Housing Options Grant Program-Multi-family (HOP-MF)
Program Guidelines and Application/Award Process

INTRODUCTION:

In accordance with Section 196-C of Act 54 of 2022 ("Act"), the General Assembly of Pennsylvania voted to establish the Housing Options Grant Program – Multi-Family (HOP-MF). The General Assembly of Pennsylvania agreed to transfer $100 Million of the United States Treasury American Rescue Plan Act (ARPA) funds to the Pennsylvania Housing Finance Agency (PHFA or Agency) to operate the HOP-MF.

PURPOSE:

HOP-MF funds shall be used to help continue affordable housing production in the Commonwealth of Pennsylvania. In accordance with the Act, "The program shall make grants available from amounts appropriated for COVID Relief – ARPA – Affordable Housing Construction for the development of affordable housing units, including, but not limited to, building new units, rehabbing existing properties to make them affordable housing units or preserving existing affordable units."

HOP-MF funds are not intended to be used in conjunction with current or anticipated federal Low Income Housing Tax Credit (LHITC) applications. This resource is meant to be a stand-alone program to further expand the development and preservation of affordable rental housing throughout the Commonwealth as a complement to the federal resource. PHFA will not entertain proposals that anticipate both HOP-MF and LIHTC as part of the final preservation or development budget. Applications for HOP-MF may not have received an allocation of or apply for LIHTC in calendar years 2018 through 2026. Additionally, applications for projects that are still in the LIHTC IRS Compliance Period (initial 15 years) will not be eligible for the purposes of this program.

TOTAL FUNDING IN PROGRAM: $100M

LEGISLATED TIMELINE: All grants should be awarded no later than December 31, 2024. All funds must be expended by December 31, 2026.

THRESHOLD CRITERIA:

In accordance with the Act, the following are threshold requirements.

1. Each project receiving a grant from HOP-MF must meet both the rent and income requirements of the federal Low Income Housing Tax Credit Program as published annually by HUD.
2. The developer or nonprofit must agree to provide matching funds of at least 25% of the grant amount to be awarded for the development. Matching funds include:
    a. Developer equity in the deal.
    b. Equity in the existing land/building (based on appraised value).
    c. Matching funds exclude sources from programs funded by the Commonwealth. Federal funds passed through directly to municipalities by state agencies (examples include HOME and CDBG to non-participating jurisdictions) may be considered as part of the match requirement. RACP awards will be permitted as matching funds **if** they are included in the development budget **and** awarded prior to award of the HOP-MF grant.
    d. Private debt financing.

Qualifying Income and Rents:

For the purposes of the HOP-MF program, income and rent restrictions must remain in compliance throughout the affordability period with PHFA's annual publication of maximum rent and income for the Low Income Housing Tax Credit Program (LIHTC), unless matching funds require a more restrictive rent structure. LIHTC rent and income limits are updated annually by HUD and made available by PHFA at the below link under the dropdown identified as "**Low Income Housing Tax Credits**".

https://www.phfa.org/mhp/rent_and_income_limits/

For purposes of the HOP-MF program, the definition of a "Low-Income Household" is a household that is at or below 60% of the income identified on the annual LIHTC Rent and Income Limits chart for the relevant county, based on household size.

For the purposes of the HOP-MF program, the definition of an "Extremely Low-Income Household" is a household that is at or below 20% of the income identified on the annual LIHTC Rent and Income Limits chart for the relevant county, based on household size.

PROGRAM STRUCTURE:

The HOP-MF program will have three subprograms: (1) the HOP-MF Emergency Grant Initiative, (2) the HOP-MF Preservation Initiative and (3) the HOP-MF New Construction Initiative.

(1) The HOP-MF Emergency Grant Initiative

PURPOSE: The Purpose of the HOP-MF Emergency Grant Initiative is to provide funding for "emergency" repairs to existing deed-restricted affordable housing throughout the Commonwealth of PA so that existing tenants are not displaced.

PROPERTY ELIGIBILITY REQUIREMENTS:

1. Eligible Properties must currently be occupied by low-income households. At least 90% of the units in a multi-unit building must have existing tenants that meet the definition of low-income household. Please note that the HOP-MF grant cannot be used for units that are not occupied by households meeting the above definition of low-income household. Matching funds must be used for units not meeting the eligibility requirements.
2. Eligible Properties must currently have existing affordability requirements and/or deed restrictions through the Low-Income Housing Tax Credit Program, the Section 8 Housing Assistance Program, the HUD 202 Program, and/or another federal or publicly subsidized program. The affordability requirements must need to be in place for an additional 20 years and/or the owner must agree to extend the affordability requirements for at least another 20 years.
3. Properties must need critical capital repairs to pass code and provide a safe and healthy living environment for the tenants. Examples of critical capital repairs include but are not limited to:
    a. Roof replacement
    b. Mold and/or asbestos remediation
    c. Lead-based paint removal
    d. HVAC repair/replacement
    e. Plumbing repair/replacement
    f. Electrical repair/replacement
    g. Window replacement
    h. Elevator repair / replacement
    i. Modifications to ensure ADA compliance

PROGRAM PARAMETERS:

1. HOP-MF Emergency Grant Initiative funding will be limited to a maximum of $50,000 per unit or a per project cap of $1,000,000 whichever is less.
2. The owner/applicant must demonstrate the capacity to complete the construction work. There must be at least two documented construction bids on file. Additionally, on an as-needed basis, the Agency may request a PCNA (Needs Assessment) to substantiate the emergency repair work needed.
3. Construction must begin within two months of the award and must be completed within a six-month construction period.

4. Permanent displacement is not allowed. If temporary relocation is needed, the plan must be approved by PHFA.

(2) THE HOP-MF PRESERVATION INITIATIVE

PURPOSE: The Purpose of the HOP-MF Preservation Initiative is to provide funding to rehabilitate properties on a non-emergency basis with the goal to (1) create/extend the affordability period and (2) make sufficient repairs to the property to ensure the stability of the building through the affordability period.

PROPERTY ELIGIBILITY REQUIREMENTS:

1. Eligible Properties must be either:
   a. Currently occupied by low-income households. At least 90% of the units in a multi-unit building must have existing tenants that meet the definition of ow-income household (only units occupied by low-income households are eligible for HOP-MF funding); or
   b. Must agree to be occupied by low-income households upon lease-up/turnover.
   c. For buildings that currently have over-income tenants, a detailed plan must be submitted related to when leases expire and how the units will be turned over to income eligible tenants at that point. Please note, that the Agency has the right to reject any application which requires displacement.
2. Properties must need critical capital repairs to pass code and provide a safe and healthy living environment for the tenants. Examples of critical capital repairs include but are not limited to:
   a. Roof replacement
   b. Mold and/or asbestos remediation
   c. Lead-based paint removal
   d. HVAC repair/replacement
   e. Plumbing repair/replacement
   f. Electrical repair/replacement
   g. Window replacement
   h. Elevator repair / replacement
   i. Modifications to ensure ADA compliance
3. Additionally, rehabilitation can be proposed to the units in order to provide quality housing for the tenants for the affordability period. Examples of additional rehabilitation activities include but are not limited to:
   a. Interior unit repairs
   b. New appliances and cabinets
   c. Carpeting
   d. Painting
   e. Common Area Repairs

f. Façade repairs
g. Basement repairs
h. Broadband internet wiring

PROGRAM PARAMETERS:

1. HOP-MF Preservation Initiative funding will be limited to a maximum of $60,000 per unit or a per project cap of $5,000,000 whichever is less.
2. The owner/applicant must demonstrate the capacity to complete the construction work. A PCNA (Needs Assessment) must be included in the application and there must be at least two documented construction bids on file.
3. Construction must begin within six months of the award and must be completed within a twelve-month construction period (prior to 12/31/2026).
4. Permanent displacement is not allowed. If temporary relocation is needed, the plan must be approved by PHFA.

(3) THE HOP-MF NEW CONSTRUCTION INITIATIVE AND CONSTRUCTION CONVERSION INITIATIVE

PURPOSE: The Purpose of the HOP-MF New Construction and Construction Conversion Initiative is to provide financing for the construction of affordable rental properties. At least 90% of the units in each development must house low-income households which includes at least 10% of the units being reserved for extremely low-income households. Up to 10% of the units in the project can be market-rate; however, matching funds must be used for the development of units not meeting the eligibility requirements.

The new construction of affordable units should occur in Areas of Opportunity and/or in areas that have been historically underinvested in. The HOP-MF New Construction Initiative Grant funds should be used for developments that are not competitive for LIHTC. Applications should take into consideration the need for affordable housing options for multiple populations including but not limited to family housing and housing for vulnerable populations including persons at risk of homelessness and those in need of supportive housing.

PROPERTY ELIGIBILITY REQUIREMENTS:

1. Eligible properties include existing buildings that currently do not have affordable housing and will be converted to affordable housing (ie., abandoned schools and other facilities or existing market rate housing where no displacement will occur).
2. If a property has an existing building on it which is being demolished, the demolition of that building must be funded by a separate source.
3. The new construction of affordable units should be consistent with the Low-Income Housing Tax Credit program design and construction standards, including ADA and

VisitAbility requirements as included in PHFA's current Qualified Allocation Plan (QAP) for new LIHTC financed construction.

PROGRAM PARAMETERS:

1. The property must not also be part of a current LIHTC application or current reservation.
2. HOP-MF New Construction and Construction Conversion Initiative funding will be limited to a maximum of $100,000 per unit or a per project cap of $7,500,000 whichever is less.
3. Construction must begin within six months of the award and must be completed within a fifteen-month construction period (prior to 12/31/2026).

ADDITIONAL REQUIREMENTS FOR ALL THREE PROGRAM STRUCTURES:

1. State prevailing wage applies unless another Federal Source triggers residential Davis Bacon Wage rates.
2. The grant proceeds will only cover the following costs:
    a. Construction Costs up to the per-unit caps identified in the individual activity type (emergency repair, rehabilitation, and new construction or conversion).
    b. Grantees may use a portion of the grant not to exceed 5% of the total grant award or $300,000 whichever is less as a HOP MF fee.
    c. HOP-MF funds may not be used to supplant other resources not directly used for construction acquisition and pre-development as otherwise allowed under these guidelines.
    d. Pre-development costs up to 5% of the grant award may be covered by the HOP-MF grant. Eligible pre-development costs include:
        i. Architectural fees;
        ii. Engineering fees;
        iii. Environmental remediation.

3. Acquisition will be limited to the lesser of 20% of the appraised value or 20% of the grant amount awarded for the project.
4. Owners/ applicants are limited to applying for three projects. The total applications submitted by an owner / applicant should not exceed $10M in requests.
5. HOP-MF can only be used for the construction or preservation of rental housing. For-sale housing is not an eligible use of the program.
6. There is a minimum 25% match requirement for program eligibility. Additionally, the owner/applicant must demonstrate that outside fundraising occurred. The HOP-MF grant should only fill the last remaining unmet budget need ("gap") for the project to move into the construction phase.

7. To the extent possible, all projects should also secure private debt financing to the extent the cashflow is sufficient enough to repay the debt at a 1.2 debt coverage ratio.
8. Owners/applicants should document their efforts to obtain Minority and Women Business Enterprise (M/WBE) contracts.
9. Development owners receiving HOP-MF under the Emergency Grant and Preservation Initiatives must agree in writing that they will not terminate existing leases except in cases of violation of the lease agreement.
10. Development owners receiving HOP-MF grants under any of the initiatives must agree in writing that they will not discriminate against tenants' source of income.

<u>OWNER/APPLICANT ELIGIBILITY REQUIREMENTS:</u>

1. For the Emergency Grant Initiative, the owner must document why capital repairs were not previously made to the building. If the existing owner has a track record that shows more than one year of mismanagement, the Agency at its discretion may: (1) turn down the application, (2) recommend that a new partner be added, and/or (3) require a new property manager be hired.
2. The owner must complete certifications and attestations about past business management and behavior.
3. Applicants with existing affordable housing projects that are or have been subject to PHFA compliance monitoring by virtue of participation in LIHTC, PennHOMES, PHARE, or other agency programs must be able to demonstrate a history of good standing with the agency.
4. The owner or partnership entity must be in good legal and fiscal standing with the Commonwealth.

<u>ADMINISTRATION AND APPLICATION:</u>

PHFA will review all HOP-MF applications and will hold an application cycle beginning in the 1st Quarter of 2023. Applications under the HOP-MF Emergency Repair Initiative category will continue to be accepted on a rolling basis until such time that the grant award total reaches $10 million or otherwise announced by the agency. PHFA staff will review all applications for applicability in accordance with the Program Guidelines. If qualified applications request more than the funding availability, PHFA staff will make funding applications based on the following parameters:

1. Projects in Areas of Opportunities (areas close to public transit, employment opportunities, and high performing schools) and those which have been historically underinvested in (census tracts that have had a low percentage of CRA investment and qualify as a low-income community), will be prioritized.
2. In accordance with the Act, geographic disparity across the Commonwealth will be prioritized.

3. M/WBE developers and/or non-profits with more than 50% of its members as minority or women, or applications that demonstrate the use of M/WBE contracts for the proposed scope of work, will be prioritized.
4. Projects with longer than the minimum affordability period will be prioritized. The Agency reserves the right to require larger affordability periods for larger grants.

The program staff in the Development Department will make funding recommendations based on the Program Guidelines and the prioritized criteria shown above. The funding recommendations will be presented to an internal review committee followed by the PHFA Board of Director's Policy Committee and Board.

Please note, PHFA reserves the right to hold a second funding cycle at its discretion if the full allocation of funding is not committed in the first funding cycle.

DISCLAIMERS:

1. PHFA may reduce or may deny a request based upon review of required materials and/or source availability or applicability.
2. PHFA has sole discretion to waive non-statutory requirements as necessary to address the needs of a specific proposal if it is in the best interested of the community and/or tenant base.
3. PHFA may ask for additional information prior to an award if a project does not provide adequate information or if information has changed.
4. All funding decisions are at the sole discretion of PHFA.
5. If developers are unable to initiate construction within the required time periods, PHFA will rescind the award and reallocate to another project.

GRANT TERMS:

Affordability Period: At least 20 years. Projects receiving $5M or more will have at least a 30-year affordability period.

Mechanism to Record Affordability: An easement and/or a deed restriction will be recorded as the mechanism to enforce the affordability periods. Future program compliance will occur under the existing PHFA monitoring process including provisions for non-compliance when necessary.

Procedure in Instances of Default: In the event of default with program compliance, PHFA will have the first right of refusal to purchase a property financed using HOP-MF grants at an amount not to exceed the current appraised value or the amount of the initial HOP-MF grant, whichever is less. Or in instances of transfer of ownership, the new owner agrees in writing to assume the remainder of the affordability period. Additionally, PHFA will have contractual requirements that obligate compliance with affordability period including Confession of Judgment in contractual terms.

DISBURSEMENT OF FUNDS:

Once the grant documents are executed, the funds will be disbursed to pay for approved costs through the PHFA-approved draw-down process in accordance with PHARE/Housing Trust Fund disbursement procedures.