Housing Options Grant Program-Multi-family (HOP-MF)
Draft 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.

PHFA is proposing the below draft guidelines for the HOP-MF program and is soliciting public comments from interested parties. Public comments must be submitted in writing to HOP-MF@phfa.org no later than 2:00pm on Friday, December 2, 2022.

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.

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 (LIHTC) program and also the income requirements listed in the American Rescue Plan Act State and Local Fiscal Recovery Funds guidelines as published by the United States Treasury. Primarily, the project must meet the following IRS requirements:

    a. The grant must be used to provide housing for households at or below 60% AMI. (Additionally, for new construction developments, at least 10% of the units must be affordable at or below 20% AMI).
    b. For rehabilitated units, the period of affordability must be at least 20 years. but may be as high as 30 years based on the amount of HOP-MF funding.
    c. The period of affordability for newly constructed units must be at least 20 years but may be as high as 30 years based on the amount of HOP-MF funding.
    d. Monthly rents must not exceed 30% of the monthly income for households at 60% AMI (by household size). Additionally, for extremely low-income households, monthly rent must not exceed 30% of a 20% AMI household income.
2. The developer or not profit 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. Contribution of land/building (based on appraised value)
    c. Matching grants
    d. If the above sources are not available at a 25% match, a loan recorded on the property will be allowed but the match requirement will be at least 50%.

   NOTE: This program may be a good fit for existing affordable buildings that do not fit all the parameters of the LIHTC program and/or any given year Qualified Allocation Plan (QAP). Additionally, this program may be a good fit for portfolio and/or scattered site properties that need minimal to moderate repair or new construction buildings that do not have enough units to be competitive for LIHTCs. Naturally occurring affordable housing (NOAH) and/or existing market units may also be eligible for the Preservation Program as long as mass displacement is not required.

LOW-INCOME DEFINITION:

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 Area Median Income.

The definition of an "Extremely Low-Income Household" is a household that is at or below 20% of the Area Median Income.

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 (defined as households underneath 60% AMI). At least 90% of the units in a multi-unit building must have existing tenants that meet the definition of Low-Income. Please note that the HOP grant cannot be used for units that are not below 60% AMI. Matching funds must be used for units above 60% AMI.
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 20years.
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

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. 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 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 (defined as households underneath 60% AMI). At least 90% of the units in a multi-unit building must have existing tenants that meet the definition of Low-Income (only low-income units 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
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 are:
    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. The property must not also be part of a current LIHTC application or current reservation.
2. HOP-MF Preservation Initiative funding will be limited to a maximum of $50,000 per unit or a per project cap of $5,000,000 whichever is less.
3. 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.
4. Construction must begin within four months of the award and must be completed within a twelve-month construction period (prior to 12/31/2026).
5. 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 households at or below 60% AMI which includes at least 10% of the units being reserved for extremely low-income households at or below 20% AMI. Up to 10% of the units in the project can be market-rate; however, HOP-MF funding cannot be used for units above 60% AMI

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 and/or other government resources.

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.
4. Family housing (two-and three-bedroom units) will be prioritized above one-bedroom developments.

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 four 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 may apply.
2. The grant proceeds will only cover the following costs:
    a. Construction Costs (caps may apply)
    b. Administrative Costs capped at 5% of the grant award or $300,000 whichever is less. A developer fee is not allowable In the HOP program.
    c. Architectural and Engineering Costs (caps may apply)

    d. Other fees and soft costs capped at $5,000 per unit or $100,000 per project whichever is less
3. Acquisition will be limited to 5% of the total grant award.
4. Owners/ applicants are limited to receiving a maximum of three HOP-MF awards or $10M whichever is less.
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 needs to be at least a 25% match. Additionally, the owner/applicant must demonstrate that additional fundraising occurred. The HOP-MF grant should only fill the last remaining unmet budget need 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. Monthly rent must not exceed 30% of the income that a 60% AMI household makes for that bedroom size and/or the rent must not exceed 30% of the income that a 20% AMI household makes for that bedroom size.

OWNER/APPLICANT ELIGIBILITY REQUIREMENTS:

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.

ADMINISTRATION AND APPLICATION:

PHFA will review all HOP-MF applications and will hold an application cycle anticipated to open in the 4th Quarter of 2022. 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. Family housing will be prioritized.
4. M/WBE developers and/or non-profits with more than 50% of its members as minority or women will be prioritized.
5. 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 has the right to 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.

Application Fee/Origination Fee: TBD

DISBURSEMENT OF FUNDS:

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