 MARKET COST OFFSET FUND (MCOF) FOR OHCS AFFORDABLE HOUSING PROJECTS 

FUNDING ASSISTANCE FOR CONSTRUCTION COST INCREASES AND STABILIZATION

Oregon Housing and Community Services (OHCS) has established the Market Cost Offset Fund (MCOF) which uses capital resources to supplement funding gaps created by unanticipated market conditions that affected material and supply costs resulting in increased hard construction costs for developments recently awarded reservation of funds. New in 2022 is the inclusion, under the umbrella of the MCOF, of the Acquisition Funds. These are additional resources to help stabilize the financials of projects with reservation of funds but carrying expensive acquisition costs.

FUNDING GAP ASSISTANCE

In 2022 the fund received additional limited and temporary resources from the February legislative session. The fund is designed to support competitive and non-competitive awards facing a funding gap specifically due to increases in hard construction costs. The additional funding will be made available on a first come, first reviewed basis with submission of a complete request and required documentation as further described below.

MCOF resources cannot be used to pay for change orders resulting from changes in increased project scope, to pay for additional cash developer fees, or other costs that are unrelated to documented construction cost challenges.

Funding Request and Review Criteria

- The MCOF resources will prioritize multifamily rental housing development projects that have a current reservation of OHCS funds and have yet not closed because of market and other cost increase conditions.
- Projects already under construction may be considered, subject to availability of funds. Developer or sponsor must demonstrate they have used all other measures including contingencies to address the hard construction cost over runs.
- Projects need to be within thirty to ninety days of closing and OHCS reserves the right to re-evaluate the project budget throughout this process. If the project does not close within ninety days of MCOF award, OHCS reserves the right to rescind the reservation of the MCOF resources and may consider use of the resources for the next project ready to close. The applicant may re-apply for these funds, and subject to availability.
- Funding gap requests for multiple projects from the same developer/sponsor will be reviewed taking into account the geographic location of projects. Sponsor’s inability to close on multiple projects holding reservations of OHCS funds may be taken into account when evaluating the sponsor’s capacity in a new NOFA application.
• OHCS will only consider requests from projects that already have a reservation of funds, including bond-financed only projects where OHCS is the tax credit allocator and bond issuer
• Projects that have received MCOF resources previously will not be eligible to receive a secondary allocation
• Projects in OHCS pipeline, that also have capital funding from other metropolitan jurisdictions need to have secured additional funding gap from those jurisdictions before submitting a request or receiving a MCOF award to supplement the gap

Since these funds are limited and considered supplementary, OHCS expects developers to do or have done their own due diligence and demonstrate the remedies they put in place to address the cost increases in advance of seeking MCOF resources. OHCS expects developers to evaluate the degree to which they can apply each of the following measures according to their circumstances prior to requesting MCOF resources:

• Value engineering to reduce project costs without seriously compromising project livability elements
• Increase deferred developer fee to the extent it makes the deal work and provided it can be paid off within 15 years. Developers are expected to not increase cash developer fee from what was approved in their application.
• Seek to re-negotiate higher tax credit pricing with investors
• Maximize permanent loan to be as large as project income will support
• Secure other non-OHCS resources

State and Federal Resources

OHCS, at its discretion, may add other state and federal funds to these legislatively approved resources, including LITHC if available, or a combination of both. No additional tax-exempt conduit bond financing is available for this purpose. Federal resources such as Housing Trust Fund and HOME may be provided to projects that benefit very low-income households or that already have these resources unless they trigger additional federal requirements resulting in additional and higher funding gap.

Whenever possible, supplemental resources will be granted or loaned in the same type of financing as originally awarded to a project to minimize altering loan, grant and regulatory documents.
Supplemental MCOF Funding Requests Requirements

Developers are encouraged to work closely with the Production Analyst assigned to the project who will coordinate with program staff to identify the best suitable resources.

In order to request funds under this initiative, the submission must include the following:

1. **Updated** OHCS Application Proforma tabs:
   a) Budget Sources
   b) Budget Uses
   c) Sources and Uses
   d) Rents and Incomes (if applicable)
   e) Operating Budget (if applicable)

2. Finalized construction bid(s)

3. Final equity commitment letter(s) reflecting any additional LIHTC pricing amount

4. Final or revised lender LOI if additional permanent loan funds have been secured

5. Formal Request Memo and Narrative with the following required information:
   a) A formal request for the increase, including a specific amount of additional resources and a statement certifying the additional funding being requested is specific and only covers increases in hard construction costs.
   b) Funding Gap Details: Applicant must detail the current funding gap based on the original award and reservation of funds, updated development and construction costs. Describe attempts to increase equity pricing from the submitted core application, increase loan amounts, other sources of funding and minimally impacting value engineering cost savings.
   c) Uses Update: Note the changes ($) in the Total Construction Hard Costs and Total Developments costs as compared to the original application submission, a detailed breakdown of the Hard Construction Cost increases and narrative explanation of the cause(s).
   d) Sources Update: Detail the change in Sources of Funds. How much additional funding has been raised since initial application and reservation of funds to cover the cost increases? Include non-LIHTC sources and non-OHCS sources that have increased since initial application. Include any increased equity based off the original award.
   e) Timeline to Closing: The projected timeline to closing and construction commencement (if closing/commencement has not yet occurred). See the closing timeline requirement above.

OHCS staff and leadership may make final decision on resources requested and reserve the right to consider other factors in determining the amount of assistance awarded including but not limited to remaining contingency and construction costs and fees relative to other projects, and the degree to which the development team has worked proactively to mitigate cost increases.
ACQUISITION FUNDS

OHCS will also make available through the MCOF, a separate funding resource for projects that may be carrying expensive acquisition costs. This resource is funded with $10MM approved by the Oregon Legislature during their February 2022 session. The objective is to assist projects in the pipeline to stabilize their costs by securing the property purchase while the sponsor/owner continues their due diligence towards closing. The funds will be available until depleted and/or replenished.

Qualifications Framework

To request Acquisition Funds, a project sponsor/applicant must submit a formal, written request, stating clearly how obtaining this funding will help stabilize costs for their project.

The project must have received a funding reservation within the last 12 months, be active in current pipeline and expect to close within 36 months from the date of the letter of reservation of the Acquisition Funds. OHCS may consider a request for an extension of the closing timeline.

Upon review of the formal request, and subject to availability of funds, the applicant/sponsor will be invited to complete a full application resembling the application used for OHCS Land Acquisition Program.

The Acquisition Funds will be provided in the form of a loan with the following terms:

- 1% interest rate
- Term: 36 months or due at the time of closing, which occurs first
- Loan Security: OHCS will utilize the purchased property to secure the LAP loan. OHCS shall be in the first lien position of all property loan documents.
- Loan Size: $500,000 to $2.5MM. Applicants are required to provide copy of project site sales agreement and documentation of outstanding balance of site acquisition costs

The detailed narrative and documentation for the MCOF for funding gap or the Acquisition Funds must be completed in full and emailed to ARH.HCS@oregon.gov with the email copied to the OHCS Production Analyst assigned to the project if applying for funding gap.

For general information about the Market Cost Offset and Acquisition Funds contact:

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