for reporting to the City and paying the City interest. Upon receiving the agreement in July 2024, Michael Wong communicated that "Due to the reduced funding allocated to us, our ability to support interest payments is limited due to the need to obtain permanent financing from a local bank," and asked whether the City was willing to negotiate.

Key Issues:

HRHA's application for the Housing Fund was for a loan with interest-only payments for 30 years at 3% interest. The application was scored and selected for funding by the evaluation committee based on its requested loan structure and other application details. As HRHA did not request a



CITY OF HARRISONBURG
OFFICE OF THE
CITY MANAGER

HARRISONBURG CITY HALL
409 SOUTH MAIN STREET, HARRISONBURG, VA 22801
OFFICE (540) 432-7701 • FAX (540) 432-7778

grant in its application, it was not scored or evaluated against other projects on this basis. Approval of this conversion would set a precedent for altering the terms of funding awards after a competitive, transparent application and evaluation process.

The Housing Fund was a competitive process. Multiple other impactful affordable housing projects were not awarded funding— a decision that had significant impact to some other projects' competitiveness for other state-level funding and financial viability. The committee has not provided other applicants the opportunity to revise their applications and resubmit for consideration. If the City allows HRHA to revise its funding structure after award, it could appear unfair to other applicants that were not given an opportunity to be reconsidered for an award.

The loan interest payments from HRHA at \$39,000 per year were planned to be used by the City to fund on-going housing activities and to serve as seed money for a permanent housing fund. Conversion to a grant will remove this opportunity. Use of interest proceeds from loans to affordable housing projects to fund a housing fund is common practice in other localities in Virginia.

HRHA has shared projections of the project's increased costs and expenses, as well as documentation that reflects fewer sources of funding than anticipated. While we realize this is a pressure on HRHA and the project, we were informed that other project funders, including the Virginia Department of Housing and Community Development, are maintaining the terms of funding they awarded to the project, which includes collecting interest payments on loans.

Environmental Impact: N/A

Fiscal Impact: \$1.3 million and \$39,000 (interest) annually over thirty years

Prior Actions: December 2023 recommendations for award

Recommendation: City staff recommends maintaining the December 2023 funding award.

Alternatives: a) Direct City staff to convert HRHA's loan with a grant.

b) Direct City staff to negotiate new terms to maintain a loan, but with a lower interest rate and/or reduced term and/or delayed/deferred payment schedule.

c) Direct City staff to rescind the award and re-open the Housing Fund application process to all original applicants.

d) Direct City staff to rescind the award and use funds differently

Community Engagement: N/A

Attachments: N/A

Review: N/A