

COUNCIL ON HOUSING
Public Session
The Duncan Center
Dover, Delaware
April 11, 2007

ACTION ITEMS

- **Sussex County Habitat for Humanity Grant Request**
- **Presentation by Frederick Purnell, Executive Director of
Wilmington Housing Authority**

On April 11, 2007 Roseann Harkins, Chairperson, called to order the Public Session of the Council on Housing at 2:10 p.m. In addition to Ms. Harkins, the following Council members were present:

Connie Louder
Joseph McDonough
Ruth Sokolowski
John Walker
Vincent White
Norma Zumsteg

The following Council member was absent and excused from the meeting:

Connie McCarthy

The following Council member was absent and unexcused from the meeting:

Fernando Guajardo

The following persons also attended the meeting:

Thomas McGonigle, Esq., Wolf Block Schorr & Solis-Cohen LLP
Saundra Johnson, Director, DSHA
Tim McLaughlin, Deputy Director, DSHA
Matthew Heckles, Executive Assistant, DSHA
Jerry Jones, Housing Finance/Development Administrator, DSHA
Lynda Blythe, Administrative Specialist III, DSHA

Guests present:

Kay Herrman, Sussex County Habitat for Humanity
Kevin Gilmore, Sussex County Habitat for Humanity
Sandy Spence, Sussex County Habitat for Humanity
Gina Miserendino, Delaware Housing Coalition
Frederick Purnell, Wilmington Housing Authority
Marcus Henry, Wilmington Housing Authority

APPROVAL OF MINUTES

A motion was made by Mr. Walker to move Agenda item 1, Executive Session, after item 8, Administrative Matters. Seconded by Mr. McDonough, the motion passed.

A motion was made by Mr. White to approve the Public Minutes of January 17, 2007 as amended. Seconded by Mr. McDonough, the motion passed.

HDF STATEMENT

Mr. Jones reviewed the attached HDF statement stating items 116 and 117 were approved by Council in March. Sussex Habitat, Item 118, was being presented at this meeting. Item 119, West Rehoboth CLT has submitted an amendment to this request which has not yet been reviewed by DSHA. Mr. Jones noted there were no further items on the HDF Statement at this time. However, tax credit applications would be received by April 27, 2007 and the Statement will be revised after their receipt. DSHA is expecting 10 to 12 applications for funding as there is a lot of activity this year. There will probably only be three to five applications accepted for funding and the HDF will have requests totaling \$10-12 million. The requests will be presented to Council this summer as financing must be approved by August.

Mr. McDonough asked if Council had any say in the Tax Credit application approvals since only a portion of the applications were ever presented to Council. Mr. Jones explained each application would be reviewed by DSHA and that there is a published ranking process with specific tax credit criteria that applications must pass. Only those applications receiving the highest ranking would be presented before Council. Mr. White asked if Council is aware of the ranking criteria and if there might be other unpublished influences that could affect an application of which the Council should be aware. Mr. White was assured that the criteria had been published on the website; had been emailed to all Council members; and, that a presentation had been made by Cindy Deakyne last year on this subject. Mr. Jones explained the applications have a 64 item checklist which DSHA must review for the underwriting. In addition, both the IRS and DSHA have specific rules that must be followed. If all thresholds are met, the application is then ranked. Mr. McDonough asked if prior history with an applicant could affect whether their request would be presented to Council. Mr. Jones replied that, in theory, a project could rank very high, but if the applicant had a bad financing history with DSHA they would be

turned down. Ms. Sokolowski pointed out that a project could receive tax credits but not require DSHA funding. Mr. Jones stated that because the applicants know the rules it would be the exception to reject an application.

SUSSEX COUNTY HABITAT FOR HUMANITY GRANT REQUEST

Mr. Jones stated the Sussex County Habitat for Humanity has been active for a number of years but it has only been in recent times they became very active, including appointing an Executive Director. In total they have completed approximately 30 houses since its inception. This year Habitat has applications and build plans for seven houses. The request for \$200,000 is a multi-faceted request: 1. Gap financing of \$60,000 is needed for seven houses. Even with Habitat's reduced costs some families still cannot afford mortgage payments without secondary assistance. The Habitat mortgage is 0% interest from 20 to 30 years. Habitat tries to make it affordable but it is increasingly difficult due to the rising building and land costs. 2. Land acquisition costs of \$120,000; and, 3. Pre-development costs of \$20,000 for expenses involved in the site acquisition, i.e. surveys, legal, etc.

Mr. Jones continued by reviewing the beneficiaries of these funds along with the selection criteria for same. He then reviewed the Habitat application process which includes, this year, from between 1200 to 1400 inquiries. Typically, approximately 150 families start the actual application process and 10-12 families follow through to the end. The constraints of not enough money, time and staff keeps the total assisted down. Mr. McDonough asked if the information submitted is verified by Habitat. Mr. Jones explained Habitat's screening process is similar to the underwriting process of DSHA. Habitat actually visits the dwelling the people live in, obtain income records, tax records and credit reports to qualify the applicants. Mr. Jones noted a difference for Habitat is they require sweat equity by applicants and they may be helped by friends and family.

The loan terms were next reviewed by Mr. Jones noting that, again, the loans were no interest for 20-30 years depending on the homebuyer's income; Habitat has the right of first refusal on the re-sale of the property; Habitat and homeowner share home appreciation upon re-sale with the seller's share increasing with the amount of time they reside in the property; and, that Habitat typically holds a silent second mortgage at 0% interest for the difference between the market value of the home and the first mortgage amount, which keeps sellers from making a large profit on the re-sale. The DSHA funding would be in third position. Ms. Sokolowski asked if DSHA's funding is forgiven over time. Mr. Jones responded yes, that this would be similar to what DSHA does with Cornerstone West.

Mr. Jones reviewed the major affiliations, supporters and technical service providers for Sussex Habitat. He also noted Habitat utilizes NCALL for counseling and technical support. He next explained Habitat's Statement of Activities for 2007.

A house pricing breakdown for FY07 indicated the total cost of providing a home in Sussex County would be \$107,000.

Mr. Jones stated the recommendation of staff is to approve the \$200,000 grant request with certain conditions which he then reviewed. Mr. White asked who would have title to the property purchased prior to development. Mr. Jones replied that Habitat would be the deed holder but that DSHA would have a lien on the property. If the property was not developed within five years, the property would revert to DSHA.

Discussion ensued as to condition number six of the Synopsis. This was new information that had not been presented to the Loan Committee but which had been requested by Habitat. Habitat proposed amending the repayment-in-full of the land acquisition funds to DSHA to a lower amount if full repayment burdened the homeowner financially. Although not meant to be part of a condition for future awards, it was Council's fear that it could be construed as such. It was agreed that, rather than include this condition, if the need for amending the repayment amount should occur, Habitat, or any other Grantee, should present the request to DSHA for consideration. Mr. McGonigle questioned the Council if they believed by removing this condition it could never be presented for other HDF applicants. The Council assured Mr. McGonigle this was not their intent. Mr. White moved to have condition number six removed from the Resolution. Seconded by Ms. Sokolowski, the motion was passed.

Mr. Gilmore thanked the Council and DSHA staff for their approval of the request and stated the biggest obstacles for Habitat were affordability and land acquisition. He stated Habitat plans to build 22 homes in the next three years and already has 16 lots. Mr. White asked what percentage of costs were regulatory costs. Mr. Gilmore replied 5% to 6%, for water/sewer hook-ups, permit costs, there is no transfer tax. Mr. White asked if reductions were given by the various jurisdictions. Mr. Gilmore replied Habitat does work with the county and cities to reduce fees and many times fees are waived. Mr. McDonough asked why these questions were asked of Mr. Gilmore and Mr. White replied they were for future reference. Mr. White then made motion to approve Resolution No. 357. Ms. Zumsteg seconded and the Resolution was passed as amended with Ms. Louder obtaining due to her employment with NCALL.

PRESENTATION BY FREDERICK PURNELL, EXECUTIVE DIRECTOR OF WILMINGTON HOUSING AUTHORITY

Mr. Purnell introduced himself, stating he had some experience with the Council as he was involved with the East Lake Hope IV funding from the HDF and Park View which had received tax credits from DSHA. He stated Wilmington Housing Authority (WHA) as well as other housing authorities, have seen their HUD funds dramatically reduced. Mr. Purnell stated WHA's three primary sources of funding from HUD are: Operating Funds, Capitol Funds, and Replacement Housing Factor Funds, which is actually a part of Capitol Funds.

The most immediate crisis at WHA is the recent reduction HUD made to WHA's Operating

Funds, originally a reduction of 76% but that has been amended to 82%. However, this reduction has created an operating funds deficit.

The WHA Capitol Funds have been steadily reduced over time. In 2000 WHA received about \$6.2 million per year in Capitol Funding while they were managing around 2300 units. It is a formula-based calculation and WHA has significantly reduced its number of units since that time. Currently WHA receives approximately \$3.2 million.

Mr. McDonough asked who cut the funding, HUD or Congress? Mr. Purnell replied that the Federal appropriation had not changed, HUD put a cap on funds it would disburse. Mr. McDonough wondered if Delaware lost funds while other states gained. Mr. Purnell said everyone lost with the cap. Mr. McDonough then asked if Mr. Purnell knew what HUD was doing with the funds above the cap. Mr. Purnell said authorities know what HUD is telling them but what HUD does is not always the same. As an example Mr. Purnell stated WHA had an asset management deadline to implement their new plan by April 15; however, the regulations that had previously been agreed to stated implementation was to be by October 15. Mr. McDonough asked if our Congressional delegation was any help to WHA. Mr. Purnell stated Councilman Castle has been a very big and active supporter. He also stated this was a national problem not just Delaware's. Mr. Purnell said although WHA was receiving around one-half of the Capitol Funds previously received, WHA has not reduced its units by one-half.

The Replacement Housing Factor is a program HUD started several years ago. WHA recently received approval for some new construction projects but in the years to come DSHA might possibly be contacted for funding assistance. Mr. White suggested it best to buy the land now and be ready to build when funding became available, Mr. Purnell agreed with this.

WHA also received two HOPE VI grants. One for the Village of East Lake and, in 2004, received a \$1.3 million demolition-only grant for their Southbridge development. The Southbridge area is experiencing a revival which will benefit WHA. The WHA site includes about 180 public housing units less than a mile from the riverfront area.

Mr. Purnell then displayed before and after pictures of the Village of East Lake development that WHA did in conjunction with Leon Weiner & Associates. He stated the 70 tax credit rental units had been in service for two years; 89 of the 90 homeownership units were sold and the remaining unit is for sale at \$127,900. This development includes a beautiful new community center and represents a total investment of \$28.6 million.

Southbridge Extension is a site WHA demolished and then HUD eliminated the HOPE VI program. Consequently, all the plans WHA had involving many public/private partnerships, commercial development components, land use alternatives, etc. were put on hold. Mr. Purnell also showed a slide of the Southbridge development after a recent hurricane. As the hurricane hit at 7 a.m. there were many people in the buildings and they had no boats to evacuate the tenants. After the water receded, WHA decided Southbridge Extension was not a good location to house

people. Prior to getting relocation or grant money, WHA moved the tenants out and the development was demolished. Without HOPE VI funding the development will continue to be underdeveloped.

Southbridge is actually comprised of two developments. Southbridge Extension's 200 units separated by the CONRAIL track; the other is called Southbridge Proper which was WHA's proposed HOPE VI site. WHA submitted its request twice in 2005 and it was not funded. Southbridge Proper is a joint development initiative with the city, county, state and private investors and offers a wealth of opportunities. The East Lake development is rather self-contained whereas Southbridge Proper is a project that will change the community. There is no other affordable housing in that neighborhood.

Another area that has been a problem for WHA was vacancies in approximately 175 scattered units. In the last five years, WHA has demolished many of these at a cost of about \$5.1 million. There are approximately 40 remaining units which are in very poor condition. The declining capital fund environment has caused many of the units to sit unattended for quite a long time. WHA is working together with the city for disposition of the properties to Wilmington Housing Partnership and other non-profits. WHA has disposed of over 30 units in that matter which has given WHA some revenue and, in turn, several of the units have been converted into homeownership opportunities.

Mr. Purnell next described the 1200 block of Heald Street where WHA has done some in-house development. WHA was able to get HUD to approve a modified turn-key development of rental units. Mr. White asked if the profit over the guaranteed price was the developer's profit, which it was.

The next WHA property reviewed was Lexington Gardens whose original 24 units had been demolished. In a partnership through tax credits with the Ingerman Group, 18 townhouses including a private courtyard were developed. Nine of the units face Madison Street and nine face the courtyard. Eight of the 18 units are now occupied, leases are signed for the balance and four units are still being leased by WHA. The in-service date was the end of March.

The purpose of WHA attending today's meeting was to review some of the many needs it has for units that are not up to today's standards. WHA's needs assessment for 2005 indicates capitol needs of about \$120 million for the following most needy sites: Southbridge, East Lake Extension, Riverside and Lincoln Towers. Ms. Johnson asked if this was WHA's priority, Mr. Purnell said it was.

Mr. Purnell, referring to the Replacement Housing Factor, said WHA is to receive those funds until 2013. That program has a leverage requirement to it so WHA can expedite some of the funding if they can show leverage commitments. 25 Units are approved under the program at this time, some of which are fully funded while others will require leverage. WHA will be submitting proposals for possible HDF funding. WHA is currently looking for land to purchase

as are other non-profits. Although there is a new proposed HOPE VI program going through Congress at this time, it requires higher levels of leverage than the old program. Southbridge Family Development would probably be a perfect candidate for HOPE VI and WHA will probably be seeking HDF Funds for this. There are 147 units in the back of WHA's Riverside site that are obsolete and have been put into a project-specific plan that could include being demolished.

Lincoln Towers, in Trolley Square, has many issues including a need for a fire sprinkler system. Unfortunately, the supporting systems are too old to retrofit. Ms. Johnson asked that Mr. Purnell describe Lincoln Towers, i.e. being a senior housing property. Mr. Purnell said, to the contrary of what most people believe, most of WHA's highrises are senior units only. Mr. White asked what the occupancy rate was and Mr. Purnell stated it is 100%.

Mr. McDonough asked if the city had increased their budget for next year to assist WHA. Mr. Purnell replied they receive absolutely no funds from the city. The city has picked up the costs for three policemen for WHA developments but will no longer be able to continue due to budget constraints. Mr. Walker asked why the city did not fund anything. Mr. Purnell explained it was because WHA is not a city agency, it is a state agency supported by HUD.

Mr. Purnell again thanked Ms. Johnson, Mr. Jones and Ms. Gregory for their help in the times of crises WHA had experienced. In the future, WHA expects to be asking the Council for funding to help in its development activities.

Mr. White suggested Mr. Purnell inform the Council about the events of April 10th. WHA hosted a regional housing summit because the current Public Housing funding cuts are not specific to Wilmington. The summit included housing directors from Pennsylvania, New Jersey, Maryland and Delaware. A recent change is a mandatory minimum rent. Previously if a minimum rent was imposed on a tenant the tenant could not be evicted. Now, with the mandatory minimum rent, even for residents who legitimately have no income they must pay at least \$50 per month. Utility costs have increased by 59% whereas WHA's utility allowance has not adjusted by HUD. The summit was to bring a regional focus to what is happening based upon some of the new HUD policies. There are currently no funds available for security guards in the new HUD funding. The authorities hope to work together to get better cooperation from HUD.

Mr. McDonough wanted to know who was directing HUD. Mr. White said the President sets the budget and Congress goes from there. Mr. White also expressed that housing is not a priority on anyone's agenda in the coming elections.

Mr. White asked what the worst case scenario would be if WHA did not get funding. Mr. Purnell said there were some things he could not talk about at this time. He did state one of his colleagues just put one of his well-performing buildings on the market to sell. The buyers will not keep it affordable and that resource will be lost as a source of affordable housing. He also

stated the residents of Southbridge and WHA are the only things standing in the way of re-gentrification in that area. He continued by stating HUD has another program called Mandatory Conversion. HUD can review a property and if they decide they could issue vouchers and spend less money than they do to maintain a public housing site, they can do that. The problem is vouchers are only issued to the people and the vacant units are lost for affordable housing. In order for WHA to keep some semblance of Capitol Funds for maintenance and repair, WHA will have to begin taking in individuals who have higher incomes than those that typically reside in public housing. Mr. Purnell said HUD allows WHA to establish a working preference so WHA can skip over the very poor and lease to those who are able to pay more than the \$50 per month. Ms. Zumsteg expressed her concerns for the increase in the rental affordability gap even for public housing tenants.

DIRECTOR'S REPORT

Ms. Johnson stated that at 1:00 on April 30th, DSHA will go before the Bond Bill Committee and asked for as many Council members to attend as possible.

She also reported the Bond Buyer, a national newspaper for bonds, listed DSHA as the number one issuer of 2006 for Delaware. DSHA issued 37% of state bonds issued.

Ms. Johnson reported DSHA is now exploring bonds for refinancing mortgages issued by sub-prime lenders. It is DSHA's obligation to use all resources and tools to mitigate the mortgage difficulties some homeowners are facing. She will be meeting with five or six other executive directors to review this matter. The Ohio legislature has ruled that the Ohio financing agency had to produce a financing mechanism to get its citizens out of the foreclosure spin. Cleveland, Ohio, has the highest foreclosure rate in the country. Their sub-prime assistance program began in April.

Programs being reviewed are 30-year fixed rate mortgages and taxable bonds, as opposed to the non-taxable bonds for the first-time homebuyer program. Ms. Johnson said Fannie Mae has waived a number of its criteria to assist this targeted population. Ms. Sokolowski asked if Fannie Mae will buy the paper. Ms. Johnson said yes, but they still need to determine how large the bond issue should be.

Mr. White asked if data from HOMDA (the Home Mortgage Disclosure Act) would be used and Ms. Johnson said it would be. Ms. Sokolowski asked if there has to be an income limit on non-taxable bonds. Ohio's cap is 125%; currently Delaware can go as high as 140% on taxable bonds but Ms. Johnson would like to open this to all homebuyers. Mr. McDonough asked how can the information get to the people. Ms. Johnson replied all forms of media, including radio and housing counselors will be used. This program will be for owner-occupants only. Mr. White said after 10-15 years of having financial counselors why is there a crisis. The answer was that counselors can only do so much and many homeowners take on debt that they were advised not to take on. Ms. Sokolowski also stated that many people begin counseling but do not complete

it. Ms. Johnson reported that Chicago now requires that all people have housing counseling prior to purchasing a home.

Ms. Johnson said in regard to the Delaware Inter-Agency Council for Homelessness (DICH), it is still looking to develop state vouchers for the chronically homeless in the near future.

ADMINISTRATIVE MATTERS

Ms. Harkins mentioned the Bond Bill meeting which will be held April 30 in the Joint Finance Committee room and urged Council member's attendance. Ms. Harkins also noted the Magistrate's Court in New Castle County is doing a pilot program on the Delaware Landlord-Tenant Code and holding meetings throughout the state which Ms. Harkins urged Council members to attend.

Mr. White asked Council to make a resolution that April is Fair Housing Month and present it at the HOND and Human Relations Commission luncheon on April 27. Motion was made by Ms. Zumsteg, seconded by Mr. White the motion was passed.

The letter in support of the Delaware Federation of Housing Counselors, Inc. was signed by Ms. Harkins at this meeting and is ready for mailing.

Ms. Harkins stated the Executive Session is necessary today to approve Minutes of two prior meetings and discuss other confidential financial matters and thanked the public for attending.

ADJOURNMENT

A motion was made by Mr. Walker to adjourn the Public Session and go in to Executive Session at 3:00 p.m. Seconded by Ms. Zumsteg, the motion carried unanimously.

The Public Session was resumed at 4:00 p.m.

SCHEDULING OF NEXT MEETING

The next Council meeting is scheduled for Wednesday, May 9, 2007 at 2:00 p.m. at the Buena Vista Conference Center.

ADJOURNMENT

A motion was made by Mr. Walker to adjourn. The motion was seconded by Ms. Zumsteg and approved unanimously the meeting adjourned at 4:10 p.m.

Respectfully submitted,

Lynda T. Blythe