Housing Stability Council DRAFT
LIFT Program Design Framework
January 28, 2016

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 program, a new source of affordable housing dollars. Using this new flexible funding source will allow Oregon Housing and Community Services and its partners to test innovative strategies and create a modern model of affordable housing development, building upon years of experience, expertise, and success.

Oregon Housing and Community Services (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 is not usually done with housing development investments historically made by the state. In August 2015, the Housing Stability Council created two sub-committees to develop recommendations. . The following LIFT Program Design Framework has been developed by OHCS using the input and feedback from the assembled Policy and Financial sub-committees to create the most efficient, responsive, and impactful program using the identified Article XI-Q bond funds.

Program Outcome and Output Goals:
Given direction provided through the legislative process, the stakeholder process, and guidance from Governor Brown, OHCS hopes to achieve several outcome and output goals related to the type and number of units produced, as well as the expected outcomes for the households who will live in the units:

1. More affordable rental housing units available in rural communities with population under 25,000.
2. More affordable rental housing units available that serve communities of color.
3. Vulnerable households are stabilized, measured through:
    a. Length of time a household lives in a LIFT housing unit.
    b. Number of moves residents had in the previous 12 months.
    c. Measures specific to families referred through DHS:
        i. Re-abuse / Re-entry rates for the families in the child welfare system.
        ii. To be determined measure related to families on TANF.
4. Innovative and replicable cost containment strategies developed and implemented.
5. Units available as quickly as possible.
6. Increase in affordable housing inventory by a least 1,250 units.

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Program Framework

OHCS will utilize the following framework to determine funding allocation between identified priority populations and funding paths. OHCS will utilize a "soft set-aside" meaning that these percentages will be flexible depending on applications received and dollars requested:

1. LIFT funds allocation methodology
    a. 50% of the funds will be allocated to rural communities, which are limited to either:
        i. Communities with population under 25,000 outside of the Portland Metro Urban Growth Boundary.
    b. 50% of the funds will be allocated to prioritize serving communities of color, which should include:
        i. A project that is sited to prioritize housing opportunity for communities of color by serving to prevent or address displacement.
        ii. A demonstrated partnership with a culturally specific organization through an executed Memorandum of Understanding or an organization with diverse and representative leadership. The developer will also have a marketing and outreach plan designed to publicize to communities of color the availability of these housing opportunities and affirmatively further fair housing.
    c. OHCS will seek to have geographic diversity when awarding projects.
2. LIFT funding paths
    a. OHCS will have a target of 50% of funds for each of two potential focuses. OHCS will allow flexibility depending on applications received. The two focuses are:
        i. Forming partnerships with Oregon Department of Human Services district offices in order to serve program participants, namely those in Child Welfare or Self-Sufficiency (TANF) Programs.
        ii. Innovation and cost containment. This includes the use of alternative construction methodologies, new construction strategies, substantial cost containment in traditional affordable housing development, or other strategies with demonstrated impact.

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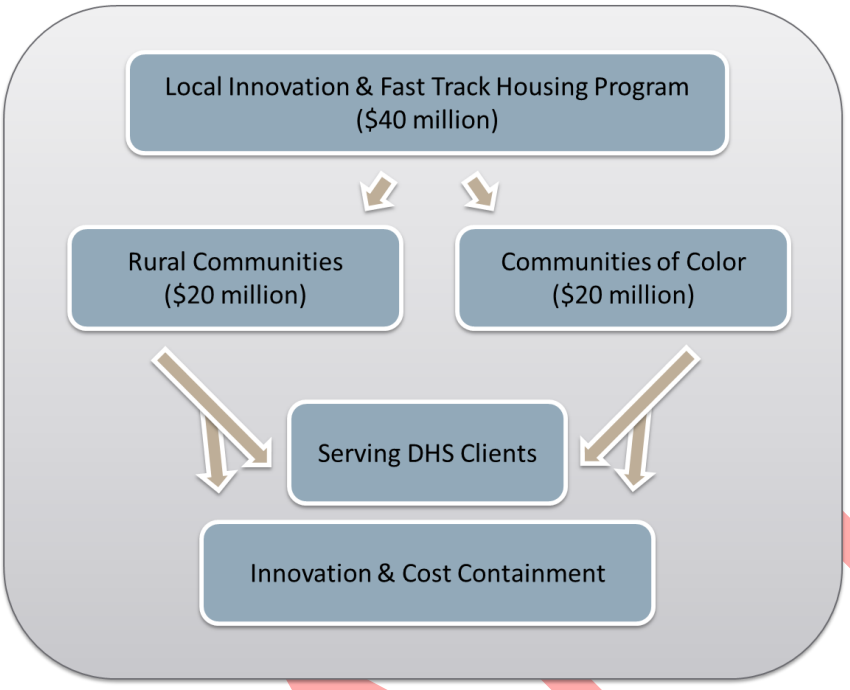

3. Solicitation for projects will be conducted through a streamlined competitive notice of funding availability.
    a. All applications would need to meet the stated minimum requirements.
    b. A scoring committee made up of OHCS staff, DHS staff, and representatives from communities of color, rural communities, and affordable housing experts would be assembled to review all applications that have met the minimum requirements.
    c. Projects would then be ranked within each allocated pool of funds based on selection criteria within the funding program targets.
    d. The scoring committee would provide a funding recommendation to the OHCS Director.
    e. The OHCS Director would make a final funding recommendation to the Housing Stability Council for approval of projects, including the level of funds for each project.

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Minimum Requirements (all paths):
All projects must meet the following minimum requirements to be reviewed. In many criteria, OHCS will have a preference for exceeding these minimum requirements. Additional information about preferences follows this section.

1. Maximum LIFT subsidy per unit: $32,000
    a. OHCS does not intend to contribute other state grant resources. If an applicant wishes to, they may pursue using 4% Low Income Housing Tax Credits if the project can support it and the added costs are reasonable.
2. 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.
3. 100% of the newly constructed units financed with Article XI Q Bonds will 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. If a project is structured to serve mixed income residents, including units targeting households with incomes greater than 60% AMI, OHCS will establish a next available unit rule and rules regarding rents for low income tenants who become over-income. This will ensure that the number of affordable units OHCS invested in will remain affordable during the affordability period.
4. Maximum rents allowable for 100% of the units financed with Article XI Q Bonds will be based on 60% HUD Area Median Income.
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).
    c. Durability: 30 year building standards.
    d. Other Requirements: Based on rules and regulations of other programs and/or funding sources brought to the project to cover the cost of construction and/or provide on-going operating subsidy.
6. Units to be sited, planned, permitted, constructed, and ready for initial lease-up within 30 months of LIFT funding reservation.

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7. Development team which includes experience with the development and operation of affordable housing, and target tenant population; and knowledge of proposed innovative housing strategies.
8. Underwriting guidelines will be adopted in order to manage the risk of ownership or operation and anticipate minimum requirements of other potential funding sources. Such guidelines will include matters such as loan-to-value, debt coverage, expense ratios, and reserve requirements.
9. Development work compensation through a developer fee will be at a rate less than allowed through federal tax credit projects in the spirit of cost containment.
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. If a project is structured to serve mixed incomes, including units for households earning above 60% AMI;
    c. Risk-based physical inspections 1-3 years based on property condition; and
    d. Other Requirements: Based on rules and regulations of other programs, funding sources brought to the project to cover the cost of construction, and provide on-going operating subsidy.
11. Fulfilling the requirements of the Article XI Q Bonds will occur either through adopting a structure to ensure OHCS functions as either the owner or operator of the property. We have identified two structures which satisfy these requirements:
    a. Operational structure:
        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

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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 Article XI Q Bonds 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 (all paths):
Projects that meet or exceed the above minimum requirements will be ranked based on clearly laid out selection criteria, which will be further developed in the solicitation. Below are some initial selection criteria:

1. Projects serving the lowest average area median income households at the lowest average area median income rents to the tenants.
2. Lower LIFT subsidy per unit.
3. Preference to projects with the shortest development period, (units to be sited, planned, permitted, constructed, and ready for initial lease-up); less than the minimum threshold of 30 months.
4. 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.
5. Documented partnerships with one or more of the following: DHS field office, local Public Housing Authority, Community Action Agency, culturally specific service providers, and/or other service providers to provide rental assistance and/or appropriate resident services to the proposed project that meet the needs of the identified target population at little or no cost to the project operations.

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Additional Minimum Requirements: Serving DHS Clients

For projects which chose to serve DHS clients either in the Child Welfare or TANF systems, the projects must also meet the following minimum requirements:

1. Ability to serve DHS tenants earning 0-60% median income. The project must set aside the greater of 10% of the units or 5 units in a project. This can be done through a local commitment from a Public Housing Authority for Housing Choice (HUD Section 8) vouchers, another source of long term rent assistance, or the ability to establish project rents where the DHS client pays up to 30% of their income until they reach 60% AMI.

Additional Selection Criteria: Serving DHS clients

1. Located in communities with high needs. Subcommittees are recommending a formula to determine community need based on the following factors: nonwhite and Hispanic poverty rate, family poverty rate, child abuse and neglect victim rate, extremely low income households with severe housing problems, and areas of high needs as identified by DHS based on caseload.
2. Ability to serve DHS clients earning 0-60% median income in more than the required 10% of units.
3. Local partnerships and support for clients as they move out of DHS programs.
4. Location near community colleges, schools, employment.
5. Flexible resident screening criteria in order to remove barriers for DHS clients.

Additional Minimum Requirements: Innovation and Cost Containment

For projects that chose to meet the innovation or cost containment requirement, they must meet the following additional minimum requirements:

1. Cost containment target for total development cost, excluding land and additional costs associated with OHCS ownership or operating structure, not to exceed industry costs of market development based on the per square foot cost as reported in RS Means data, based on location and project type.

Additional Selection Criteria: Innovation and Cost Containment

1. Located in communities with high needs. Subcommittees are recommending a formula to determine community need based on the following factors: nonwhite and Hispanic poverty rate, family poverty rate, child abuse and neglect victim rate, and extremely low income households with severe housing problems.

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2. Lower total development cost per square foot, excluding land and costs associated with OHCS ownership or operating structure in comparison to the per square foot cost as reported in RS Means data, based on location and project type.
3. Demonstration of innovative building design or innovative alternative construction methodology, a development strategy to lower costs, and/or to provide the housing resource in an expedited timeline.
4. Demonstrated efficiency and replicability of building development strategy.
5. Ability to serve lower incomes (30% of AMI up to 50% of AMI) and provide such units to DHS clients at initial lease-up.

Possible Motions:

1. Move to accept the recommendations of the LIFT Subcommittees and direct Housing and Community Services to move forward on implementation of the program.
2. Move to accept the recommendations of the LIFT Subcommittees with the following changes: ___, and direct Housing and Community Services to move forward on implementation of the program.

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