Housing Stability Council
LIFT Program Design Framework
May 6, 2016

Oregon
Housing and Community Services

The Local Innovation and Fast Track (LIFT) Housing Program's objective is to build new affordable housing for low income households, especially families. In 2015, the Oregon Legislature committed $40 million of general obligation Article XI-Q bonds to fund the LIFT program. Using this new funding source will allow Oregon Housing and Community Services (OHCS) and its partners to add to the supply of affordable housing, in particular, for historically underserved communities.

OHCS has been working with the Housing Stability Council to develop a plan to efficiently use the newly committed funds and maximize the impact it will have in communities across the state. Key to LIFT program design was identifying an effective way to use the Article XI-Q bond funding for housing development; these funds require the state to own or operate any real property development that utilizes this resource which has not yet been utilized in housing development investments made by the state.

Program Goals and Outcome Measures:
Given guidance provided from Governor Brown, the legislative process, and the stakeholder process, OHCS hopes to achieve several outcomes:

The primary goals of the LIFT program are:

1. Create a large number of new affordable housing units to serve low income Oregonians.
2. Serve historically underserved communities:
    a. Rural communities with less than 25,000 people;
    b. Communities of color.

Secondary goals of the LIFT program are:

1. Place affordable housing units in service as quickly as possible.
2. Serve families earning at or below 60% area median income, receiving services through Oregon's Department of Human Services (DHS) child welfare or family self-sufficiency programs.
3. Identify innovative building strategies that result in lower cost of affordable housing development that is replicable.

Outcome measures of the LIFT program are:

1. Increase in affordable housing inventory; measured by the number of new units built.

   a. More affordable rental housing units available in small rural communities with population under 25,000.
   b. More affordable rental housing units available that serve communities of color

2. Low state subsidy per unit; measured by program target.
3. Vulnerable households stabilized; measured by comparing the length of a specified household's tenancy in a LIFT-funded unit to the number of moves that resident experienced in the prior 24 months
4. Implement innovative and replicable cost containment strategies; measured through comparison of projects funded with LIFT proceeds to traditional multifamily housing costs, such as RS Means.

Funding design to overcome disparities

Since the use of funds are intended to overcome historic disparities, projects will either need to be (a) located in a <u>rural community</u>, OR (b) designed to serve <u>communities of color</u>.

a) Rural communities are defined as Oregon cities with population less than 25,000 that are outside of the Portland Metropolitan Urban Growth Boundary.

b) Service to communities of color can be achieved in a number of ways, and should be relevant to the community in which the project is located, and the target population anticipated to be served. In general OHCS would expect that addressing this disparity could be accomplished in one of the following ways:

   i. Development, sponsorship or management by a culturally specific organization with a diverse and representative leadership.
   ii. An ongoing service partnership with a culturally specific organization.
   iii. A relevant marketing and outreach plan designed to publicize to communities of color the availability of the new housing opportunities created by the project, and to affirmatively further fair housing.
   iv. A project explicitly designed and located to address displacement.

Project selection

A solicitation for projects will be conducted through a streamlined competitive notice of funding availability (NOFA).

a. All applications need to meet minimum requirements as summarized below and articulated in the NOFA.

b. A scoring committee (Committee) comprised of representatives from communities of color, rural communities, OHCS and DHS leadership, and other relevant policy and development expertise will be assembled to review all applications that have met the minimum requirements.

c. The job of the Committee will be to rate and rank project applications, and to make funding recommendations to the Director of OHCS. In carrying out their role, the Committee will be asked to:

    i. Establish priority consideration in fund recommendations for projects requesting $38,000 per unit or less in LIFT subsidy.

    ii. Determine whether the projects requesting above $38,000 per unit with secondary consideration should be reviewed for funding; OHCS and its Committee may decline to review those proposals if they determine, in good faith, that all available program funds can be deployed to projects in the priority consideration category.

    iii. Strive for geographic diversity in LIFT funding recommendations and will have the ability to consider geographic distribution along with overall score in the prioritization of projects.

d. The Director of OHCS will review the recommendations of the Committee, and reserves the right to modify the recommendations before making a final funding recommendation to the Housing Stability Council.

Minimum Requirements

All projects must meet the following minimum requirements to be reviewed. In some cases, OHCS will have a preference for exceeding these minimum requirements which are detailed below under selection criteria.

1. LIFT subsidy per unit:

    a. Priority consideration for applications requesting $38,000 LIFT subsidy per unit or;

    b. Secondary consideration for applications requesting more than $38,000 LIFT subsidy per unit; where OHCS and its Committee may decline to review those proposals if they determine, in good faith, that all available program funds can be deployed to projects in the priority consideration category.

c. OHCS does not intend to contribute other State grant resources.

d. Projects may utilize 4% Low Income Housing Tax Credits (LIHTC). If applicant chooses to do so, all components of the 4% LIHTC program, including project feasibility review and due diligence associated with the 4% LIHTC program, will apply.

2. A minimum affordability period of 20 years from the time the project is placed in service, or the length of time the Article XI-Q Bonds are outstanding, whichever is longer, will be required.

3. 100% of the newly constructed units funded with LIFT resources must be available for households earning at or below 60% area median income at the time of initial lease. Tenants may stay in their unit regardless of future income.

    a. If a project is structured to serve a mix of incomes, and will serve households with incomes greater than 60% AMI, OHCS will work with the sponsor to establish a “next available unit rule” and protocols regarding rents for low income tenants who become over-income.

4. Maximum rents allowable for 100% of the units financed with LIFT will be based on 60% HUD Area Median Income standards.

5. Minimum Construction Standards:

    a. **Methods:** Both traditional and alternative methods of construction are allowable; construction which is innovative or contains costs is encouraged.

    b. **Quality:** Construction that balances initial cost of building with on-going cost of operation for both the building owner and the tenants (energy standards); ensuring that additional costs are not passed on to tenants.

    c. **Durability:** 30 year building standards.

    d. **Other Requirements:** If other public capital or operating subsidy is used from any source, relevant requirements of those sources will be assumed to apply.

6. Units must ready for initial lease-up within 30 months of a LIFT funding reservation.

7. Sponsors need to demonstrate that the development team has relevant experience with the development and operation of affordable housing.

8. Underwriting guidelines will be applied by OHCS in its due diligence and project review process to ensure ongoing project viability, and risk mitigation associated with the funding source's requirement for OHCS to own or operate the project. Such guidelines will require the inclusion of applicable LIFT program fees (e.g., application fees, document preparation fees, OHCS' legal fees, on-going compliance monitoring fees, etc.); and will be consistent with the industry standard minimum requirements of mortgage lenders, investors, and other potential public funding sources. These will include loan-to-value, debt coverage, expense ratios, and reserve requirements.
9. Developer fees will be capped at a rate less than allowed through federal tax credit projects as defined in the most recent OHCS Qualified Allocation Plan.
10. Compliance monitoring throughout the period of affordability will be minimal while managing risk to the State. It will include:
    a. Initial household income verification.
    b. Annual income verification through self-certification.
    c. Risk-based physical inspections every 1-3 years based on property condition.
    d. Other Requirements: If other public capital or operating subsidy will be used from any source, relevant compliance requirements of those sources will be assumed to apply. For example, if 4% LIHTCs are used, all 4% LIHTC compliance requirements will pertain.
11. Because the LIFT program is to be funded with Article XI-Q bonds, OHCS will need to assume either an ownership or operational role with the properties that receive LIFT funding.
    a. Operational structure: (Subject to change based on the State's bond counsel)
        i. The State of Oregon, by and through Oregon Housing and Community Services (OHCS), would be a limited partner or member, or special limited partner, or member of a single asset entity Limited Partnership, or a Limited Liability Corporation.
        ii. OHCS would be provided certain rights over including but not limited to the hiring and firing of the property management firm, setting of rents, initial lease up, and use of reserves.
        iii. In order to ensure OHCS' contribution to the project is structured appropriately to meet the legal and tax definitions of equity, LIFT funds will go into the project as a limited partner equity contribution. This structure will require OHCS to articulate an exit strategy. The exit

strategy will be utilized at a point in the future, after the initial affordability period, at which time OHCS will step out of the ownership and operations of the project.

b. Ownership (Fee Simple) structure:
   i. The State of Oregon, by and through OHCS, would utilize LIFT funds to purchase land on which a multifamily affordable project would be built.
   ii. OHCS would enter into a long term ground lease with the sponsor of the multifamily affordable housing project.
   iii. The land lease would not be subordinated to a lender, investor, or other party in the multifamily affordable housing project.

Selection Criteria for Primary Consideration Applications:

Projects that meet or exceed the minimum requirements outlined above that are requesting $38,000 LIFT subsidy per unit or less will be ranked based on clear selection criteria, which will be further developed in the NOFA solicitation. Below are some initial selection criteria for primary consideration applications:

1. Location in communities with high needs based on a county formula incorporating the following factors: nonwhite and Hispanic poverty rate, family poverty rate, extremely low income households with severe housing problems.
2. Short development period (units to be sited, planned, permitted, constructed, and ready for initial lease-up); less than the minimum threshold of 30 months.
3. Ability to effectively serve DHS clients earning at or below 60% of area median income.
4. Strong local social service partnerships.
5. Demonstration of innovative building design or innovative alternative construction methodology, or development strategy to lower costs.
6. Demonstrated efficiency and replicability of building development strategy.
7. Plans to address equity and diversity in the project through the use of Minority, Women and Emerging Small Business (MWESB) contracting, sub-contracting, and professional services.

Selection Criteria for Secondary Consideration Applications:
OHCS and its Committee will review proposals for projects that meet or exceed the minimum requirements outlined above that are requesting more than $38,000 LIFT subsidy per unit if they determine, in good faith, that all available program funds cannot be deployed to projects in the priority consideration category. These projects will be prioritized, after those with primary consideration, based on clear selection criteria which will be further developed in the NOFA solicitation. Below are some initial selection criteria for secondary consideration applications:

1. LIFT subsidy per unit; higher preference for projects requesting less LIFT subsidy per unit.
2. Located in communities with high needs based on a county formula incorporating the following factors: nonwhite and Hispanic poverty rate, family poverty rate, extremely low income households with severe housing problems.
3. Short development period (units to be sited, planned, permitted, constructed, and ready for initial lease-up); less than the minimum threshold of 30 months.
4. Ability to effectively serve DHS clients, with a preference for projects that will serve households earning at or below 40% area median income.
5. Strong local social service partnerships.
6. Demonstration of innovative building design or innovative alternative construction methodology, or development strategy to lower costs.
7. Demonstrated efficiency and replicability of building development strategy.
8. Plans to address equity and diversity in the project through the use of Minority, Women and Emerging Small Business (MWESB) contracting, sub-contracting, and professional services.