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HOUSE BILL NO. 1398

AMENDMENT IN THE NATURE OF A SUBSTITUTE

(Proposed by the House Committee on General Laws

on _____)

(Patron Prior to Substitute--Delegate Bennett-Parker)

A BILL to amend the Code of Virginia by adding in Title 36 a chapter numbered 13, consisting of sections numbered 36-176 through 36-181, relating to preservation of affordable housing; definitions; civil penalty.

Be it enacted by the General Assembly of Virginia:

1. That the Code of Virginia is amended by adding in Title 36 a chapter numbered 13, consisting of sections numbered 36-176 through 36-181, as follows:

CHAPTER 13.

PRESERVATION OF AFFORDABLE HOUSING.

§ 36-176. Definitions.

As used in this chapter, unless the context requires a different meaning:

"Affiliate" means the same as that term is defined in § 13.1-725.

"Affordability restriction" means a limit on the amount of rent that an owner may charge at publicly supported housing as set forth in a contract.

"Bona fide offer to purchase" means a signed purchase agreement made in good faith.

"Contract" means a written agreement entered into by an owner under which property becomes publicly supported housing that is subject to an affordability restriction. "Contract" includes a deed restriction, loan agreement, operating agreement, or any other written agreement that results in an affordability restriction being placed on the property.

"Day" means calendar day unless clearly specified as business day.

"Locality" means the same as that term is defined in § 15.2-102.

26 "Owner" means a person, firm, partnership, corporation, trust, organization, limited liability
27 company or other entity, or its successors or assigns, that holds title to publicly supported housing.

28 "Publicly supported housing" means any building, structure, or combination of related buildings
29 and structures operated as a single entity that a landlord provides for a consideration consisting of (i) 10
30 or more rental dwelling units; (ii) with an affordability restriction in a contract requiring that such rent be
31 affordable for persons and families of low or moderate income; and (iii) that receives benefits from the
32 following programs, grants, or credits: (a) § 8 of the United States Housing Act of 1937, 42 U.S.C. §
33 1437(f), as it applies to new construction, substantial rehabilitation, moderate rehabilitation, property
34 disposition, and loan management set-aside programs or any other program providing project-based rental
35 assistance; (b) the federal Low-Income Housing Tax Credit Program, 26 U.S.C. § 42; (c) § 101 of the
36 Housing and Urban Development Act of 1965, 12 U.S.C. § 1701s, as it applies to programs for rent
37 supplement assistance; (d) § 202 of the Housing Act of 1959, 12 U.S.C. § 1701q; (e) the Below Market
38 Interest Rate program codified at § 221(d)(3) of the National Housing Act, 12 U.S.C. § 1715 l(d)(3) and
39 (5); (f) § 236 of the National Housing Act, 12 U.S.C. § 1715z-1; (g) §§ 515 and 538 of the Housing Act
40 of 1949, 42 U.S.C. § 1485; (h) tax-exempt private activity mortgage revenue bonds as codified in § 142(d)
41 of the Internal Revenue Code or its predecessors; (i) the Community Development Block Grant Program,
42 42 U.S.C. § 5301 et seq.; (j) the HOME Investment Partnership Program, 24 C.F.R. § 92; (k) the National
43 Housing Trust Fund, 24 C.F.R. § 93; (l) the Virginia Housing Trust Fund; and (m) the Virginia Housing
44 Opportunity Tax Credit.

45 "Qualified designee" means any organization or association, including a nonprofit organization,
46 for-profit organization, public housing authority, or tenant association that enters into an agreement with
47 the locality enabling such organization or association to evaluate or exercise the locality's right of first
48 refusal to purchase publicly supported housing.

49 "Sale" or "sell" means an act by which an owner conveys, transfers, or disposes of publicly
50 supported housing by deed or otherwise, through a single transaction or a series of transactions, within a
51 two-year period, provided that a transfer of ownership interest alone shall not constitute a sale. "Sale" or
52 "sell" does not mean the disposition of publicly supported housing by an owner (i) to an affiliate of such

53 owner, (ii) to a person or entity that owns a portion of the publicly supported housing at the time of sale
54 or listing, (iii) to a member of the owner's family by blood or marriage, (iv) that occurs in the event of the
55 owner's death or divorce, (v) to a purchaser of the publicly supported housing in a foreclosure sale, (vi) to
56 a purchaser of the publicly supported housing by a deed in lieu of foreclosure provided that the contract
57 restrictions are subordinate to the purchaser's interest eligible for foreclosure, or (vii) to a government
58 entity that exercises the power of eminent domain to acquire the publicly supported housing or negotiates
59 a purchase in lieu of eminent domain.

60 "Tenant association" means any association established by the tenants of publicly supported
61 housing for the purpose of addressing issues related to their living environment that (i) operates
62 democratically and represents all residents in the development; (ii) is completely independent of owners,
63 management, and their representatives; and (iii) has notified the owner and the locality of its existence or
64 establishment and has provided to such owner and the locality the names and addresses of at least two
65 officers or representatives of such association. No owner or other entity shall be required to ascertain the
66 association's compliance with this definition.

67 "Termination" means the cessation, discharge, or removal of an affordability restriction affecting
68 publicly supported housing in the absence of another equivalent affordability restriction, as defined by the
69 locality, including (i) expiration, in whole or in part, of an affordability restriction under a government
70 program regardless of the owner's intention to renew the restriction; (ii) nonrenewal or termination, in
71 whole or in part, of a government program contract that required the expiring affordability restriction; or
72 (iii) payment in full or prepayment of a government program mortgage loan that required the expiring
73 affordability restriction.

74 "Third-party buyer" means a party that is not the locality or qualified designee that makes a bona
75 fide offer to purchase publicly supported housing. "Third-party buyer" does not mean (i) an affiliate of the
76 owner, (ii) a person or entity that owns a portion of the publicly supported housing at the time of sale or
77 listing, (iii) a member of the owner's family by blood or marriage, (iv) a purchaser in a foreclosure sale,
78 (v) a purchaser by a deed in lieu of foreclosure, or (vi) a government entity that exercises the power of

79 eminent domain to acquire the publicly supported housing or negotiates a purchase in lieu of eminent
80 domain.

81 **§ 36-177. Notice requirements for termination of affordability restriction.**

82 A. Any locality may adopt an ordinance to require the owner of publicly supported housing to
83 provide written notice to (i) the locality; (ii) all tenants residing in the property at the time of such notice;
84 (iii) the tenant association, if any; and (iv) any other entity deemed necessary by the locality no less than
85 24 months before the termination of an affordability restriction affecting publicly supported housing, as
86 determined by the locality.

87 1. The written termination notice shall specify in plain language whether the owner (i) intends to
88 allow the termination of affordability restrictions to continue, (ii) intends to convert the publicly supported
89 housing to nonresidential use, (iii) is involved in negotiations to renew or enter into a new equivalent
90 affordability restriction, or (iv) intends to sell the publicly supported housing to a third-party buyer,
91 including information about whether such third-party buyer intends to comply with an equivalent
92 affordability restriction.

93 2. The written termination notice may include the address of the publicly supported housing, the
94 name and address of the owner, the termination date of each affordability restriction, an explanation and
95 any expiration date of any provisions that may allow the tenant to retain the tenancy after the affordability
96 restrictions are terminated, and information about tenant resources.

97 3. If more than one termination will occur, the owner may send one written notice so long as the
98 terminations are scheduled to occur within one year of each other, the notice is given at least two years
99 prior to the earliest termination, and the notice otherwise complies with this section.

100 B. A locality may require that the owner of publicly supported housing provide another written
101 notice to the entities identified in subsection A no less than 12 months before the termination of the
102 affordability restriction affecting the publicly supported housing to confirm the owner's intent regarding
103 the termination.

104 C. Notice required by this section shall be delivered in a format prescribed by the locality. The
105 owner shall retain sufficient proof of delivery, as determined by the locality. Any notice required by this
106 section to tenants shall be provided in accordance with §§ 55.1-1200 and 55.1-1202.

107 D. An owner of publicly supported housing that, on the effective date of the ordinance adopted
108 pursuant to this section, has less than 24 months remaining prior to the date when the affordability
109 restriction affecting the publicly supported housing will terminate, shall not be required to give the 24-
110 month notice required by subsection A, but shall provide such notice within 90 days after the effective
111 date of such ordinance.

112 E. Any locality may adopt an ordinance to require that an owner subject to the notice requirements
113 of this section submit to the locality, no more than 30 days after the notice requirement date, sufficient
114 verification, as defined by the locality, that the owner has complied with the provisions of this section. If
115 the locality plans to contest the validity of such verification, the locality shall notify the owner, by certified
116 mail, return receipt requested, within 60 days of receipt of such verification. If the locality finds no contest
117 to the validity of the verification, a certificate of compliance shall be recorded in the land records of the
118 locality within 60 days of the locality's receipt of the verification from the owner. The certificate of
119 compliance shall (i) contain a legal description of the property, (ii) identify the owner as the grantor, and
120 (iii) be acknowledged by the owner and the locality in the manner required for acknowledgement of a
121 deed.

122 F. Any locality may impose by ordinance a fine, penalty, tax, fee, charge, or assessment upon the
123 publicly supported housing owner for failure to comply with the notice provisions of this section, except
124 that no locality shall impose a fine, penalty, tax, fee, charge, or assessment upon the publicly supported
125 housing property owner once a certificate of compliance is recorded in the land records of the locality.

126 **§ 36-178. Qualified designee.**

127 A. After the publicly supported housing owner delivers notice as required by § 36-177, or after the
128 date that such notice would be required from such owner, the locality may appoint a qualified designee to
129 act as a purchaser of the publicly supported housing. The appointment of such qualified designee shall be

130 effective when the appointing locality delivers notice of such appointment to the publicly supported
131 housing owner.

132 B. If a locality chooses to appoint such qualified designee, the locality shall establish a process for
133 selecting such qualified designee. A qualified designee may include tenant associations, nonprofit
134 organizations, public housing authorities, or for-profit organizations. A qualified designee shall enter into
135 a written agreement with the locality that requires such qualified designee to agree to preserve the
136 affordability of the publicly supported housing and assume all rights and responsibilities attributable to
137 the locality as a prospective purchaser of the publicly supported housing.

138 **§ 36-179. Opportunity to offer to purchase.**

139 A. The locality or qualified designee may deliver, by certified mail return receipt requested, an
140 offer to the owner to purchase the publicly supported housing. An owner is under no obligation to accept
141 such offer.

142 B. At any time after delivery of notice as required by § 36-177 or after the date that such notice
143 would be required from such owner, the locality or qualified designee may request that, within 30 days of
144 such request, the owner make available all relevant documents as determined by the locality.

145 1. The documents provided by the owner to the locality or qualified designee under this section
146 shall be confidential and exempt from the provisions of the Virginia Freedom of Information Act (§ 2.2-
147 4300 et seq.) unless the property owner consents in writing or upon order by a court. Notwithstanding the
148 provisions of this subdivision, disclosure may be made to potential funding sources, regulatory agencies,
149 or agents or consultants of the locality or qualified designee in connection with a transaction between the
150 owner and the locality or qualified designee, subject to any appropriate confidentiality agreements.

151 2. The locality or qualified designee shall not require that the owner provide information that the
152 owner is prohibited from disclosing pursuant to relevant federal or state laws and regulations or any
153 requirements dictated by a program that has granted or grants assistance to the publicly supported housing.

154 3. The locality or qualified designee shall not require that the owner provide personally identifiable
155 tenant information.

156 **§ 36-180. Right of first refusal.**

157 A. After the publicly supported housing owner delivers notice as required by § 36-177, or after the
158 date that such notice would be required from each owner, and no later than two months before the
159 termination of affordability restrictions, the locality or qualified designee may record in the land records
160 of the locality in which the property is located and deliver to the owner a notice of right of first refusal in
161 a form prepared by the locality. Such form shall include:

162 1. The legal description of the publicly supported housing;

163 2. An acknowledgement by the locality that the instrument holds the right of first refusal to
164 purchase the publicly supported housing under this chapter, that the acknowledging party may assign such
165 right of first refusal to a qualified designee, and that such right may be reassigned;

166 3. A statement that any bona fide offer to purchase the publicly supported housing shall
167 acknowledge that the property is subject to the right of first refusal under this chapter;

168 4. A statement that the right of first refusal expires 24 months after the termination of affordability
169 restrictions; and

170 5. A declaration that a copy of the recorded notice of right of first refusal was promptly delivered
171 to the owner by the locality or qualified designee by electronic delivery, in-person delivery, or registered
172 or certified mail with proof of such delivery attached.

173 The form shall be executed and acknowledged by the locality or qualified designee in a manner
174 provided for the acknowledgement of deeds.

175 B. A locality may require that, within five business days after the owner has accepted a bona fide
176 offer to purchase from a third party for the publicly supported housing that is subject to a recorded notice
177 of right of first refusal, an owner send notice, in a format prescribed by the locality, to the locality and
178 qualified designee if applicable. Such notice shall contain a copy of the third-party offer or the terms and
179 conditions of the offer and shall be subject to the same confidentiality provisions in § 36-179.

180 1. The locality or qualified designee shall have 30 days from the date such notice is mailed to
181 exercise a right of first refusal by delivering a matching offer to purchase the property in a format
182 prescribed by the locality. The matching offer shall contain a commitment from the locality or qualified
183 designee to preserve the property as affordable for at least 15 years on terms determined by the locality.

184 The owner shall accept the first matching offer such owner receives from a locality or qualified designee
185 under this section.

186 2. A locality or qualified designee's offer is a matching offer if it has the same terms and conditions
187 as the third party's offer to purchase, except that such locality or qualified designee may consider a
188 purchase offer as a matching offer, notwithstanding a conflicting term, that includes:

189 a. An earnest money deposit that is no less than the least of the third-party offer or four percent of
190 the sales price;

191 b. That the earnest money deposit is refundable until the earlier of 90 days or the date of closing
192 in the event of a good faith failure of the locality or qualified designee to obtain financing;

193 c. Any other term that the property owner has agreed to waive; and

194 d. A commitment to maintain the affordability of the property as required by this section.

195 C. A locality may require that an owner that sells publicly supported housing subject to the notice
196 of right of first refusal in subsection A to a third-party buyer, the locality, or qualified designee submit to
197 the locality sufficient verification, as defined by the locality and within a certain timeframe as determined
198 by the locality, that the owner has complied with the provisions of this section. The locality has no more
199 than 60 days from receipt of such verification to notify the owner, by certified mail, return receipt
200 requested, whether the locality intends to contest the validity of the verification. If the locality finds no
201 contest to the validity of the verification, a certificate of compliance shall be recorded in the land records
202 of the locality within 60 days from the date the locality received such verification. The certificate of
203 compliance under this section shall contain a legal description of the property, the identity of the owner
204 as the grantor, and an acknowledgment by the owner and the locality in the manner required for
205 acknowledgement of a deed.

206 D. The provisions of subsection B shall not apply if:

207 1. The third-party buyer agrees to equivalent affordability restrictions, as defined by the locality,
208 on the publicly supported housing to ensure that such property remains publicly supported housing for at
209 least 15 more years;

210 2. The proposed property transfer does not constitute a sale;

211 3. More than 24 months have elapsed since the termination of the affordability restrictions for the
212 publicly supported housing; or

213 4. The owner accepted a third party's offer to purchase the publicly supported housing before a
214 reasonable time after the effective date of the ordinance adopted to implement the provisions of this
215 chapter, as determined by the locality.

216 E. The provisions of this section are secondary to the terms of the right of first refusal established
217 by a locality through the contribution of local funds to the acquisition, development, or revitalization of
218 publicly supported housing or within the agreements for assistance from locally managed funds or
219 programs.

220 F. The provisions of this section are secondary to the terms of the right of first refusal by a qualified
221 nonprofit organization at the close of the compliance period for low-income housing tax credits, as
222 authorized by 26 U.S.C. § 42(i)(7) and according to regulations promulgated by the Virginia Housing
223 Development Authority.

224 G. The locality or qualified designee may bring a civil action against an owner of publicly
225 supported housing where the locality or qualified designee has recorded a notice of right of first refusal if
226 the owner has violated the provisions of this section. The court may award punitive damages and provide
227 injunctive relief. The court may award reasonable attorney fees and costs at trial and on appeal to a
228 prevailing plaintiff in an action under this section.

229 **§ 36-181. Annual report.**

230 By December 31 of each year, any locality that has exercised the authority granted in this chapter
231 shall submit a report about such activities during the prior fiscal year to the Department of Housing and
232 Community Development. Such report shall include:

233 1. The number and description of properties at risk of termination in the locality or the number of
234 properties for which an owner provided a notice of termination.

235 2. The number of publicly supported housing properties and affordable units for which the locality
236 maintained or extended affordability restrictions through the authority granted in this chapter.

