



**Date:** May 22, 2012

**To:** Thomas J. Bonfield, City Manager  
**Through:** Keith Chadwell, Deputy City Manager  
**From:** Reginald J. Johnson, Interim Director  
Department of Community Development  
**Subject:** HOME Program Payback for Open Projects

**Executive Summary**

At the national level, the Home Investment Partnership (HOME) Program of the U.S. Department of Housing and Urban Development (HUD) has been subjected to considerable criticism and scrutiny for the past year or more. The primary criticism has focused on projects started by non-profit organizations that were not completed, particularly homeownership projects. In January of this year, HUD issued a directive covering all completed HOME-funded homeownership activities for which there was not a beneficiary in place. The intent of the directive was to deal with unsold homeownership units by way of lease purchase programs or rental conversion. However, the directive also applied to instances where a non-profit had used HOME funds to acquire a vacant lot for redevelopment or a vacant unit for rehabilitation and the acquisition activity itself had been completed for more than 120 days. The directive established May 1, 2012 as the date by which beneficiaries had to be in place or funds repaid to HUD.

The City of Durham granted HOME monies to Durham Community Land Trustees, Inc. (DCLT) and Builders of Hope, Inc. (BOH) to acquire properties from the Duke-funded land bank in Southwest Central Durham for rehabilitation or redevelopment. The total amount spent for acquisition for which there are no beneficiaries is \$248,279.24. Of this amount, \$201,535.89 has been repaid to HUD with the balance to be repaid upon receipt of the approved waiver from HUD that would allow all funds to be returned to the City's HOME account. Failure to repay the funds by the May 1 deadline would have resulted in the City having limited functionality in the Integrated Disbursement and Information System (IDIS) to set up and manage HOME activities and other penalties.

**Recommendation**

The Department of Community Development recommends the City Council authorize the expenditure of \$248,279.24 in housing bond program income in the form of a reimbursement to the U.S. Department of Housing and Urban Development.

**Background**

HOME regulations require that not less than 15% of HOME funds received be awarded to Community Housing Development Organizations (CHDOs). The CHDO set aside requirement is on a cumulative basis and both DCLT and BOH are CHDOs. In this particular

case, other than not moving forward in a timely manner, neither organization failed to comply with HOME requirements. The severe downturn in homebuyer activity has been a contributing factor.

On May 25, 2006 DCLT was granted \$299,000 for the acquisition of 11 properties in SWCD for rehabilitation or new construction. To date, DCLT has constructed 5 new homes, 4 of which have been sold or rented and completed the rehabilitation of one property that has been rented. DCLT has 4 remaining vacant lots and 1 duplex yet to be rehabilitated. Acquisition funds subject to payback for lack of a beneficiary total \$137,363.16.

On April 8, 2009, BOH was granted \$57,146.00 for the acquisition of two existing houses on Rosedale Avenue that were to be fully rehabilitated and made available to homebuyers whose income does not exceed 80% of area median income. On May 19, 2010 BOH was granted \$185,000 for the acquisition of 10 properties on Rock Street, to be totally rehabilitated or newly constructed; 4 of which were intended to be sold to homebuyers whose income does not exceed 80% and the remaining 6 properties were to be rented to tenants whose income does not exceed 60% of area median income.

Although some rehabilitation has been completed and one property has been sold, the rehabilitation or new construction of the remaining units has not kept pace with the original timetable projected. Funds expended by BOH for acquisition subject to repayment total \$110,916.08.

### **Issues/Analysis**

When the directive was first issued, the Department coordinated with Self-Help as administrator of the SWCD land bank and both DCLT and BOH on the re-purchase of the properties by the land bank as an alternative to the payback. However, the logistics of re-purchasing the properties and then having DCLT and BOH re-acquire them became too cumbersome.

The properties acquired by DCLT and BOH are among the "inventory" properties in SWCD and Northeast Central Durham that the Department and its non-profit partners have focused on over the past many months. Completing these projects remains a priority.

Going forward, the Department will severely limit the use of HOME funds for acquisition activities only and will require more specific commitments to the completion of activities on a timely basis.

### **Alternatives**

The Department of Community Development has not identified any alternatives since the HOME funds must be repaid using non-federal funds.

### **Financial Impact**

The source of funding for that portion of the payback that has already occurred and the remaining payback amount is housing bond program income. The payback amount represents housing bond program income that would have otherwise been committed as a part of the construction/permanent financing for the first phase of mixed income rental development by McCormack Baron Salazar. Therefore, when the funds are returned to the City's local HOME account, they will be available as a part of the commitment of HOME funds for that same project subject to Council approval of the loans for that project.

**SDBE Summary**  
Not applicable