

2023 Pennsylvania Housing Affordability and Rehabilitation Enhancement Fund Plan - Draft

Background

Pennsylvania Housing Affordability and Rehabilitation Enhancement Fund (PHARE)

The PHARE Fund was established by Act 105 of 2010 (the "PHARE Act") to provide the mechanism by which certain allocated state or federal funds, as well as funds from other outside sources, would be used to assist with the creation, rehabilitation, and support of affordable housing throughout the Commonwealth.

The PHARE Act outlines specific requirements that include preferences, considerations, match funding options and obligations to utilize a percentage of the funds to assist households below 50% of the median area income. The PHARE Act provides a broad canvas regarding the types of programs and the specific uses of any funding to allow flexibility in working with other state and federal acts and programs.

For Program Year 2022/2023, the PHARE Fund includes funds available through Marcellus Shale (Act 13 of 2012), the Realty Transfer Tax ("RTT") (Act 58 of 2015) and the National Housing Trust Fund ("HTF"), authorized by the Housing and Economic Recovery Act of 2008 ("HERA").

As additional PHARE funding sources become available, PHFA will administer them in accordance with this Plan, and without the need for additional notices or amendments.

This Plan includes the following general sections: principles of PHARE, elements of the Plan, application requirements and timeline. Thereafter, the Plan includes specific information and program requirements relating to each of the Marcellus Shale (Act 13) funds, the RTT funds and the HTF funds.

Principles of PHARE

In accordance with the PHARE Act, the monies will be used to address significant and persistent housing needs in communities with the following additional criteria:

- 1) Maximize resource leveraging** – to the greatest extent possible, the resources allocated will be used as leverage for other public and private resources. Additionally, local non-financial assets should be identified and leveraged where possible – including transportation, schools, recreation, employment, health, community and economic development support and other amenities.
 - Maintenance of Effort/Resource Coordination - The Agency is seeking to ensure that PHARE applicants, where practical and relevant, are utilizing all other available sources of funding (CDBG, HOME CSBG, AHP, ESG, CoC, HUD, NAP, Keystone Communities, etc.). PHFA will review applications with an emphasis on ensuring maximum leveraging of other available resources. PHARE funds are not intended to substitute for, or supplant, other currently available sources of program/project funding. This provision is primarily intended to address local municipal or county-based real estate development projects where

other federal/non-federal sources of funding may be applicable. Multi-county, regional or statewide proposals addressing critical housing needs are still encouraged to apply.

2) Affordability - The Agency encourages applicants to address the issue of long-term affordability based on the local housing market conditions. To the greatest extent possible, programs and projects should be designed in ways to both maintain the investment made in the housing stock and to continue affordability after initial assistance. This could include revolving loan programs, shared equity homeownership and other strategies for addressing this objective.

3) Address greatest need – PHARE funds will be allocated in communities where the greatest housing needs are identified based on studies and assessments, interviews, real estate price factors, housing stock analysis and market studies. The limited resources available should be used to meet the most significant and pressing housing needs or to address longer term housing needs.

Funding Priority: Proposals that: 1.) Assist with the rehabilitation of blighted, abandoned or otherwise at-risk housing and the reuse of vacant land where housing was once located; 2.) Provide funding for owner- occupied rehabilitation, first time homebuyers, and rental assistance; or 3.) Address ongoing needs for homeless families and individuals including veterans.

4) Foster partnerships – the funds should be used to maximize sustainable partnerships that will be committed to addressing the housing needs in these communities over a significant period of time. While the funds are to be used to directly support housing to meet community needs, the projects should also help establish capacity to address those needs over the long term.

Funding Priority: Proposals that incorporate social service entities offering additional services to the residents within the community where the project/program is taking place.

5) Effective and efficient implementation– ensure that the resources are used effectively and efficiently to meet the housing needs. Given the expected demand for many types of housing will greatly exceed the Program funds available, it is critical that PHARE dollars are used to maximize housing investments efficiently and effectively.

Funding Priority: Proposals that assist residents with the greatest need in that region and can document highly effective strategies to address unmet needs.

6) Equitable and transparent – create a plan and equitable allocation process that provides transparency to all stakeholders. Funding decisions and reporting will be done in accordance with legislative requirements.

7) Emergency Response to Critical Needs – providing immediate and necessary funding to address an emergent crisis, emergency housing needs or other unanticipated issues that may arise over the course of the year. The PHARE funds could be rapidly deployed to address these significant, unmet and emergency housing needs in the Commonwealth as determined by the Agency.

Elements of the Plan

Analysis of need – one of the most critical components of the Plan is to continually assess housing needs throughout Pennsylvania. From both a quantitative and qualitative perspective, the requirement to have accurate, reliable data from which funding decisions can be made is imperative.

It is important to recognize that this data will need to be municipality-specific to capture the unique and likely different housing needs in the various communities. In addition, the housing/real estate markets are diverse across communities and the analysis of need will require an understanding (qualitative and quantitative) of individual markets to make appropriate resource allocation decisions.

Building upon analysis already undertaken by the Agency and the Commonwealth, additional analysis may be performed to assess specific housing issues to identify housing needs (persons with special needs, elderly, larger households, physical disabilities, homeless, etc.) to appropriately target PHARE Fund resources to those in greatest need of housing. In addition to multiple types of housing analysis, PHFA will consider different income levels, nature of housing stock and the housing needs of those across a broad spectrum (homeless, near homeless, very low income, low income, temporary and seasonal workers, and permanent work force, etc.)

Understanding of real estate market dynamics – the plan for the utilization of these resources has been developed to address and continuously reevaluate the specific housing real estate markets in each community. The housing and real estate development “capacity” will also have significant impact on the ability of these funds to be used effectively and efficiently to meet the needs of the communities.

There will be need for ongoing analysis of capacity (private, non-profit, public) as part of the plan. Some communities may not have had a significant housing market in decades while in others there may be a robust market addressing a significant portion of housing needs. The plan will help determine where additional housing development may be necessary, or where other strategies may be implemented for meeting the housing needs in those communities.

Allocation and use – The funding vehicle’s allocation process, created by the plan, must also be supportive of and responsive to the needs of the housing and real estate development market and should foster coordinated local housing plans and resources. Funds may be used to support predevelopment, site acquisition and infrastructure development, planning and preconstruction activity in addition to direct support of development and operation of projects and housing programs including employee assisted housing programs. Funds may be provided in various forms designed to best support the activity including grants; market rate, amortizing, balloon, bridge, or soft loans; capital contributions; capital financing subsidy support; operating and supportive service reserve funding; and rental or homeowner assistance. Funds may be specifically allocated to address timing issues presented in the development of affordable housing projects; i.e., when other financing is available, construction season, local zoning or other approvals. Funds may also be directed for administration by the Agency for certain projects approved for low-income housing tax credits or other PHFA resources. Preliminary allocations may be made for projects/programs awaiting approval of additional resources.

All funds will have expenditure deadlines and approved programs/projects must commence within two years of funding award. Additional requirements for application submission will be outlined in the annual RFP.

High quality design and construction – a vital element of the plan will be the development of housing that is both of good quality design and construction and will be sustainable over a long period of time.

The opportunity to meet the growing housing needs in these communities will necessitate that this housing be available as an asset for the community for many generations. To meet this objective the Agency requires that projects, funded with these resources, meet the highest design and construction quality standards available and that all projects ensure sustainability to the long term (both financial and physical). Funds may be specifically allocated to support green and renewable energy sources and as leverage to consumer programs available through utility companies or other business partners.

PHARE Application Process

The elements of the application and allocation process include;

- Adoption of “plan” for managing the anticipated PHARE funds by PHFA each year.
- PHFA will establish an annual application process that will allow the Agency to address local housing needs.
 - PHFA may amend the plan, application and the allocation process at any time, upon written publication of such amendments.
- Announcement of application and possible training/information session concerning the elements of the application.
- Applications accepted and reviewed by PHFA staff based on the application and plan requirements.
- As part of the RFP process, PHFA will require that all applicants target a minimum of 30% of their awarded PHARE funds to support households with incomes below 50% of median area income.
- Project recommendations reviewed by PHFA.
- Announcement of preliminary funding approval.

PHFA may allocate existing funds, or funds that may become available, at any time outside of the application cycle but consistent with the Principles, Goals and Elements of this Plan.

Applicants are expected to satisfy the affordability requirements of the PHARE program and commit to a long-term sustainable program to maintain affordability (which may be documented with restrictive covenants or other program documents). Successful applicants must abide by all applicable Pennsylvania laws relating to public sources of funds (fair housing, accessibility, wage rates, labor standards, etc.).

Timeline

The Agency will align the application and funding timelines of its programs that support multifamily affordable rental housing - Tax Credits, PennHOMES and PHARE (Marcellus Shale, RTT and HTF) - to strategically and efficiently allocate these resources.

The following is the proposed timeline for 2022 program administration:

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| • PHARE Plan – Draft | December 2022 |
| • PHARE Plan – Final | February 2023 |
| • PHARE RFP – Issued | September 2023 |
| • PHARE Applications Due | November 2023 |

- PHARE Funding Awards Announced June/July 2024

Monitoring and Compliance

The Agency monitors the use of all awarded PHARE funds and provides technical assistance to grantees throughout the application, funding, grant implementation, and close-out process. The PHARE team reviews semiannual reports - submitted by all grantees twice per year, at the ends of January and July - to ensure grantee compliance with contract requirements and ensure the anticipated outcomes and local housing impact of their funded initiatives are in line with the grantees' approved use of funds.

Grantees are required to meet all PHARE funding requirements and report on the following data for each awarded grant.

- Total amount of PHARE funds expended.
- Number of households served/impacted.
- Amount and percentage of funds used to benefit households below 50% of median area income.
- Household income of each individual households assisted.
- Amount of funding used to assist each impacted households.
- Amount of administrative funds expended (capped at 5% of the total awarded funds.)
- Sources and amounts of all matching/leveraged funds.
- Impact of funds used to address barriers to fair housing for marginalized communities.

PHARE maintains constant contact with grantees until all funds are expended, all households are served and/or newly created/rehabbed housing units are housed, and the final close-out report is submitted and approved for compliance. Organizations are advised to contact PHFA as soon as possible if their grant needs to be modified due to staff capacity/workforce issues, or if there are any changes in economic conditions or local housing needs at any point during the grant term.

The PHARE team will be increasing the volume of scheduled grantee site visits in 2023 to monitor adherence to program requirements and provide additional feedback to the Board on the successful outcomes connected to PHARE-funded housing initiatives.

PHARE/Marcellus Shale Impact Fee (Act 13 of 2012)

Purpose and Priorities for Funding

The Marcellus Shale Impact Fee (Act 13 of 2012) provides the funding mechanism to address the housing needs in impacted counties/communities of the Marcellus Shale region. Fifty percent (50%) of the awarded funds must be spent in 5th through 8th class counties.

The Marcellus Shale Impact Fee legislation (the "Impact Fee Act") specifically allocates certain amounts from the impact fee into the PHARE Fund to address the following needs, including;

1. Support for projects that increase the availability of affordable housing for low- and moderate-income persons and families, persons with disabilities and elderly persons in counties where unconventional gas wells have been drilled (regardless of production levels),
2. Provide rental assistance, in counties where unconventional gas wells have been drilled, for persons or families whose household income does not exceed the area median income, and
3. Specifies that no less than 50% of the funds are to be used in fifth, sixth, seventh and eighth class counties.

Direct Allocation - PHARE Fund will receive a direct yearly allocation from the portion of funds set aside for local distribution. The direct allocation is as follows: \$5.0 million each fiscal year beginning in 2013 and thereafter.

Windfall/Spillover Funds - Additional funds may become available because the Impact Fee Act limits amounts allocated to qualifying municipalities (as defined in the Impact Fee Act) and provides that any money remaining, after all allocations have been made to qualified municipalities, would also be deposited into the PHARE Fund.

PHARE proposals that exhibit readiness for implementation, and which include significant leveraging of funds from public/private funding sources will be prioritized. It is likely that the funds in this program will not be sufficient to meet all the housing needs and mitigate every housing impact created by the shale gas development; therefore, investment decisions will target the limited funds to projects that meet the principles outlined above and most comprehensively address the elements of the plan.

Where possible, these funds will be targeted and stay focused on mitigating the very specific housing impacts created by the shale development in the impacted and designated communities. This element will likely result in the determination that while there may be worthy housing projects that could be funded with these resources, the focus of development will be on most comprehensively addressing the direct and tangible housing impacts. Priority may be given to target resources in tandem with approved county housing trust fund plans and/or plans for the utilization of local share impact fee funds.

Eligible Applicants

Applicants eligible to receive PHARE/Marcellus Shale funds include counties that have adopted impact fees as well as municipalities who have further contributed to PHARE via windfall/spill over funds from the impact fee. While only eligible applicants may apply, nonprofit and for-profit organizations may be part of the application process.

Counties and municipalities may also delegate the role of “applicant” to a nonprofit or for-profit organization for purposes of the application. In the case where a county or municipality has designated another organization, agency or department to apply on their behalf, documentation identifying such must be included in the application.

There are many diverse interests that are concerned about the anticipated housing impact and therefore how these resources will be allocated to address the need. To the greatest extent possible opportunities

should be created for relevant and legitimate stakeholders to comment and advise the plan. This element will need to be managed for practicality and efficiency to maximize input.

Funding Priorities:

- Proposals which include a process where members of the community and other stakeholders may provide input on the application prior to submission.
- Proposals which include Optional Affordable Housing funds (Act 137 of 1989) and/or local share portions of the impact fee.

PHFA also requests that applicants include information on how the county is using local shares of public resources, including local Act 13 funds and Act 137 (county-based housing trust fund) monies, to address housing needs in the community.

Preliminary approval and funding of applications is contingent upon receipt of funds under Act 13 of 2012.

PHARE/Realty Transfer Tax Fund (Act 58 of 2015)

In November 2015, Governor Wolf signed Act 58 of 2015, which, in part, directs certain Realty Transfer Tax (RTT) receipts to the Pennsylvania Housing Affordability and Rehabilitation Enhancement Fund (PHARE, Act 105 of 2010). This revenue source is available in all 67 counties of the Commonwealth.

Under Act 58 of 2015 (RTT), PHFA's PHARE program will receive an allocation of funds based on a formula using 2014 year as a base. The annual amount available for the PHARE program will be equal to the lesser of forty percent (40%) of the difference between the total dollar amount of the Realty Transfer Tax (imposed under section 1102-C of the Tax Reform Code of 1971) collected for the prior fiscal year and the total amount of estimated RTT from the fiscal year beginning July 1, 2014. The PHARE/Realty Transfer Funds are capped at \$40 million annually.

In 2022, The Pennsylvania legislature approved an additional increase to the cap on Realty Transfer Tax funds to be allocated to the Agency from the FY 22/23 budget. Funds allocated to the Agency will be capped at \$60 million beginning with the 2023/24 PHARE program year.

Purpose and Priorities for Funding

The PHARE/RTT Program will provide funds to projects/programs providing sustainable and comprehensive solutions to address housing and community development needs across the Commonwealth.

These funds will be directed to address clearly articulated needs in communities based on the following priorities.

1. Preservation of the current stock of rental housing or the development/creation of new affordable rental housing to address unmet local need. This includes projects/programs for the elderly in danger of losing their homes and rental assistance to help families remain in their residence.

2. Funding for projects/programs to address ongoing housing needs for reducing homelessness, including specific and targeted vulnerable populations (veterans, persons with disabilities, supportive housing for the elderly, re-entry population, families, and youth).
3. Funding for comprehensive housing and redevelopment efforts that address blighted and abandoned properties impacting concerted community revitalization efforts, supported by clearly articulated community plans. This could include a variety of housing/redevelopment strategies such as acquisition, demolition, construction, rehabilitation, site remediation, and other efforts.
4. Creating new opportunities for affordable homeownership. This may include closing cost/ down payment assistance, financial education/counseling or other forms of assistance to potential first-time homebuyers as well as the development/construction of new homes and rehabilitation of existing housing.
5. Other efforts that address unmet housing and community development needs. This could include projects and programs to assist persons living in manufactured communities, homeowners to remain in their homes through renovation/mortgage/utilities or other forms of housing services and assistance, addressing environmental conditions such as lead paint abatement, rapid rehousing efforts and emergency temporary housing needs resulting from disasters.

PHARE Funding Categories

The Agency will prioritize funding for proposals targeting at least one of the following housing initiatives (all proposals must fall under one of the seven funding categories):

- **4% Tax Credit Projects** - Projects submitted must include a minimum of 50 units. Projects with greater than 75 units will be prioritized for funding.
 - * The Agency anticipates a commitment of up to \$10 million to support 4% tax credit developments.
- **Preservation/Rehabilitation/Renewal** - Rehabilitation of existing housing stock, demolition of blighted, at-risk housing, and renewal of brownfields or vacant land for green space.
- **Rental Housing Creation** - Development of new, affordable rental units. This may include costs for acquisition, pre-development, construction and/or significant rehabilitation, and demolition where the development of affordable housing is the end goal.
- **Homelessness Prevention** - Address ongoing needs for individuals and families at risk for homelessness, including (but not limited to) rapid re-housing, rent/utility/transportation assistance, landlord outreach, case management, and short-term emergency shelter care.
 - Increase the availability of integrated housing opportunities, supportive services, and resources for vulnerable populations such as veterans, the re-entry population, persons dealing with addiction disorder(s), persons with disabilities, and at-risk youth.
- **Innovative Housing Solutions** - Piloting unique and creative approaches to addressing unmet housing needs and historic disparities in housing.
 - Health and Housing - targeted partnerships with health care providers to support and monitor the success of interventions related to housing determinants of health.
 - Climate Resiliency – adaptive strategies for affordable housing that aim to address and mitigate the growing effects of climate change on housing access and affordability. This may include the use of environmentally conscious housing design and construction and the use of renewable energy sources and sustainable materials.

- Trauma Informed Housing – social or environmental housing design strategies to build social cohesion, de-escalate chaos and stress, and foster resiliency to address the challenges trauma poses to traditional housing models and long-term individual and community success.
- **Homeownership** - Development of additional affordable for-sale housing units, also to include support for down payment and closing cost assistance programs for first-time homebuyers and vulnerable/underrepresented communities.
- **Housing Counseling and Financial Education** - Activities providing various types of housing counseling, including pre and post purchase, financial education, foreclosure prevention and other forms of direct client counseling to assist homeowners or renters.

Priorities for Selection

PHARE/RTT awards will be directed to projects and programs based on the following criteria for selection:

- Projects/programs that show significant leveraging of other funds (local, State and federal, public and private) to ensure maximum impact.
- Projects/programs that have all funding committed and can move rapidly to implementation and utilization.
- Projects/programs that embrace, partner with, and/or are incorporated into a larger local, county, or regional housing development plan.
- Projects/programs that satisfy local planning/zoning ordinances.
- Projects/programs that affirmatively further fair housing.
- Projects/programs that are specifically designed to address a clearly articulated need in a community or specific population.
 - Projects/programs must be ready to address how PHARE funding will be used to address persistent, historical, and significant disparities and inequities that exist by race, class, income, culture, and education.
- Projects/programs that embrace innovative approaches to statewide housing and community development issues; address underserved and unmet housing needs across the Commonwealth and otherwise meet overall Agency goals for tackling community redevelopment.
- Documented capacity of applicant and ability to proceed with the project/program in a timely manner.

Eligible Applicants

Applicants eligible to receive PHARE/RTT funds include units of local government (counties, cities, boroughs, townships, town and home rule municipalities), nonprofit and for-profit entities, and economic, community, and housing developments organizations in all 67 counties of the Commonwealth.

All applicants are expected to satisfy the affordability requirements of the PHARE program and commit to a long-term sustainable program to maintain affordability (which may be documented with restrictive covenants or other program documents). Applicants must abide by prevailing wage labor payment standards where applicable.

Preliminary approval and funding of applications is contingent upon receipt of funds under Act 58 of 2015.

PHARE/National Housing Trust Fund (HTF)

The National Housing Trust Fund ("HTF") was enacted as part of the Housing and Economic Recovery Act of 2008 ("HERA") to provide resources to develop, preserve and rehabilitate housing for very low income and extremely low-income households. Funding for the HTF is derived from Fannie Mae and Freddie Mac earnings.

HTF funding will be made available to provide additional financial support to Tax Credit properties which increase the number of units set aside for Extremely Low-Income ("ELI") tenants. The Agency received approval from HUD of Pennsylvania's HTF Allocation Plan and is awaiting release of funding from HUD. Upon receipt of HUD program documents and release of funding, the Agency will announce the application process in accordance with the HTF Allocation Plan.

A copy of the approved HUD HTF Allocation Plan can be found at:

<http://www.phfa.org/legislation/act105.aspx>

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