



City of Seattle
Office of Housing

Date: June 3, 2013

To: Councilmember Nick Licata, Chair, Housing, Human Service, Health, and Culture Committee
Councilmember Sally Bagshaw
Councilmember Bruce Harrell
Councilmember Tom Rasmussen

From: Beth Goldberg, Director, City Budget Office
Rick Hooper, Director, Office of Housing

Subject: City Council Green Sheet 146-2-A-1 SLI Response on Single Family Home Repair Program Funding

Statement of Legislative Intent Response: Home Repair Loan Program

As part of the 2013 Adopted Budget, the Seattle City Council adopted Green Sheet 146-2-A-1, which requested a Statement of Legislative Intent (SLI) from the Office of Housing and the City Budget Office to provide a report to the Housing, Human Service, Health and Culture Committee regarding ongoing funding needed to continue the City's Home Repair Program (HRP) by June 3, 2013.

The SLI requested that the Office of Housing (OH) and the City Budget Office (CBO) analyze the Home Repair Program loan portfolio to determine remaining loans to be repaid and the likely annual repayment schedule over the next two to four years. Based on this analysis, OH and CBO were directed by the SLI to determine if Community Development Block Grant (CDBG) funded home repair loan repayments or a portion of these loan repayments need to be returned to the Home Repair Program to continue program operation, beginning in 2014 or later.

To sustain the Home Repair Program, which is at risk of exhausting its fund balance, OH recommends returning CDBG program income to the revolving loan program over the next two years. When the fund achieves a target balance of 15% of the total principal value of the fund, program income may be redirected to other CDBG-eligible resources.

The City's ability to execute this plan is contingent on the long-term health and funding priorities for CDBG. As the Federal government addresses its fiscal challenges, CDBG as a funding source may be challenged. Current information from the City's sources in Washington, D.C. indicates that the City may see a decrease in CDBG funding for 2014. If this were to materialize, the City would need to shift funds from other programs in order to increase the funding for OH. The Mayor will review the proposal to redirect CDBG to OH for the HRP as part of the 2014 budget process. Additional information on program background and recommendations follows in this memo.

Home Repair Program: What It Is and What It Accomplishes

- The HRP provides loans to low-income Seattle homeowners to finance substantial home repairs that preserve structural integrity and address threats to health and safety. Common repairs include roof replacements, side sewer repairs, and plumbing repairs.
- Since 2002, the program has served 444 homeowners. Of those, 55% were elderly and 14% were households headed by a single parent. The program consistently serves some of Seattle's lowest-income residents. Since 2002, 76% of the loans were made to people with incomes of 50% AMI or below. The rest of the loans were to people below 80% AMI.
- As of April 2013, the HRP currently has 460 active loans, for a total outstanding loan balance of \$6.1 million. Production has fluctuated over the last seven years, but on average the program has closed about 35 loans per year.
- The average loan size in 2012 was \$19,375; 35 loans in 2013 will require about \$692,000, assuming 2% inflation.
- Loans are either structured as amortizing (monthly payment required) or deferred (no monthly payment required—payment due on sale). Currently the 460 loan portfolio has 41% amortizing loans and 59% deferred loans.
- The Home Repair Program is a success story. While its principal goal is to help low-income homeowners remain in their homes by financing essential major home repairs, it provides other benefits too. The program:
 - o Conserves resources by preventing teardowns of existing housing;
 - o Advances equity by making sure that low-income homeowners have the same access to home repair loans as do those households that can obtain bank financing;
 - o Stabilizes neighborhoods by maintaining housing that could fall into disrepair and become a drag on the rest of the street;
 - o Offers support to customers who may be least able to deal with contractors and make sure the work is performed satisfactorily; and
 - o Generates loan repayments that allow a one-time capital infusion to regenerate in perpetuity.

Home Repair Program Funding

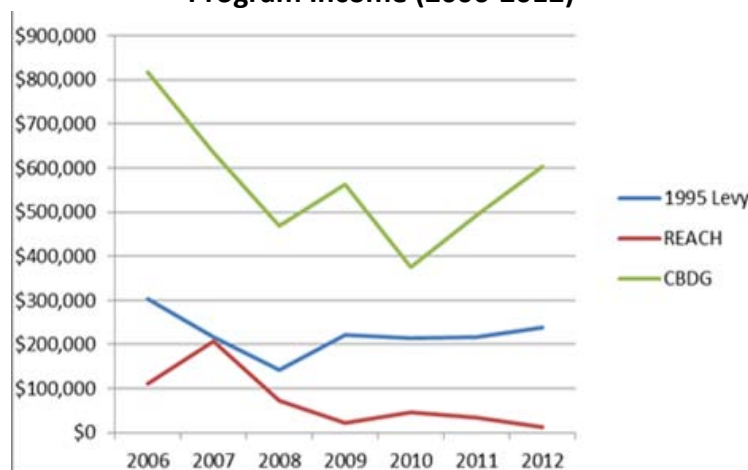
- The HRP operates as a revolving loan fund. Loan funds paid back are then re-loaned out again.

- The HRP is currently funded from 3 sources:

Fund Source	Fund Balance as of 12/31/12	Average Program Income (2006- 2012)
CDBG	\$957,404	N/A – no program income since 2006
Levy	\$71,605	\$221,615
REACH	\$277,145	\$72,034

- Repayment trends from the three fund sources were reviewed over a seven year time frame. The average is used in projections because of no clear pattern in repayment trends.

Program Income (2006-2012)



- CDBG:** Many years ago the HRP was seeded with new annual allocations of CDBG funding. Those new allocations stopped when loan repayments became sufficient to fully fund the program. The fund balance shown above represents the total of previous CDBG loan repayments.
- By the end of 2006, program income had grown to exceed what was needed for new loans. CDBG program income began to be used for other purposes to allow the fund balance for the HRP to be drawn down closer to what is actually needed for ongoing program operations, assuming a program providing 35 loans per year. During the past seven years new CDBG loan repayments, redirected since 2006 for other purposes, have averaged \$565,000.
- Levy:** The 1995 Housing Levy included a small home repair program---those funds have been loaned out, repaid, and re-loaned many times. Levy funding currently continues as a source of program funding.
- REACH:** Many years ago a bond issue was used to fund loans; these funds have also been used and reused---continuing as a small ongoing fund source.
- Since 2006, the CDBG loan repayment fund balance that has stayed with OH has dropped---it is now projected to run out in 2015. It is now time to revisit fund balance projections and determine how to maintain adequate program funding into the future.

Home Repair Program Funding Goals

- The Office of Housing proposes to continue to fund the HRP at current levels.
- The HRP will continue to focus on home repair needs of low-income homeowners.

- HRP loans will continue to link to OH's Weatherization Program. Since many homes need substantial repairs before they can be made energy efficient, the Home Repair Loan program is a way to fund repairs on homes so that OH can weatherize them.
- Loan funds at current level would require an estimated \$720,000 in 2015, assuming 35 loans at \$20,570 each on average.
- Continue to fund new program loans with funding revolved from previous loan repayments—maintaining a “self-supporting” program into the future. The HRP should not need an additional new infusion of capital outside of loan repayments.

Fund Balance Requirements

- OH estimates that the appropriate annual ending fund balance necessary to maintain current-level operations of about 35 loans per year is \$1 million. This targeted ending balance is necessary to ensure a sustainable cash flow and guard against losses, and it comprises two parts.
 - ❖ About \$750,000 to initiate new loans in the following year. This amount replenishes from program income revenue received throughout the year. Because the program's spiky repayments are unpredictable, the balance available to initiate new loans may vary widely on a month-to-month basis.
 - ❖ About \$250,000 in a loan loss reserve. This amount represents approximately 4 percent of total outstanding loans.
- An annual ending balance target of \$1 million is consistent with guidance of the National Development Council and practice of a similar local lender who was contacted. It represents an amount of cash available to lend that is approximately 16 percent of the principal value of total outstanding loans. This fund equity allows OH to have enough cash, at the beginning of each year, to do 35 loans.
- As noted above, because program income often comprises lump-sum payoffs rather than steady amortized payments, revenues can be volatile. Absent sufficient reserves, a couple of down years could completely wipe out the fund. Should this happen, the program would have to halt operations until sufficient funds build back up again.

Financial Projections

- Continuing diversion of CDBG program income to other uses will erode the fund balance down to unsustainable levels. Assuming no CDBG program income, other program income of about \$300,000 per year and a steady-state loan program, OH projects that the fund balance will fall to \$70,000 by the end of 2015.
- Return of CDBG program income cures this trend, as shown in the following chart. Again, the projected program income and expenditures are based on 7-year averages. Based on this midpoint scenario, a complete return of CDBG program income to the loan fund by 2015 will gradually build balances up beyond the 15% of outstanding loan principal, targeted at approximately \$1 million.

Redirection of all CDBG Program Income to Home Repair Program by 2015 (in thousands)

	2013	2014	2015	2016
Starting Uncommitted Balance	1,306	900	719	859
plus Levy Program Income	222	222	222	222
plus REACH Program Income	72	72	72	72
plus CDBG Program Income		230	565	565
less New Loan Expenditures	(692)	(705)	(719)	(734)
Ending Uncommitted Balance	900	719	859	984

- However, a few years of below-average program income, matched to recent low years, would result in the fund balance decreasing well below \$1 million reserve needed to ensure liquidity, as shown in the table below.

Redirection of all CDBG Program Income with below-average program income (in thousands)

	2013	2014	2015	2016
Starting Uncommitted Balance	1,306	900	580	392
plus Levy Program Income	143	143	143	143
plus REACH Program Income	12	12	12	12
plus CDBG Program Income		230	376	376
less New Loan Expenditures	(692)	(705)	(719)	(734)
Ending Uncommitted Balance	900	580	392	189

Recommendation

- Given the unpredictability of program income, OH recommends a gradual return of CBDG program income over the next two years. The ability for the City to execute this recommendation is contingent on future CBDG funding levels. The Mayor will evaluate this in the context of preparing the 2014 Proposed Budget.
- In 2014, CBDG program income will return \$230,000, which will bring the fund up to a level sufficient to cover expected loans the following year. OH estimates the loan fund will need to begin 2015 with \$719,000, based on 35 loans and inflation applied to 2012 actual loan amounts.
- In 2014, a mid-year check-in will ensure that balance levels are sufficient to complete 35 loans in 2015. If it appears that the fund balance is too low, CBDG program income will be returned earlier to ensure that the starting fund balance in 2015 has sufficient resources to complete 35 loans.
- In 2015, all CBDG program income (estimate of \$565,000) generated by Home Repair Program loans will return to fund the program and build up the reserves.
- Program income return to the Home Repair Program will be accompanied by a biennial “sweep” that maintains a minimum balance equivalent to 15% of the total principal value of the program’s outstanding loans. As noted in the Fund Balance Requirements section of the memo, other revolving loan funds strive to achieve a similar standard of maintaining a cash balance of 15% of the total principal value of the fund.

- The sweep could redirect funds not needed for the program due to better than expected loan repayment levels.
- Retaining CDBG program income as a result of loan repayments will allow the HRP program to maintain a minimum fund balance needed to ensure liquidity, while allowing excess program income to be directed to other needs in the City.

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2013 - 2014 Seattle City Council Statement of Legislative Intent

Approved

Tab	Action	Option	Version
146	2	A	1

Budget Action Title: Home Repair Program Funding

Councilmembers: Budget Committee

Staff Analyst: Traci Ratzliff

Budget Committee Vote:

Date	Result	SB	BH	TR	RC	TB	NL	JG	SC	MO
11/07/2012	Pass 8- 1-Absent	Y	Y	-	Y	Y	Y	Y	Y	Y

Statement of Legislative Intent:

The Council requests the Office of Housing (OH) and the City Budget Office (CBO) to provide a report to the Housing, Human Services, Health and Culture Committee regarding the ongoing funding needed to continue to the City's Home Repair Program.

OH and CBO shall specifically analyze the Home Repair Program loan portfolio to determine remaining loans to be repaid and the likely annual repayment schedule over the next two to four years. Based on this analysis, OH and CBO shall determine if CDBG funded home repair loan repayments or a portion of these loan repayments need to be returned to the Home Repair Program to continue program operation, beginning in 2014 or later.

This information shall be provided to the Council by June 3, 2013 in time to inform the Mayor and Council's 2014 budget decisions.

Background:

The Home Repair Program provides low-interest loans to fund needed repairs to low income, mostly elderly single family homeowners. The program has been funded in recent years with prior Housing Levy funds, and CDBG funds. In January of 2007, loan repayments from CDBG funded home repair loans were redirected to other CDBG eligible activities due to a large fund balance that had accrued in the Home Repair Program. That fund balance is now nearly exhausted and the estimated loan repayments from other fund sources (approximately \$170,000 a year) will maintain existing program production (approximately 35 loans a year) potentially only through late 2014. The total annual Home Repair Program budget (loan funding + administration) is \$875,000. It is important to understand if further support is needed to maintain this program. In addition, the City's CDBG commitment to the Rainier Valley Community Development fund is completed in 2013 freeing up over \$2 million in CDBG funding in 2014 and beyond. A portion of this funding could be used to provide ongoing support of the Home Repair program without resulting in cuts to other CDBG funded activities.

Responsible Council Committee(s): Housing, Human Services, Health, & Culture

Date Due to Council: June 3, 2013