

JOINT LEGISLATIVE  
AUDIT AND REVIEW  
COMMISSION

THE  
VIRGINIA  
GENERAL  
ASSEMBLY

**INTERIM PROGRESS REPORT**

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**REVIEW  
OF THE VIRGINIA  
HOUSING DEVELOPMENT  
AUTHORITY**

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February 1985

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## PREFACE

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Senate Joint Resolution 7 of the 1984 Session of the General Assembly directed the Joint Legislative Audit and Review Commission to study the programs and operations of the Virginia Housing Development Authority. This interim report outlines the major areas under study as well as the research approach taken by the JLARC staff. A final report will be made in the summer of 1985 and will be available to members of the General Assembly prior to the 1986 Session.



Ray D. Pethtel  
Director

February 6, 1985

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## I. INTRODUCTION

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The Virginia Housing Development Authority (VHDA) was established in 1972 to assist low and moderate income families in obtaining safe and sanitary housing. Creation of the Authority as a political subdivision of the State was a major recommendation of the 1971 legislative report, Virginia's Housing Crisis.

The Authority's enabling legislation states that "the legislature finds it necessary to create and establish a State housing development authority for the purpose of encouraging the investment of private capital and stimulating the construction and rehabilitation" of safe and sanitary housing affordable to low and moderate income persons. The Authority seeks to meet its mandate by offering home construction and mortgage loans with below-market financing and low down payments.

With regard to rental housing, VHDA administers federal assistance programs such as Section 8 subsidies in addition to its own multi-family programs. The Authority has also been involved in several special activities throughout its existence, including making low-interest loans for home energy improvements and participating in the Virginia Appalachian Housing Development Program.

As of December 31, 1984, over 32,000 families have received \$1.2 billion in loans to purchase single-family dwellings. In addition, VHDA has financed over 31,000 rental units in 211 developments located across the State.

The financing for VHDA programs comes principally from the sale of revenue bonds. Because the bonds are exempt from federal and State taxes, VHDA loans can carry interest rates below private market financing. No funds are received from the State, although most VHDA bonds have carried the "moral obligation" of the Commonwealth.

Concerned over the needs of low and moderate income families for safe and sanitary housing, the effectiveness and future of mortgage revenue bonds as a viable financing method for meeting those needs, and the State's moral obligation to back VHDA's bond indebtedness, the 1984 General Assembly directed JLARC to evaluate the programs, operations, and management of VHDA. Specific concerns mentioned in Senate Joint Resolution 7 include:

- the activities of VHDA supported by mortgage revenue bonds;
- the extent to which the programs have benefited persons of low and moderate income;
- VHDA's definition of low and moderate income; and
- the operations, management, and administration of VHDA.



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## II. SINGLE-FAMILY PROGRAMS

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Although State law provides general guidelines for VHDA to consider when determining eligibility for its single-family programs, the Authority has substantial latitude in determining who is eligible based on "low and moderate income." Section 36-55.26(q) of the Code of Virginia lists factors to be taken into consideration by VHDA when selecting program recipients:

- total income available to meet housing needs;
- size of the family;
- cost and condition of existing housing;
- ability to secure affordable housing from the private market; and
- if appropriate, federal program standards based on income limits.

The Authority's enabling statutes do not, however, specifically define "low" and "moderate" income.

### Background

Federal legislation, which authorizes housing authorities to issue tax-exempt mortgage revenue bonds (MRBs), does establish certain eligibility limits on single-family mortgage programs. Federal law restricts the program to first-time home buyers, places upper limits on the purchase price of the homes, and imposes other restrictions such as prohibitions against use of the homes for business purposes.

To be eligible for the below-market financing, prices of homes purchased cannot exceed the U.S. Treasury Department's "safe harbor limits." These limits are equivalent to 110 percent of area median sales prices. VHDA has chosen to set its sales price ceiling somewhat lower than the allowable federal limit. Although not required by federal law, VHDA has also established its own income limitations for those wishing to purchase an eligible home. Both income and purchase price ceilings vary for newly constructed homes and existing structures (Table 1).

Loans are currently made on a "first-come, first serve" basis to qualified applicants. Since August 1984, the Authority has designated the first several days of each loan reservation period for applicants whose incomes are at or below 80 percent of the area median. Federal regulations require that VHDA also set aside 20 percent of the proceeds from each single-family bond issue for "targeted areas," which are certain designated low-income areas in the Commonwealth.

Table 1

MAXIMUM ALLOWABLE INCOMES AND SALES PRICES  
(January 1984)

Area	New Construction		Substantial Rehab.		Existing Home	
	Income	Price	Income	Price	Income	Price
Northern Virginia	\$40,000	\$85,600	\$40,000	\$85,600	\$37,300	\$79,000
Tidewater	34,300	73,100	34,300	68,300	28,400	58,500
Remainder of State	29,400	61,100	29,400	56,500	27,200	51,600

Source: VHDA.

Research Approach

In order to determine who is being targeted and served by VHDA's single-family and multi-family programs, JLARC is conducting an evaluation of the Authority's eligibility criteria and client characteristics. The evaluation includes a comparison with other mortgage programs and the development of a profile of clients.

In addition, JLARC is reviewing the extent to which VHDA's procedures for accepting loan reservations and allocating mortgage funds encourage lending to all eligible income groups.

These analyses will be used to determine if changes are warranted in the eligibility criteria and the ways in which VHDA administers its single-family program.



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### III. MULTI-FAMILY RENTAL PROGRAMS

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VHDA serves rental clients through a variety of programs. The majority of low-income persons are served through Section 8 rental subsidies provided by the federal government. With the decline of federal programs for low- and very-low-income persons, the Authority has recently become more involved in financing the development of non-subsidized rental projects aimed at serving moderate income renters.

#### Background

VHDA has financed the construction and renovation of apartment projects to house Section 8 clients and continues to administer the federal rent subsidies. Federal laws establish the eligibility limits on Section 8 projects. These projects are to serve those defined by the U.S. Department of Housing and Urban Development (HUD) as having low and very low incomes (80 percent and 50 percent of area median income respectively).

Although no longer an active construction program, the Authority has financed 114 Section 8 developments containing over 11,000 units. In addition, VHDA has worked with over 60 localities to provide affordable rental housing for 6,300 families through the Section 8 Existing and Moderate Rehabilitation Programs.

Currently, the Authority has only one active rental construction program -- the Conventional Loan Program. Under this program, VHDA has used its tax-exempt bonds to make loans to developers for the construction of moderate-income rental housing. The goal of this program is to provide loans where private financing is insufficient to meet demand. As of November 1984, the Authority had loan commitments on 30 conventional projects representing 5,000 units.

In contrast to Section 8 programs, the eligibility criteria for clients living in VHDA's conventional projects are determined by the Authority. According to VHDA policy, the adjusted incomes of persons desiring to live in conventional projects must not exceed seven times the annual rent and utility allowance associated with the desired apartment. Since 1982, 20 percent of the total number of units in each conventional apartment complex, however, are required by federal law to be reserved for persons whose income does not exceed 80 percent of area median income.

In addition to its role in the development and financing of rental properties, VHDA has continuing oversight responsibilities for approximately 150 projects financed by the Authority. As part of its oversight role, VHDA housing management staff inspect the properties to ensure that they are well-maintained, check project requests for federal assistance payments, and review tenant eligibility information.

### Research Approach

Several methods are being employed to assess issues in the multi-family area. These include analyzing VHDA's eligibility criteria and tenant information for rental programs, reviewing the development application and selection processes, and reviewing VHDA's housing management functions.

These analyses will be used to develop a profile of tenants living in VHDA-financed rental properties and to determine if changes are necessary in the eligibility criteria established by VHDA. In addition, the research approach will highlight areas of needed improvement in the administration of VHDA's multi-family programs.

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## IV. FINANCING VHDA PROGRAMS

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The financing for VHDA programs comes principally from the Authority's sale of two types of tax-exempt bonds: mortgage revenue bonds and industrial development bonds. While no State funds are involved in VHDA programs and operations, most of the Authority's bonds have carried a provision which could result in the State being asked in the future to provide appropriations to ensure that VHDA has sufficient reserves available to meet its bond debt.

### Background

Mortgage revenue bonds, used to finance VHDA's single-family loans, are subject to Congressional authorization and controls. Federal law places restrictions on mortgagor eligibility, purchase price, interest rates, and earnings. In addition, federal law limits the amount of mortgage revenue bonds that each state can issue and allows the state to distribute the bonding authority between state and local housing agencies. In Virginia, the General Assembly has assigned 89 percent, or \$325 million, of the bond limit to VHDA.

Multi-family bonds issued by the Authority are a form of industrial development bond and are also required to adhere to federal restrictions on interest rates and investments. In addition, developments funded with tax-exempt bonds are required to fill 20 percent of their total units with persons whose incomes do not exceed 80 percent of the area median. The amount of bonds a state can issue for rental housing are not subject to a federal cap.

As of June 30, 1984, VHDA had issued a total of \$1.86 billion in bonds. Of this amount, \$1.62 billion was outstanding. Single-family bonds account for two-thirds of the bonds issued (Table 2).

No State funds are used for the Authority's programs and operations. In addition, Virginia law clearly states that VHDA's bonds do not constitute a liability on the Commonwealth.

However, State law currently contains a provision whereby the General Assembly is legally authorized, though not required, to appropriate general funds to replenish VHDA's capital reserve fund in the event the Authority's reserves are insufficient to meet its debt service requirements. Only one other public authority in the Commonwealth, the Virginia Water and Sewer Assistance Authority, and about one-third of the housing authorities in other states carry this "moral obligation" backing on their bonds.

Backing of this type is used to provide security for the bonds and to obtain favorable interest rates and credit ratings. All of the Authority's bonds, except the single-family bonds issued since 1982, carry the capital reserve make-up provision. The possibility that the State could be called upon in the future to cover all or part of the \$1.35 billion bond indebtedness associated with these bonds will be reviewed in the final report of this study.

TABLE 2

VHDA BOND ISSUES  
(June 30, 1984)

<u>Series</u>	<u>Dates</u>	<u>Number of Issues</u>	<u>Original Amount</u>	<u>Amount Outstanding</u>
Multi-Family:				
Mortgage Purchase Bonds	1973	1	\$ 53,140,000	\$ 46,735,000
Mortgage Bonds	1975-1980	7	212,685,000	207,190,000
Housing Bonds	1979-	6	333,709,000	333,164,000
Single Family:				
Mortgage Bonds	1974-1978	5	230,820,000	178,190,000
Home Mortgage Bonds	1978-1981	6	517,000,000	437,518,000
Residential Mortgage Bonds	1982-Present	4	503,739,000	412,889,000
Other Financings	N/A	3	5,760,000	4,753,000
Total		30	\$1,856,854,000	\$1,620,432,000

Source: VHDA.

### Research Approach

Research in the financial management area has primarily involved document reviews and interviews. Additional areas of study will include a review of the security of VHDA bonds, the strength of the Authority's portfolio, and VHDA's financial management practices.

As part of the research approach, bond experts and authorities in other states will be contacted. In addition, a determination will be made as to the future likelihood that the General Assembly will be asked to appropriate money to the Authority's capital reserve fund.

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## V. OPERATIONS AND ADMINISTRATION

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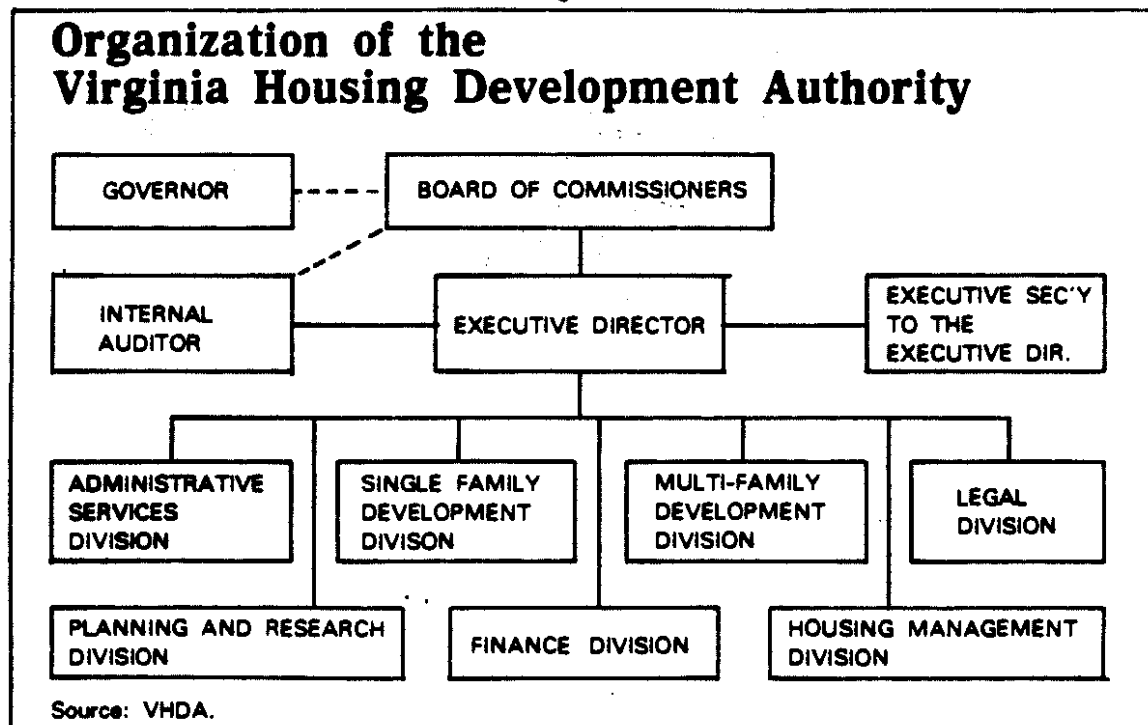
The Authority's general administrative practices directly impact the effectiveness and efficiency of its programs in meeting the needs of Virginia's low and moderate income persons. The extent to which overall policy and administrative improvements are needed will be addressed in the final report.

### Background

VHDA is governed by a board of nine commissioners. Seven are appointed by the governor for four-year terms; the State Treasurer and the chairman of the Virginia Department of Housing and Community Development serve ex-officio. The board of commissioners is responsible for the Authority's policies and reviews and approves all loan commitments and bond resolutions.

The board of commissioners appoint an executive director to manage and direct the Authority's daily operations. In addition, over 140 staff are assigned to seven divisions to carry out VHDA's programs (Figure 1).

Figure 1



### Research Approach

Several methods will be used to review the Authority's operations and administration. These include interviews with VHDA staff and commissioners and a review of the Authority's written plans and procedures.

JLARC's review of administrative practices and planning processes will identify areas where operational efficiencies and management enhancements are warranted.

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## APPENDIX

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### SENATE JOINT RESOLUTION NO. 7

Offered January 11, 1984

Prefiled January 10, 1984

*Requesting the Joint Legislative Audit and Review Commission to evaluate the programs, operations, and management of the Virginia Housing Development Authority.*

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Patrons—Babalas, Willey, Andrews, and DuVal; Delegates: Pickett, Manning, Quillen, Ball, Watts, and Bagley, R. M.

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Referred to the Committee on Rules

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WHEREAS, the Virginia Housing Development Authority is a public instrumentality of the Commonwealth of Virginia created by statute to issue tax exempt revenue bonds to obtain funds to make deeds of trust/mortgage loans and purchase existing deeds of trust/mortgage loans, thereby increasing the supply of credit and reducing the cost of financing for qualified sponsors and individuals; and

WHEREAS, concerns have been raised by the United States General Accounting Office, the Congressional Budget Office, and the Treasury Department concerning the cost and effectiveness of mortgage revenue bonds as a policy instrument; and

WHEREAS, the United States Congress has not voted to extend the sunset provision contained in the Mortgage Subsidy Bond Tax Act of 1980, with the result that authority for states to issue tax exempt mortgage revenue bonds expires as of December 31, 1983; and

WHEREAS, the Virginia Housing Development Authority was established in 1972 by the enactment of §§ 36-55.24 through 36-55.52 of the Code of Virginia to assist persons and families of low and moderate income in obtaining sanitary and safe residential housing; and

WHEREAS, the outstanding deed of trust/mortgage revenue bond debt of the Authority is considered a "moral obligation" of the Commonwealth in that the Governor is required to report to the General Assembly should there be a need for general funds to replenish the reserve fund established by the Authority to meet debt service payments; and

WHEREAS, the moral obligation debt of the Authority presently exceeds 1.5 billion dollars; and

WHEREAS, the Joint Legislative Audit and Review Commission is the duly constituted program audit and performance evaluation agency of the Virginia General Assembly, which is authorized under §§ 30-58.1 and 30-68 of the Code of Virginia to review the operations, effectiveness, and efficiency of executive, judicial, legislative, and other constitutionally or

statutorily created entities of the Commonwealth; now, therefore, be it

**RESOLVED** by the Senate, the House of Delegates concurring, That the Joint Legislative Audit and Review Commission is requested to evaluate the programs and operations of the Virginia Housing Development Authority with special attention to: (1) the mortgage revenue bond supported activities of the Authority; (2) the extent to which the Authority's programs have benefited persons and families of low and moderate income; (3) the definition of low and moderate income persons and families used by the Authority; (4) the operations, management, and administration of the Authority; and (5) such other matters as may be deemed appropriate.

The Commission shall complete its work and report to the General Assembly and Governor before the 1986 Session; however, the Commission shall report on its progress prior to the 1985 Session in such form as the Commission deems appropriate.



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