



## COMMUNITY DEVELOPMENT DIVISION

### Affordable Housing Development Program

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DATE: March 22, 2016  
TO: Community Development Board  
TITLE: NeighborWorks Montana – Two Dwelling Development at Riverfront Pointe  
DEPARTMENT: Planning & Community Development Division  
PRESENTED BY: Dina Harmon, Community Development Program Coordinator

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#### **ISSUE STATEMENT**

The City of Billings Community Development Division is required by federal regulation to commit 15 percent of its annual HUD HOME allocation to a Community Housing Development Organization (CHDO) for affordable housing development purposes. On February 19, 2016 an Affordable Housing Development Program application was submitted by NeighborWorks Montana requesting \$175,000 in HOME funding.

NeighborWorks Montana proposes to construct a two family “twin home” which will create two single family homeownership opportunities for low income families. The homes will have three bedrooms, two bathrooms, a double car garage, and will be universally designed including construction conformity with visitability standards of zero-step entries. The two single family residential homes will be built in the Riverfront Pointe Subdivision located in the Southwest Corridor neighborhood.

The City of Billings is required to allocate at least the following CHDO reserves to a viable project:

- FY14-15 \$45,257 (*Must be committed via legal agreement by June 30, 2016 or funds returned to HUD*)
- FY15-16 \$39,553
- FY16-17 \$44,131

An additional \$46,059 can be committed in either HOME program income or FY17-18 new CHDO reserve funds, dependent on project timing. Committing \$175,000 would allow the City to remain in compliance with CHDO allocation requirements. A portion of the HOME funding would be secured via recorded Deed Restriction and Montana Trust Indenture as a second lien against the property upon sale to a qualified first time home buyer. This second mortgage will be due in full from the homeowner to the City of Billings upon resale, refinance, or use of the property as a rental.

#### **ALTERNATIVES ANALYZED**

- 1) Approve funding for the proposed project, with or without conditions. A funding allocation to support this new construction project would assist the City in meeting affordable housing needs while ensuring compliance for CHDO allocations through FY17-18;
- 2) Not approve funding for the project. NeighborWorks Montana would have to secure additional conventional financing to complete the project, increasing costs passed on to the buyer, or the project would not move forward.

#### **FINANCIAL IMPACT**

NeighborWorks Montana is currently one of two CHDOs certified by the City of Billings. If funding is not committed to the proposed NeighborWorks Montana project, the City would be in jeopardy of noncompliance with federal regulations and would be required to return \$45,257 in funds to HUD if not allocated to another project by June 30, 2016.

## PROCEDURAL HISTORY

- **January 5, 2016:** NeighborWorks Montana submitted a CHDO certification application to the City of Billings Community Development Division. The qualifications to become a CHDO were met and the organization was certified.
- **February 19, 2016:** NeighborWorks Montana submitted an Affordable Housing Development Program application to the City's Community Development Division requesting \$175,000 in HOME funding to develop an affordable housing project.
- **February 25, 2016:** A presentation was made at the Southwest Corridor Task Force meeting regarding the proposed project. Task force members were supportive of the project moving forward.
- **March 22, 2016:** Staff sent a memo detailing the project to the Community Development Board.
- **April 5, 2016:** NeighborWorks Montana staff will review the project with the Community Development Board during their regular monthly meeting. A recommendation must be made on this project in order to prepare documents for City Council.
- **April 25, 2016:** The City Council will review the FY16-17 Annual Action Plan and proposed budget, including funding for this project, and will make a final determination on allocation.

## PROJECT REVIEW

**Location:** The property is located within the Billings city limits in the Southwest Corridor area. Parking and landscaping will be included in the site plan. Utilities are available at the site and the project conforms to infill development recommendations.

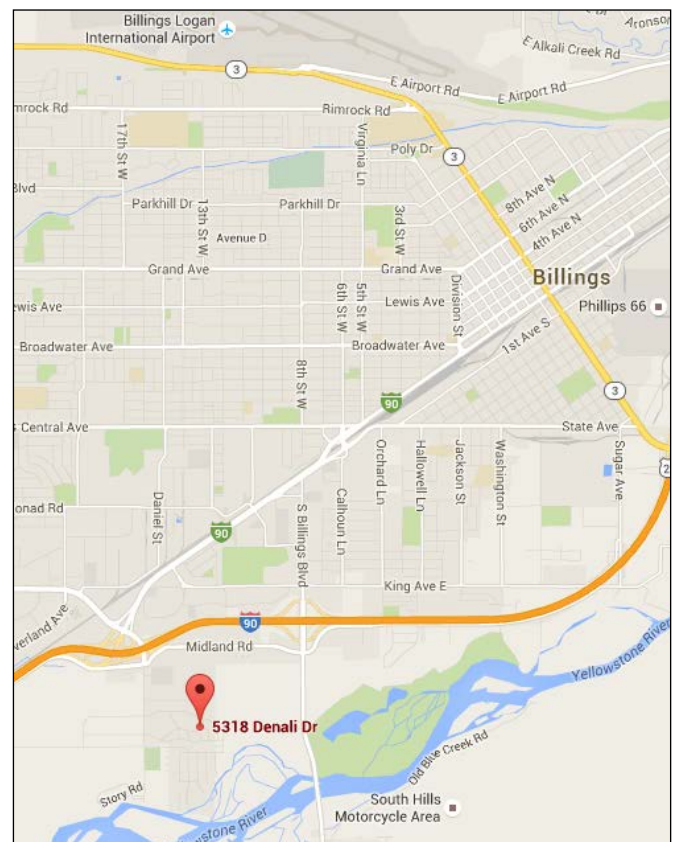
Staff does not anticipate environmental review issues at the site as the lot is located in a developed residential area and is not located adjacent to areas of potential environmental concern; the airport, PCE contamination site, or a four-lane street. Staff has begun the process of a full Environmental Assessment, including historic review, on this project.

**Units:** Proposed sales price of each unit will not exceed the lower of the following: 95 percent of the median purchase price for the area based on Federal Housing Administration (FHA) single family mortgage program; or the appraised value of the completed unit.

The homes will have three bedrooms, two bathrooms, a double car garage and will be universally designed including construction conformity with visitability standards of zero-step entries. Please refer to the last page of this memo for site plan rendering.

**Beneficiaries & Deal Structure:** The prospective buyer will apply directly with the lender of their choice for a first mortgage loan and will be reviewed through the City's First Time Home Buyer program to determine income eligibility. The household will be referred to the Home Center for homebuyer education classes and will enter into a buy/sell agreement with NeighborWorks Montana.

Total household income must not exceed 80 percent of the Area Median Income (AMI) as determined by HUD (see chart, following page). Buyers will be qualified for a first mortgage using 29 percent of household income with an estimated first mortgage from \$150,000 to \$160,000.



HUD HOME Income Limits - Effective June 1, 2015	
Household Size	80 Percent AMI Limit
1	\$35,950
2	\$41,100
3	\$46,250
4	\$51,350
5	\$55,500
6	\$59,600

NeighborWorks Montana is committing \$10,000 per unit from a Wells Fargo Targeted Market Grant to assist in financing construction of each of the units. HOME funds will be used for zero percent interest deferred second mortgages\* to bring the homeowner’s housing payment to no more than 29 percent of household income and a total debt ratio no higher than 41 percent of household income. A \$15,000 zero percent interest deferred loan in third position will be provided with Community Frameworks funds.

*\*The City of Billings will be the recipient for repayment of second mortgage HOME funds upon resale, refinance or non-use as a primary residence.*

**Organizational Strengths:** NeighborWorks Montana staff has significant experience in affordable housing development, processing mortgage loans and determining required federal subsidy needed to bring forth successful projects. Organization staff will be working with local lenders for primary mortgages and with City staff for secondary mortgages. Marketing will be conducted through the Billings Association of Realtors and the homes will be listed on the Multiple Listing Service.

NeighborWorks Montana has developed 23 single family homes in Shelby, Ronan, Great Falls, Black Eagle, and Red Lodge. Staff has extensive knowledge, experience, and formal education to ensure the long term viability of the project. NeighborWorks Montana has the financial capacity to oversee and fund the proposed development.

**Financial Plan:** Sources of funds to complete the project financing to date are as follows:

NeighborWorks MT Equity	\$230,240
Community Frameworks	\$30,000
City of Billings HOME Funds Requested	\$175,000
Homeowner Labor, Loan Fees	\$4,260
Contribution from Seller of Land	\$5,500
Contractor Contribution	\$15,000
Wells Fargo Targeted Market Grant	\$20,000
<b>Total Sources:</b>	<b>\$480,000</b>

With \$175,000 in HOME funding allocated to the project, the total per unit subsidy would be \$87,500 for each of the two units. The maximum allowable HOME allocation for a three bedroom unit is \$252,662. Staff has recommended a HOME funding level for this project at 37 percent of total project costs. Projects previously funded include:

- **Pheasant Home:** \$554,191 for 16 units, with an overall cost per unit of \$34,637. Four of the units in the project were HOME-assisted, creating a \$138,548 subsidy for each HOME-assisted unit.
- **Southern Lights:** \$500,000 for 20 units, with a \$25,000 cost per unit; all of the units are HOME-assisted.
- **Acme:** \$143,400 for 19 HOME-assisted units, with a \$7,547 cost per unit.
- **Old Town Square:** \$242,000 for 8 HOME-assisted units, with a \$30,250 cost per unit.

**Additional Reviews:** A subsidy layering review has been completed using the income documentation of four different households with the sales price and approximate taxes for these homes. A review of the market assessment has also been completed. The market assessment reflects a strong need for single family housing in this particular price range.

NeighborWorks Montana will be required to sell each of the homes to income qualified households within six months of Certificate of Occupancy issuance. Staff does not anticipate issues with the organization meeting this deadline. The project is not located in an area where it will adversely affect affordable housing projects being completed by other organizations. Both the subsidy layering and market assessment reviews are available for inspection upon request.

### **CONSISTENCY WITH ADOPTED POLICIES OR PLANS**

City staff completed the five-year Consolidated Plan in 2015 and the following key findings were identified as a result of a Housing Needs Assessment, Market Analysis and an Analysis of Impediments to Fair Housing Choice:

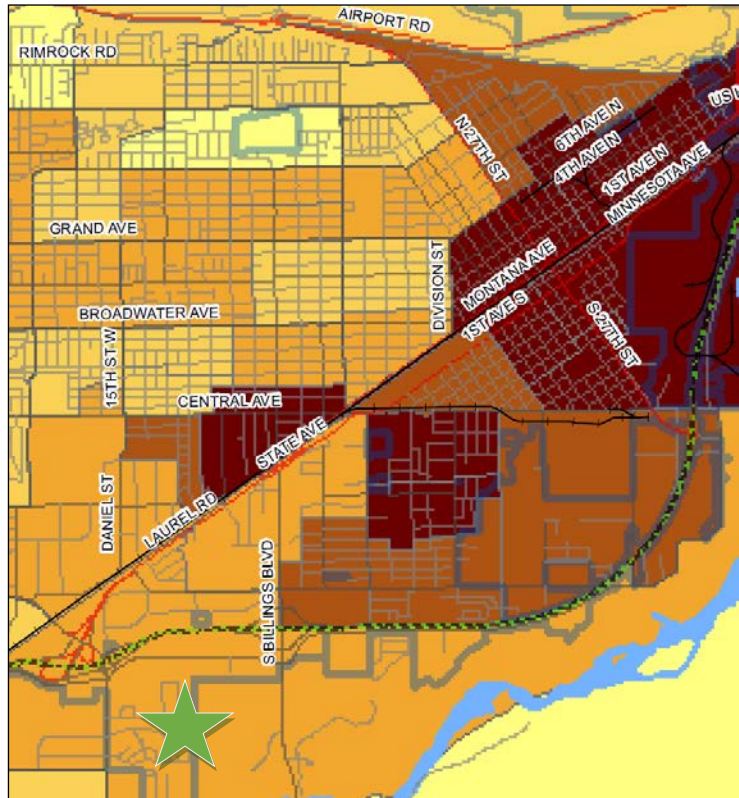
- **Housing Cost Burden:** The most severe housing problem for local residents is paying greater than 30 percent income for housing expenses.
- **Smaller Housing Units:** 1,200 households are on the Housing Authority waiting list for one-bedroom rental units.
- **Tight Housing Market:** Billings currently has a very low vacancy rate. Over half of the public housing voucher holders seeking housing have not been able to secure it due to high rent costs and poor unit conditions.
- **Minority Concentrations:** Data evidenced the beginnings of neighborhood segregation and lending discrimination against Hispanic Americans. Most White households own their homes. Most minority households are renting.
- **Homelessness is on the rise:** An average of 711 individuals are experiencing homeless on any given day in Billings, including 122 families.
- **Special Needs Populations:** Elderly, Disabled, Public Housing Residents and HIV/AIDS populations are in need of various services and support.

Priority needs have been identified in the five-year Consolidated Plan and include the provision of new affordable housing opportunity.



**Key Findings & Priorities:** This project will assist in addressing the following key findings as identified in the City’s five-year Consolidated Plan:

- **Housing Cost Burden:** Housing costs relative to principle mortgage, insurance and taxes will be maintained at less than 30 percent of household income.
- **Tight Housing Market:** While only producing two units, this project has the potential to be replicated in the future to assist in planned unit development through CHDO reserve channels.
- **Special Needs Populations:** Project design includes visitability standards with zero-step entrances.
- **Minority Concentrations:** HUD has encouraged the City to focus affordable housing development efforts outside of the highest minority concentrations of the City. The Southwest Corridor area for this project has a moderate level minority concentration; 8.6 to 13.6 percent according to the 2010 Census.



*Legend*

**Minority Population by Block Group**

- 1.2 - 5.4 %
- 5.5 - 8.5 %
- 8.6 - 13.6 %
- 13.7 - 21.3 %
- 21.4 - 37.1 %
- Interstate Highway
- US or State Highway
- Arterial or Collector Street
- City Street
- Railroad
- Billings City Limits

Population is expressed as a percentage of total population.

**STAKEHOLDERS**

- NeighborWorks Montana made a presentation to the Southwest Corridor Task Force February 25, 2016. Task force members were supportive of the project moving forward.
- Low income families and individuals in the community, as the project is targeted to families and individuals under 80 percent AMI.
- Disabled individuals and families in the community, as the project has been designed with visitability and accessibility features.
- Surrounding property owners would benefit from new, high-quality, single family housing for two families would be constructed to complement the neighborhood.

**SUMMARY**

An overall review of the application reveals the project is consistent with similar projects the City has funded in the past. The HOME subsidy amount is within limits and considered reasonable gap financing required to ensure long term project viability. Match requirements are being met as NeighborWorks Montana has committed to accommodate 63 percent of overall project costs. The project meets Section 504 and ADA accessibility requirements and the project is also consistent with the City’s Consolidated Plan.

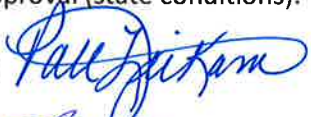
There is a demonstrated need for affordable single-family units, as evidenced through data from the City’s recent Housing Needs Assessment, Market Analysis and the Analysis of Impediments to Fair Housing Choice. NeighborWorks Montana has extensive experience, both in developing and managing affordable housing projects, and they are knowledgeable about HOME program requirements.

**RECOMMENDATION**

Staff recommends the Community Development Board approve \$175,000 in funding for NeighborWorks Montana to construct a “twin home” development which will provide home ownership opportunities for two families in Riverfront Pointe.

**COMMUNITY DEVELOPMENT BOARD DECISION**

- Approval
- Denial
- Conditional Approval (state conditions):

Board Member Attest: 

Staff Attest: 

Community Development Board members requested the following information prior to decision:  
- Square footage for one unit is 1,622 including the garage / 3,244 total.  
- Proposed bus routes are within walkable distance from the project.

