Housing Stability Council
LIFT Program Design Framework
October 6, 2017

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. In 2017, the Oregon Legislature committed $80 million of general obligation Article XI-Q bonds to fund the LIFT program in 2018 and 2019.

OHCS worked with the Housing Stability Council and program stakeholders 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.

This document will be used to establish a revised framework for the allocation of these resources; referred to as LIFT 2.0.

Program Goals and Outcome Measures:
The primary goals of the LIFT program are:

1. Create a large number of new affordable housing units to serve low income Oregonian families.
2. Serve historically underserved communities:
    a. Rural communities;
    b. Communities of color.

Secondary goals of the LIFT program are:

1. Place affordable housing units to serve families in service as quickly as possible.
2. Serve families through rental housing earning at or below 60% County Area Median Income (AMI) and families in homeownership earning at or below 80% County Area Median Income (AMI as defined in ORS); focusing on service connections including but not limited to those from the Oregon Department of Human Services (DHS) child

welfare or family self-sufficiency programs, Community Action Agencies, Coordinated Care Organizations, and Homeownership Centers.

3. Identify building strategies that require lower state subsidy or a results in a lower cost of affordable housing development.

Outcome measures of the LIFT program are:

1. Increase in affordable housing inventory; measured by the number of new units built.
    a. More affordable housing units available in small rural communities.
    b. More affordable housing units available that serve communities of color
2. Low state subsidy per unit; measured by program target.
3. Implement construction cost evaluation; measured through comparison of the construction costs for projects funded with LIFT proceeds to traditional housing construction, such as RS Means.

LIFT 2.0 fund allocations and set-asides

OHCS was awarded a total of $80 million in Article XI-Q bonds for the LIFT program. These funds will be allocated to OHCS in two different $40 million bond sales of anticipated for the spring of 2018 and the spring of 2019. In total 80 percent of the LIFT funds will be set-aside to develop rental housing opportunities, and 20 percent will be set-aside to develop homeownership opportunities.

- If, due to funding requests, the target set-aside percentages are not met in the first year awards, the funds allocated in year two of these LIFT awards will be adjusted to accomplish the target percentages from the complete $80 million in funds allocated.

Serving Historically Underserved Communities

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>. Half of the LIFT funds will be set-aside to serve rural communities and half will be set aside to serve communities of color; if there are not enough viable applications to utilize all resources within one of these set-asides they will be moved to the general pool for consideration.

a) Rural communities are defined as Oregon Communities with 15,000 population or less in counties within Metropolitan Statistical Areas (Benton, Clackamas, Columbia, Deschutes, Jackson, Lane, Marion, Multnomah, Polk, Washington and Yamhill Counties) and in Communities with 40,000 population or less in the balance of the state. [note: corresponds with recent Veterans Development NOFA]

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 (applies to rental projects only).
   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); there will be separate applications developed for LIFT Rental activities and LIFT Homeownership activities. There will be an associated application fee for all LIFT 2.0 applications.

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.
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:
    a. LIFT Rental subsidy:
        i. In addition to LIFT funds:
            1. OHCS will make $5 million in OAHTC available where it results in deep rent skewing; serving households at or below 50% AMI
            2. Projects are encouraged to leverage OHCS weatherization funds for which they will be able get a conditional reservation in advance of the NOFA application; these funds are helpful to offset costs of building that directly result in energy savings.
            3. Rental housing 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; upon reservation of LIFT funds the 4% LIHTC timeline will be determined.
        ii. LIFT Rental Applicants may request:
            1. up to $75,000 per LIFT unit in urban areas
                a. Projects requesting $45,000 per LIFT unit or less will receive primary consideration and be attributed with 20 points in the application process
                b. Projects requesting $45,001 - $55,000 per LIFT unit or less will receive secondary consideration and be attributed with 10 points in the application process
                c. Projects requesting $55,001 - $75,000 per LIFT unit will not receive low subsidy consideration and will receive no points but will still be reviewed and scored based on the rest of their application.

2. up to $125,000 per LIFT unit in rural areas
    a. Projects requesting $80,000 per LIFT unit or less will receive primary consideration and be attributed with 20 points in the application process
    b. Projects requesting $80,001 - $100,000 per LIFT unit or less will receive secondary consideration and be attributed with 10 points in the application process
    c. Projects requesting $100,001 - $125,000 per LIFT unit will not receive low subsidy consideration and will receive no points but will still be reviewed and scored based on the rest of their application.
3. up to $100,000 per LIFT unit when used with scattered site projects that leverage 4% LIHTC and include substantial representation in both urban and rural areas of the state. Applications that propose this scattered site approach and include at least one rural development will receive a 2 point bonus in scoring as part of Innovation.
    a. Projects requesting $75,000 per LIFT unit or less will receive primary consideration and be attributed with 20 points in the application process
    b. Projects requesting $75,001 - $90,000 per LIFT unit or less will receive secondary consideration and be attributed with 10 points in the application process
    c. Projects requesting $90,001 - $100,000 per LIFT unit will not receive low subsidy consideration and will receive no points but will still be reviewed and scored based on the rest of their application.

It is the expectation that, despite the hard caps on fund requests listed here, the majority of projects funded will be funded at or below $55,000 per unit in urban areas and below $80,000 in rural areas. As established in the above listing of LIFT subsidy caps, there will be low subsidy consideration given to those projects requesting funding amounts below the funding caps.

b. LIFT Homeownership subsidy:

i. Homeowners will be eligible to access the Oregon Bond Residential Loan Program in LIFT projects.

ii. Sponsors of LIFT Homeownership applications may request LIFT subsidy up to the lesser of:

1. the value of the Land plus Land Improvements / Site-Work (excluding any structures)
2. $75,000 per LIFT homeownership unit
    a. Projects requesting $45,000 per LIFT unit or less will receive primary consideration and be attributed with 20 points in the application process
    b. Projects requesting $45,001 - $55,000 per LIFT unit or less will receive secondary consideration and be attributed with 10 points in the application process
    c. Projects requesting $55,001 - $75,000 per LIFT unit will not receive low subsidy consideration and will receive no points but will still be reviewed and scored based on the rest of their application.

2. LIFT funds are eligible for any net increase to housing; this can be through new construction of homeownership or rental housing units or the repurposing of existing non-housing structures to be homeownership or rental housing units.
3. When used without 4% LIHTC, 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, will be required. When used with 4% LIHTC, a minimum affordability period of 30 years from the time the project is placed in service, will be required.
4. In LIFT Rental housing: 100% of the new units funded with LIFT resources must be available for households earning at or below 60% AMI at the time of initial lease. Tenants may stay in their unit regardless of future income.
    a. If a rental 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.

In LIFT Homeownership housing: 100% of the new units funded with LIFT resources must be available and affordable to households earning at or below 80% AMI at the time of sale for the duration of the affordability period.

5. In rental housing maximum rents allowable for 100% of the units financed with LIFT will be based on 60% AMI standards and home purchases must be affordable to households with incomes at or below 80% AMI.
6. 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.
7. Timeline of development:
    a. LIFT Rental units must be ready for initial lease-up within 36 months of a LIFT funding reservation.
    b. LIFT Homeownership units must be ready for initial sale within 36 months of a LIFT funding reservation.

    Not abiding by established milestone deadlines in good faith will result in rescinding the funding reservations. Key to LIFT is the fast delivery of housing to serve Oregonians; submitted projects must be able to move forward in a timely and responsive manner.
8. Sponsors need to demonstrate that the development team has relevant experience with the development and operation of affordable housing.

    Where needed, technical assistance may be provided to applicants looking to create sustainable partnerships; project sponsors without development experience will be urged to create partnerships with developers with adequate experience in affordable housing development.

9. 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.
    a. For LIFT Rental these will likely include loan-to-value, debt coverage, expense ratios, and reserve requirements.
    b. For LIFT Homeownership these will likely include valuation of land, operating budget, and market considerations.
10. Developer fees:
    a. LIFT Rental Developer Fee will be capped at a rate 2 percentage points less than allowed through federal tax credit projects as defined in the most recent OHCS Qualified Allocation Plan.
    b. LIFT Homeownership Developer Fee will be **restricted at below market rates.**
11. Compliance monitoring throughout the period of affordability will be minimal while managing risk to the State.
    a. For rental projects it will include:
        i. Initial household income verification.
        ii. Annual income verification through self-certification.
        iii. Risk-based physical inspections every 1-3 years based on property condition.
        iv. 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.
    b. For homeownership projects it will include:
        i. Initial household income verification at home purchase.
        ii. For any home's subsequent sales during affordability period, verification of homebuyer income / asset transfer to seller.
        iii. Annual verification of agreement with sponsorship entity (for example: community land trust / condo association / HOA Management Company).

iv. Annual report on condo / HOA / community land trust financials.

v. Annual notification of any homebuyers in arrears (of association fees, taxes, insurance, etc) and corresponding action plan.

12. 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. For the purposes of LIFT 2.0 the Operational structure will be pursued for both Rental and Homeownership LIFT activities.

    a. Operational structure for LIFT Rental housing: (Subject to change based on the State's bond counsel)

        i. The State of Oregon, by and through Oregon Housing and Community Services (OHCS), will loan the LIFT funds to the project in a first position wherein that first position could be shared with another primary lender and a repayment waterfall would be recorded along with the loan documents that establishes that the other primary lender receives any and all payment in advance of the state.

        ii. The loan must be secured by the value of the project as determined by income based assessment.

        iii. Through an operational agreement, OHCS is provided certain rights including but not limited to the hiring and firing of the property management firm, setting of rents, initial lease up, and use of reserves.

        iv. LIFT program rules are and will continue to be established that describe the terms for loan satisfaction at the end of the affordability period; the rules that are established at the time of loan issuance are those that will continue to pertain to the loan regardless of any future revision to said rules. Current rules prescribe that the loan may be satisfied through repayment or through agreement for extended affordability.

    b. Operational structure for LIFT Homeownership housing: (Subject to change based on the State's bond counsel)

        i. The State of Oregon, by and through Oregon Housing and Community Services (OHCS), will loan the LIFT funds to the project in a first position wherein that first position could be shared with another primary lender and a repayment waterfall would be recorded along with the loan documents that establishes that the other primary lender receives any and all payment in advance of the state.

ii. The loan must be secured by the land value plus land improvements / site-work. Valuation method to be based on valuation of land plus improvements made to the land (which excludes any / all structures)

iii. Through an operational agreement with the applicable community land trust entity, homeowners association, or condo association, which adequately ensures comparable and sufficient operational controls which includes the tracking and reporting on income eligibility, financial reporting, and use of reserves.

iv. LIFT program rules are and will continue to be established that describe the terms for loan satisfaction at the end of the affordability period; the rules that are established at the time of loan issuance are those that will continue to pertain to the loan regardless of any future revision to said rules. Current rules prescribe that the loan may be satisfied through repayment or through agreement for extended affordability.

Selection Criteria for LIFT Rental Applications:

Projects that meet or exceed the minimum requirements outlined 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. Primary and Secondary Consideration for lower subsidy per unit; preference points will be given to those projects requiring less LIFT subsidy per unit within the allowable per-unit caps as established above.
2. Readiness to proceed demonstration; preference points will be given to those projects that can demonstrate they are ready to move forward with the development process in a short time frame. Established partnerships (through Memoranda of Understanding) to serve DHS, Community Action Agency, Coordinated Care Organization or other service organization clients earning at or below 60% AMI.
3. Rents affordable to households at lower AMI.
4. Demonstration of construction costs that are lower than comparable industry norms.
5. Demonstrated innovation, efficiency and replicability of building development or finance strategy.
6. 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.

7. Demonstration of financial viability
8. Demonstration of capacity of the development team.

Selection Criteria for Homeownership Applications:
Projects that meet or exceed the minimum requirements outlined 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. Primary and Secondary Consideration for lower subsidy per unit; preference points will be given to those projects requiring less LIFT subsidy per unit within the allowable per-unit caps as established above.
2. Readiness to proceed demonstration; preference points will be given to those projects that can demonstrate they are ready to move forward with the development process in a short time frame.
3. Established partnerships (through Memoranda of Understanding) with Homeownership Center providing pre and post purchase homeownership counseling and support.
4. Demonstration of construction costs that are lower than comparable industry norms.
5. Demonstrated innovation, efficiency and replicability of building development strategy.
6. 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.
7. Demonstration of financial viability
8. Demonstration of capacity of the development team.
9. Demonstration of capacity of management group.