

# Vermont National Housing Trust Fund Allocation Plan – 2016

## Overview

The National Housing Trust Fund (NHTF) is a new federal affordable housing production program that will complement existing Federal, state, and local efforts to increase and preserve the supply of decent, safe, and sanitary affordable housing for extremely low- and very low-income households, including homeless families and individuals. The NHTF was established under Title I of the Housing and Economic Recovery Act of 2008, Section 1131 ([Public Law 110-289](#)). On December 4, 2009, HUD published a proposed rule ([FR-5246-P-01](#)) for public comment on the formula to be used to allocate NHTF funds. The proposed NHTF program rule ([FR-5246-P-02](#)) was published on October 29, 2010 for public comment on the regulations that will govern the NHTF. On January 30, 2015, HUD published an interim Rule ([FR-5246-I-03](#)) and at 24 CFR Parts 91 and 93) which provides the guidelines for States to implement the NHTF.

HUD plans to issue a final rule for the NHTF after states have had experience administering the program and are able to offer comments regarding the initial implementation. The first year of the program is crucial in demonstrating states' ability to effectively use this new funding source. HUD expects to issue NHTF program guidance in the spring of 2016.

The NHTF regulations are modeled on the HOME Program, but there are several key differences. Most importantly, NHTF has deeper income targeting, lower rent requirements, and a longer minimum affordability period. For years when total NHTF funding exceeds \$1 billion, at least 75% of states' allocations must benefit extremely low income households (ELI <30% AMI) or households with income below federal poverty level (whichever is greater), and the remaining 25% must benefit very low income households (VLI <50% AMI); for years when total funding is less than \$1 billion, 100% of states' allocations must benefit ELI households. The rents for NHTF designated units in an assisted project are capped at 30% of 30% AMI or 30% of poverty level, whichever is greater, for units occupied by ELI households, and 30% of 50% AMI for VLI households. The minimum required NHTF affordability period is 30 years for units in all assisted projects, compared with 5-20 years for HOME.

The State of Vermont has selected the Vermont Housing & Conservation Board (VHCB) as the State Designated Entity (SDE) to administer the program, in accordance with VSA Title 10, Chapter 015, Subchapter 003, §321.

Funding for the NHTF comes from an assessment on loans made by Freddie Mae and Fannie Mac. Total funding for the first year of NHTF has yet to be determined and will be available no earlier than the summer of 2016. According to estimates, Vermont is expected to receive at least \$250,000. If the small state minimum applies as hoped, Vermont could receive \$3 million

for FFY16. However, this remains uncertain as HUD's interim regulations state it will propose an alternative allocation formula for public comment, if funds are not sufficient to provide the minimum to all states.

### **Distribution of Funds**

NHTF funds will be distributed statewide, including the City of Burlington. NHTF funds will be awarded on a competitive basis to locally-driven projects that address the criteria outlined in this allocation plan as well as the priority housing needs as identified in the state's Consolidated Plan.

### **Use of Funds**

The NHTF regulations allow up to 10% of NHTF funds to be used for homeownership activities; however, given the extremely low income targeting requirements of the program and the need for rental housing affordable to ELI households in the state, Vermont will use NHTF program funds exclusively for rental housing to meet the priority housing needs as identified by the state's Consolidated Plan. In accordance with NHTF regulations, up to 10% of the State's NHTF allocation will be used for administration.

NHTF project funds may be used to pay for the following eligible costs: development hard costs, refinancing, acquisition, related soft costs, operating cost assistance and operating cost reserves (not to exceed 1/3 of the state's annual allocation), relocation, and costs related to payment of loans. Awards of NHTF funds will be made in the form of grants or 0%, 30-year deferred loans in order to minimize project debt and maximize affordability to ELI households.

### **Eligibility Requirements**

Eligibility to apply for NHTF funds will be no more restrictive than required by NHTF regulations. Eligible applicants/recipients of NHTF funds include nonprofit and for-profit developers, public housing agencies, and municipalities. In accordance with the definition at 24 CFR 93.2, recipients must:

- Make acceptable assurances to the grantee (VHCB) that it will comply with the requirements of the NHTF program during the entire period that begins upon selection of the recipient to receive NHTF funds, and ending upon the conclusion of all NHTF-funded activities;
- Demonstrate the ability and financial capacity to undertake, comply, and manage the eligible activity;

- Demonstrate its familiarity with the requirements of other Federal, State, or local housing programs that may be used in conjunction with NHTF funds to ensure compliance with all applicable requirements and regulations of such programs; and
- Have demonstrated experience and capacity to conduct an eligible NHTF activity as evidenced by its ability to own, construct, or rehabilitate, and manage and operate an affordable multifamily rental housing development.

### **Application Requirements and Selection Criteria**

Entities seeking NHTF dollars for eligible projects may submit applications for funding to VHCBS using the Common Housing Application online at <http://www.vhcb.org/housing-applications.html>. A NHTF application supplement (to be created) shall also be completed and submitted to VHCBS. Applications will be accepted on a rolling basis, however funding decisions shall be made by the VHCBS Board at regularly scheduled meetings. A list of board meeting and application due dates is available on VHCBS's website at <http://www.vhcb.org/housing-board-meeting-schedule.html>.

The following *threshold criteria* must exist in any application to be considered for a NHTF award: 1) the project must include the creation or preservation of permanent rental housing (transitional housing and shelters are not eligible), 2) the housing must be perpetually affordable via a VHCBS Housing Subsidy Covenant, 3) at least one of the State's Consolidated Plan housing priorities must be addressed, and 4) there must be a reasonable expectation that the project will be ready to proceed within 18 months.

Applications will be reviewed by staff according to VHCBS's Affordable Housing Policy (<http://www.vhcb.org/pdfs/hsgpolicy/housing.pdf>) as well as VHCBS's Underwriting Policy and Procedures, (<http://www.vhcb.org/pdfs/hsgpolicy/Project-Underwriting-Policies-and-Procedures-1-2015.pdf>), which includes analysis in the following areas:

- Development capacity and fiscal soundness of the applicant, and experience of the development team
- Project location
- Market demand
- Budget documents
- Plans and specifications
- NHTF and other applicable federal requirements
- Developer/owner profit standard and evaluation

In addition to VHCBS's applicable policies, applications for funding submitted by eligible entities will be reviewed according to the following criteria:

- the applicant's ability to obligate NHTF funds and undertake eligible activities in a timely manner;
- the extent to which the project has Federal, State, or local project-based rental assistance so that rents are affordable to extremely low-income families;
- the duration of the units' affordability period;
- the merits of the application in meeting the priority housing needs as identified in the state's Consolidated Plan:
  - *safe, decent, affordable housing* (increase the supply and quality of affordable housing),
  - *individuals and families experiencing homelessness* (decrease the number experiencing homelessness, increase supply and quality of affordable housing), and
  - *strong communities* (increase supply and quality of affordable housing, strengthen communities and improve quality of life),
- the extent to which the application makes use of non-federal funding sources, and
- the extent to which the project Affirmatively Furthers Fair Housing:
  - Will the housing be located in an area of opportunity, with low concentrations of racial or ethnic minorities and low concentrations of poverty?
  - If the proposed project is located in an area with a concentration of racial or ethnic minorities and/or poverty, will the housing contribute to the revitalization of a disinvested community, or help prevent displacement of residents living in neighborhoods on the verge of or already undergoing gentrification?

Applications must include a description of the eligible activities to be conducted with the NHTF funds in accordance with 24 CFR 93.200, and must contain a certification by each eligible recipient that housing units assisted with the NHTF will comply with NHTF requirements.

### **Subsidy Limits**

At least during the first year of the program, to allow maximum flexibility while VHCB and its partners gain experience using NHTF to create rental housing affordable to ELI households, the maximum per-unit subsidy limits for NHTF will be set at HUD's applicable limits for the HOME Program. These limits are currently \$140,107 for 0BRs, \$160,615 for 1BRs, \$195,304 for 2BRs, \$252,662 for 3 BRs, and \$277,344 for 4BRs+.

### **Performance Goals and Benchmarks**

This method of distribution will support the State's 2015-2019 Consolidated Plan goals to create 225 new rental units and rehabilitate 225 rental units. If Vermont receives \$250,000, it is estimated VHCB will assist one project resulting in approximately 2 units affordable to extremely low-income (ELI) households based on the maximum subsidy limits above. If the current small state minimum is applied by HUD and Vermont receives \$3 million, it is estimated

that NHTF dollars will assist approximately 6 rental projects, resulting in approximately 18 units affordable to ELI households.

### **Preferences & Limitations**

While not a requirement, VHCB shall give funding preference to projects that include the creation of *permanent supportive housing*<sup>1</sup> with rental assistance and support services.

In accordance with the state's Consolidated Plan guiding principle of "promoting development in State designated downtowns, village centers, neighborhood development areas and other areas that are consistent with the state's historic settlement pattern and "Smart Growth," VHCB shall give funding preference to projects located in these areas.

Preference shall be given to projects that 1) create new units or 2) preserve affordable, subsidized units in properties acquired from private owners.

Owners of housing funded with NHTF dollars may (but are not required to) limit occupancy or provide preference to the following populations:

- Homeless families or individuals
- People with disabilities (including people with mental illness)
- Victims of domestic violence
- Frail elders
- Veterans

However, any limitation or preference must not violate the nondiscrimination requirements in the NHTF interim rule at [24 CFR 93.350](#), and the applicant must have affirmative marketing procedures and requirements that apply in the context of the limited/preferred tenant eligibility for the project. Preferences and/or limitations may not be given to students.

### **Rehabilitation Standards**

VHCB's HOME Rehabilitation Standards shall apply to NHTF assisted projects. Applicants must be able to demonstrate compliance with these standards. If any particular element of the project does not meet the standards, applicants must bring this to the attention of VHCB staff. Waivers may be requested in accordance with VHCB policy (to be created).

### **Refinancing Guidelines for NHTF Projects**

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<sup>1</sup> As defined in Technical Assistance Collaborative, Inc.'s report entitled "Creating New Integrated Permanent Supportive Housing Opportunities for ELI Households: A Vision for the Future of the National Housing Trust Fund".

Multi-family projects developed by locally based housing organizations that receive NHTF funds for rehabilitation may utilize NHTF funds to refinance existing debt consistent with 24 CFR 93.201(b) if they meet the following guidelines:

1. Refinancing is necessary to reduce the overall housing costs and to make the housing more affordable and proportional to the number of HTF- assisted units in the rental project.
2. Rehabilitation is the primary eligible activity. A minimum of \$7,500 of rehabilitation per unit is required. The proportional rehabilitation cost must be greater than the proportional amount of debt that is refinanced;
3. The grantee must demonstrate management capacity and practices that ensure that the long term needs of the project can be met and the targeted population can be served over an extended affordability period;
4. The grantee must demonstrate that the new investment is being made to maintain current affordable units, to create greater affordability in current affordable units, to create additional affordable units, or to continue the affordability of units that could be lost;
5. Refinancing will be limited to projects that have previously received an investment of public funds;
6. The minimum NHTF affordability period shall be 30 years. All NHTF assisted projects are required to be perpetually affordable after the expiration of the NHTF required period via a VHCB Housing Subsidy Convent;
7. NHTF funds may be used for refinancing anywhere in the State of Vermont including the City of Burlington;
8. NHTF funds cannot be used to refinance multifamily loans made or insured by any Federal program, including CDBG.