



COMMUNITY DEVELOPMENT DIVISION

Affordable Housing Development Program

2825 3rd Avenue North, Billings, MT 59101

406.657.3045

Fax: 406.294.7595

www.ci.billings.mt.us/chdo

DATE: July 9, 2018
TO: Community Development Board
TITLE: Funding Increase for NeighborWorks Montana Project #2 - Two Dwelling Development at Riverfront Pointe
DEPARTMENT: Planning & Community Development Division
PRESENTED BY: Dina Harmon, Community Development Program Coordinator

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. The Community Development Division entered into a Development Agreement with NeighborWorks Montana, a Community Development Community Housing Development Organization (CHDO) to develop and build two townhomes in the Riverfront Pointe Subdivision on August 10, 2017. At that time, \$75,000 was awarded to NeighborWorks for the Riverfront Pointe #2 Project. Upon the completion of the two townhomes, they will be sold to low income households below the 80% area median income level.

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.

Due to an increase in development and building costs, NeighborWorks Montana has submitted a request for additional funding for the project to make it more feasible. The City of Billings Community Development Division does now have \$56,710 available to allocate to a project from the FY18-19 HOME CHDO funds allocation. The initial \$75,000 committed utilized FY17-18 HOME CHDO reserve funds and program income. Committing an additional \$56,710 from the FY18-19 HOME CHDO funds 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 additional 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 FY18-19;
- 2) Not approve additional funding for the project. NeighborWorks Montana would need to secure additional conventional financing to complete the project, increasing costs passed on to the buyer.

FINANCIAL IMPACT

NeighborWorks Montana is currently one of two CHDOs certified by the City of Billings. If additional funding is not committed to the proposed NeighborWorks Montana project, it could become too difficult for NeighborWorks

Montana to move forward with the project which would put the City in jeopardy of noncompliance with federal regulations.

PROCEDURAL HISTORY

- **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.
- **January 19, 2017:** NeighborWorks Montana submitted an Affordable Housing Development Program application to the City's Community Development Division requesting \$75,000 in HOME funding to develop an affordable housing project.
- **February 7, 2017:** Staff sent a memo detailing the project to the Community Development Board.
- **March 7, 2017:** 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 24, 2017:** The City Council will review the FY17-18 Annual Action Plan and proposed budget, including funding for this project, and will make a final determination on allocation.
- **July 5, 2018:** The City of Billings Community Development Division received a request for additional HOME CHDO funds from NeighborWorks Montana.

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.

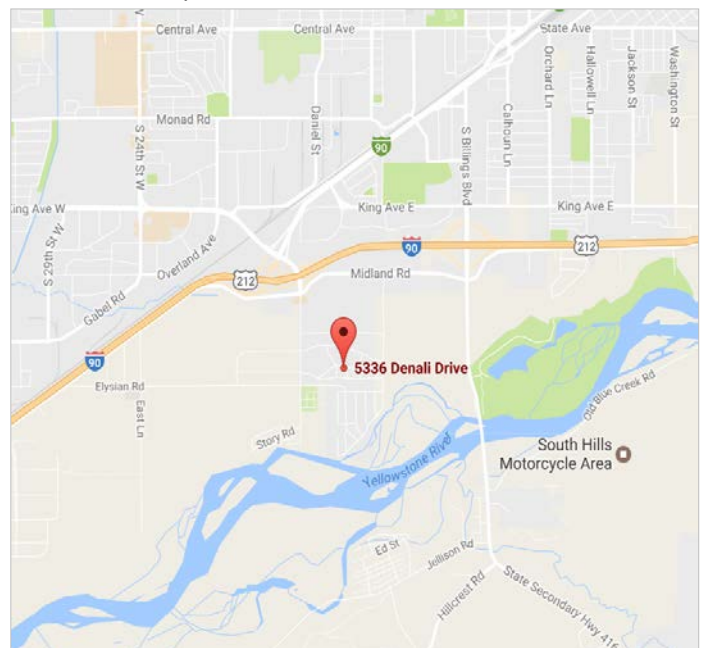
Staff has completed the full Environmental Assessment, including historic review on this project and did not discover any issues with the site as the lot is located in a developed residential area and is not located adjacent to areas of potential environmental concern; the airport, PCE contamination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

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, double car garage and will be universally designed including construction conformity with visitability standards of zero-step entries.

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, 2018	
Household Size	80 Percent AMI Limit
1	\$39,900
2	\$45,600
3	\$51,300
4	\$56,950
5	\$61,550
6	\$66,100

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 and this will be their second project in Billings. 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	\$83,686
Western Security Bank Loan	\$250,000
Community Frameworks	\$30,000
City of Billings HOME Funds	\$131,710
Homeowner Labor, Loan Fees	\$6,260
Wells Fargo Targeted Market Grant	\$20,000
Total Sources:	\$521,656

With \$131,710 in HOME funding allocated to the project, the total per unit subsidy would be \$65,855 for each of the two units. The maximum allowable HOME allocation for a three bedroom unit is \$252,662 Projects previously funded by the city 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.

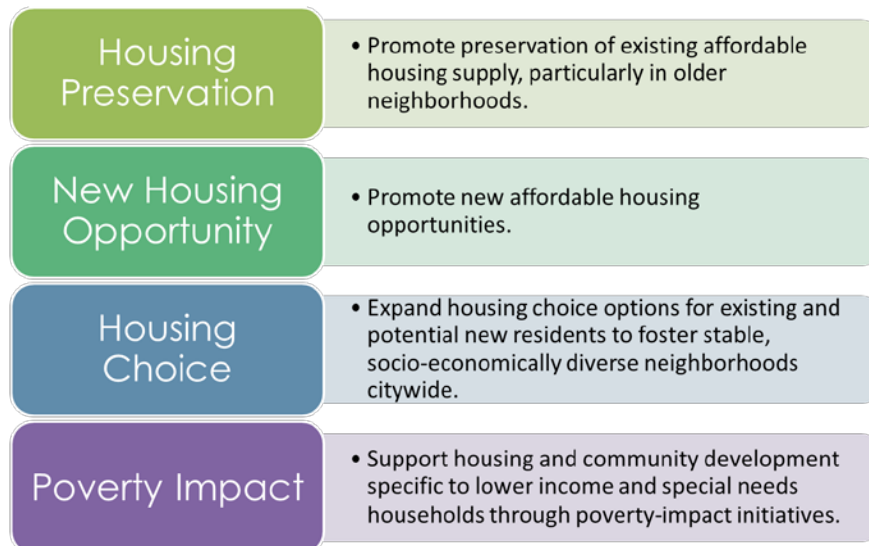
NeighborWorks Montana will be required to sell each of the homes to income qualified households within six months of Certificate of Occupancy issuance. Staff does not anticipate issues with the organization meeting this deadline. The project is not located in an area where it will adversely affect affordable 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:

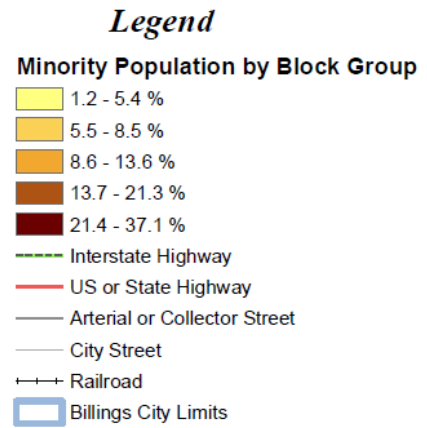
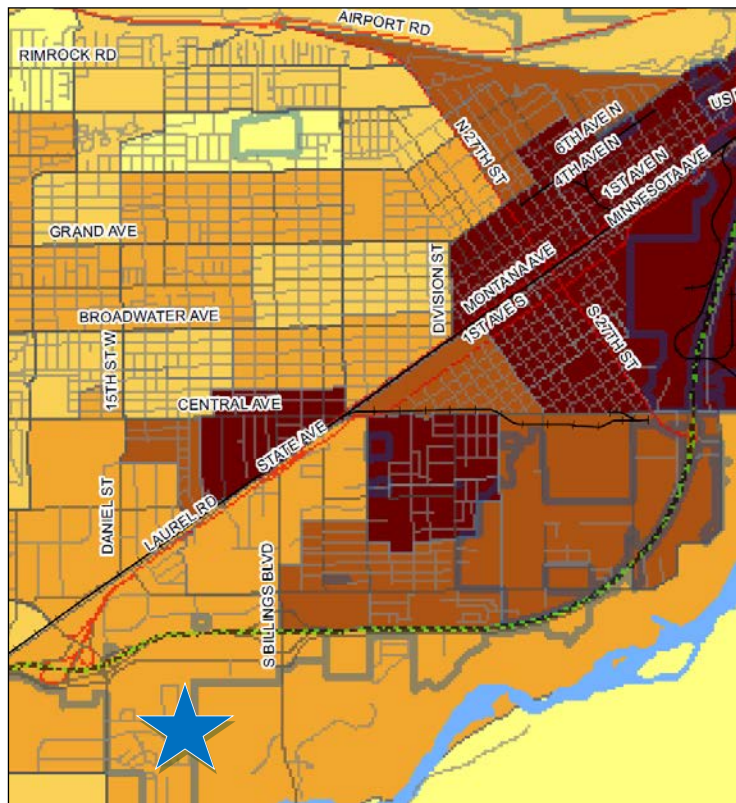
- **Housing Cost Burden:** The most severe housing problem for local residents is paying greater than 30 percent income for housing expenses.
- **Smaller Housing Units:** 1,200 households are on the Housing Authority waiting list for one-bedroom rental units.
- **Tight Housing Market:** Billings currently 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 represents the same project of its kind to date, and 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.



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 twin – home projects.
- 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.

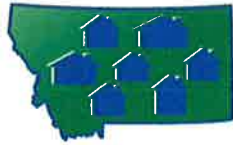
There is a demonstrated need for affordable single-family units, as evidenced through data from the City’s recent Housing Needs Assessment, Market Analysis and the Analysis of Impediments to Fair Housing Choice. NeighborWorks Montana has extensive experience, both in developing and managing affordable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

RECOMMENDATION

Staff recommends the Community Development Board approve the additional funding in the amount of \$56,710 to NeighborWorks Montana and approve the modification to NeighborWorks Development Agreement increasing the funding to \$131,710.

COMMUNITY DEVELOPMENT BOARD DECISION

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



July 5, 2018

Dina Harmon
CD Program Coordinator
2825 3rd Avenue North, 6th floor
Billings, MT 59101

Dear Dina:

Subject: Request for Additional HOME Development Funds

NeighborWorks Montana hereby requests an increase in the principal balance of our Development Agreement to \$131,710.00 for the development of two townhomes on the following property referred to as the Dall Townhomes:

**Lot 5, Block 5 Riverfront Pointe Subdivision, in the City of Billings,
Yellowstone County, Montana**

Attached is a revised Sources and Uses of Funds Statement reflecting the increased costs for construction. The architectural drawings are complete and the building permit has been issued.

Thank you for your consideration.

Sincerely,

A handwritten signature in blue ink that reads "Maureen J. Rude".

Maureen J. Rude
Executive Director



P.O. Box 1025 • Great Falls, MT 59403
Website: www.nwmt.org
(406) 761-5861 • Fax (406) 403-0273



CITY OF BILLINGS FUNDING SOURCES STATEMENT

- Please list sources of funding for the project. List both the funding source and the agency which administers the program.
- Include financing, grants, donations, and equity. Attach letter(s) of commitment.
- Identify each source as to TYPE by noting after name (L) for Loan, (G) for Grant, or (E) for Equity.
- Identify each source by DESCRIPTION CODE using the codes from the list below.
- Indicate in the STATUS column whether (P) Proposed, (R) Requested, or (A) Approved.

LIST ALL SOURCES OF PROJECT FUNDING											
SOURCE	LIEN POSITION	AMOUNT	TYPE	DESCRIPTION CODE	STATUS	RATE %	LOAN TERM (YEARS)	AMORTIZATION PERIOD (YEARS)	ANNUAL DEBT SERVICE	DATE REQUESTED	ACTUAL OR EXPECTED COMMITMENT DATE
NeighborWorks MT		\$83,686	E	4	A						1/10/2017
Western Security Bank	1st	\$250,000	L	9	A		1				7/1/2018
Community Frameworks	2nd	\$30,000	G	9	A						4/1/2017
City of Billings (17-18)		\$75,000	G	10	A						4/1/2017
City of Billings (18-19)		\$56,710	G	10	P						8/27/2018
Homeowner Labor, Loan Fees		\$6,260	E	4	P						9/1/2018
Wells Fargo Community Grant		\$20,000	G	9	A						12/1/2015
		\$521,656									

DESCRIPTION CODES		
1. AHP Subsidized Financing	6. Housing Agency Bond	11. Rental Rehabilitation
2. Other Loans (Conventional)	7. State & Local Grants	12. Other HUD
3. Low-Income Housing Tax Credit	8. Foundations	13. Other Loans (subsidized)
4. Equity	9. Other Grants	14. CDBG
5. Other Subsidies	10. HOME	

NOTE: TOTAL SOURCES OF FUNDS MUST EQUAL TOTAL USES OF FUNDS

**CITY OF BILLINGS
FUNDING USES**

	SOURCE NWMT	SOURCE Community Frameworks	SOURCE City of Billings	SOURCE Wells Fargo	SOURCE Homebuyer	SOURCE Western Security Bank	TOTAL PROJECT BUDGET
ADMINISTRATION							-
Personnel Services							\$0
Supplies							\$0
Communications							\$0
Printing/Duplication/Postage							\$0
Advertising							\$0
Accounting/Auditing							\$0
Travel							\$0
Training							\$0
Other Administration							\$0
TOTAL ADMINISTRATION COSTS	\$0	\$0	\$0	\$0	\$0	\$0	\$0
LAND/BLDG/ACQUISITION							-
Land	\$54,000	\$30,000					\$84,000
Existing Structure							\$0
Demolition							\$0
Homebuyer's Assistance							\$0
TOTAL LAND & BUILDING COSTS	\$54,000	\$30,000	\$0	\$0	\$0	\$0	\$84,000
SITE WORK							-
Site Work Water & Sewer Hookup Fees						\$9,860	\$9,860
Off-Site Improvement							\$0
Environmental							\$0
Other Homeowner Labor					\$2,000		\$2,000
TOTAL SITE WORK COSTS	\$0	\$0	\$0	\$0	\$2,000	\$9,860	\$11,860
CONSTRUCTION AND REHAB							-
New Building			\$111,710	\$14,986		\$199,305	\$326,001
Rehabilitation							\$0
Accessory Structures Building Permit	\$1,500						\$1,500
General Requirements							\$0
Contractor Overhead							\$0
Contractor Profit							\$0
Construction Contingency							\$0
Community Revitalization							\$0
Other							\$0
TOTAL REHAB & CONSTRUCTION COSTS	\$1,500	\$0	\$111,710	\$14,986	\$0	\$199,305	\$327,501
SUBTOTAL Page One	\$55,500	\$30,000	\$111,710	\$14,986	\$2,000	\$209,165	\$423,361

FUNDING USES - Page Two

	SOURCE NWMT	SOURCE Community Frameworks	SOURCE City of Billings	SOURCE Wells Fargo	SOURCE Homebuyer	SOURCE Western Security Bank	TOTAL PROJECT BUDGET
PROFESSIONAL WORK & FEES							-
Architect Design						\$37,635	\$37,635
Architect Supervision							\$0
Attorney, Real Estate HOA Documents	\$2,000						\$2,000
Consultant/Agent							\$0
Engineer/Surveyor Rimrock - Soils Report	\$2,200						\$2,200
Other Realtor Fees	\$18,986			\$5,014			\$24,000
Other							\$0
TOTAL PROFESSIONAL WORK & FEES	\$23,186	\$0	\$0	\$5,014	\$0	\$37,635	\$65,835
CONSTRUCTION/ INTERIM FEES							-
Hazard & Liability Insurance						\$1,000	\$1,000
Credit Report							\$0
Construction Interest							\$0
Origination Points							\$0
Discount Points							\$0
Inspection Fees							\$0
Title & Recording						\$1,000	\$1,000
Legal Fees						\$500	\$500
Taxes						\$700	\$700
Other							\$0
Other							\$0
TOTAL CONSTRUCTION INTERIM FEES	\$0	\$0	\$0	\$0	\$0	\$3,200	\$3,200
PERMANENT FINANCING FEES							-
Credit Report					\$60		\$60
Discount Points							\$0
Origination Fees					\$3,200		\$3,200
Title and Recording					\$1,000		\$1,000
Legal Fees							\$0
Prepaid MIP							\$0
Other Construction Financing Fees/Interest	\$5,000						\$5,000
Other							\$0
TOTAL FINANCING FEES	\$5,000	\$0	\$0	\$0	\$4,260	\$0	\$9,260
SUBTOTAL Page Two	\$28,186	\$0	\$0	\$5,014	\$4,260	\$40,835	\$78,295

FUNDING USES - Page Three

	SOURCE NWMT	SOURCE Community Frameworks	SOURCE City of Billings	SOURCE Wells Fargo	SOURCE Homebuyer	SOURCE Western Security Bank	TOTAL PROJECT BUDGET
SOFT COSTS							-
Feasibility Appraisal							\$0
Market Study							\$0
Environmental Study							\$0
Tax Credit Fees							\$0
Cost Certification							\$0
TBRA							\$0
Other							\$0
TOTAL SOFT COSTS	\$0	\$0	\$0	\$0	\$0	\$0	\$0
SYNDICATION COSTS							-
Organizational (Partnership)							\$0
Bridge Loan Fees & Expenses							\$0
Tax Opinion							\$0
Other							\$0
TOTAL SYNDICATION COSTS	\$0	\$0	\$0	\$0	\$0	\$0	\$0
DEVELOPER'S FEES							-
Developer's Overhead							\$0
Developer's Fees			\$20,000				\$20,000
Consultant Fee							\$0
Other							\$0
TOTAL DEVELOPER'S FEES	\$0	\$0	\$20,000	\$0	\$0	\$0	\$20,000
PROJECT RESERVES							-
Rent-Up Reserve							\$0
Operating Reserve							\$0
Replacement Reserve							\$0
Escrow							\$0
Other							\$0
TOTAL PROJECT RESERVES	\$0	\$0	\$0	\$0	\$0	\$0	\$0
SUBTOTAL Page 3	\$0	\$0	\$20,000	\$0	\$0	\$0	\$20,000
SUBTOTAL Page 1	\$55,500	\$30,000	\$111,710	\$14,986	\$2,000	\$209,165	\$423,361
SUBTOTAL Page 2	\$28,186	\$0	\$0	\$5,014	\$4,260	\$40,835	\$78,295
GRAND TOTAL PROJECT COSTS	\$83,686	\$30,000	\$131,710	\$20,000	\$6,260	\$250,000	\$521,656

Please Return To:

City of Billings
Community Development Division
P.O. Box 1178
Billings, Montana 59103

AGREEMENT OF MODIFICATION

WHEREAS on August 14, 2017, Montana Homeownership Network, Inc. dba NeighborWorks Montana of Great Falls, Montana, as Grantor, made, executed, and delivered a certain HOME Community Housing Development Organization Agreement to Brent Brooks of Billings, Montana, As Trustee with the City of Billings, a municipal corporation, as beneficiary for the purpose of securing by the Grantor to the Beneficiary in the sum of \$75,000.00.

Lot 5, Block 5 Riverfront Pointe Subdivision, in the City of Billings, Yellowstone County, Montana.

NOW THEREFORE, in consideration of the mutual covenants between the parties, it is hereby agreed:

1. That the principal balance of the Development Agreement be increased to \$131,710.00, due and payable if all or part of the property is not completed for sale to a low income first time homebuyer.
2. All parties agree that said Development Agreement, except as herein modified, shall remain in full force and effect in every provision thereof.

By: _____
NeighborWorks Montana
By Maureen J. Rude, Executive Director

STATE OF MONTANA

County of Lewis and Clark

Signed or acknowledged before me on _____ by Maureen J. Rude, Executive Director, NeighborWorks Montana

Printed name of notary public
Notary public for the state of Montana
Residing at: _____
My commission expires: _____

By: _____
BRENT BROOKS, Trustee

On this _____ day of _____ 2018, before me, a Notary Public for the State of Montana, personally appeared BRENT BROOKS as TRUSTEE, known to me to be the person whose name is subscribed to the foregoing instrument and acknowledged to me that he executed the same.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my Notarial Seal the day and year first above written.

Printed name of notary public
Notary public for the state of Montana
Residing at: _____
My commission expires: _____