

State of Michigan Housing Trust Fund Allocation Plan

Overview

The Housing Trust Fund is a new federal affordable housing production program that will complement existing state efforts to increase the supply of affordable housing for extremely low and very low-income households, including homeless families and individuals and persons with special needs. Congress established the NHTF through the Housing and Economic Recovery Act of 2008 (HERA). On January 30, 2015, HUD published an Interim Rule which guides implementation of the HTF by states.

In years that total NHTF funding exceeds \$1 billion nationally, at least 75% of each state's allocation must benefit households at or below the federal extremely low income (ELI) level, which is 30% of area median income, or households with income below federal poverty level (whichever is greater). Up to 25% may be used to benefit very low income (VLI) households (those at or below 50% of area median income). However, in years when total national funding is less than \$1 billion, 100% of each state's allocation must benefit ELI households. In 2016, HUD made just over \$173 million available. Thus, it is likely that the program will serve 100% ELI households for the foreseeable future.

The Governor has designated the Michigan State Housing Development Authority as the entity to administer the HTF in Michigan.

The State is responsible for distributing HTF funds throughout the State according to its housing priority needs. In addition to revising the AP- 30 Method of Distribution screen in IDIS, the State must respond to the following questions.

- 1. Will the State distribute HTF funds through grants to subgrantees? If yes, describe the method for distributing HTF funds through grants to subgrantees and how the State will make those funds available to units of general local governments. If no, state N/A. Please attach response if you need additional space.**

Not Applicable. The Michigan State Housing Development Authority (MSHDA) does not intend to use subgrantees.

- 2. Will the State distribute HTF funds by selecting applications submitted by eligible recipients? If yes, describe the eligibility requirements for applicants as defined in 93.2 – definition of recipient. If no, state N/A. Please attach response if you need additional space.**

MSHDA will distribute funds by selecting applications submitted by eligible recipients. Eligible recipients will include a non-profit or for-profit organization, or a public housing authority that will serve as the owner or developer of affordable rental housing.

Applicants for HTF funding must meet minimum qualifications and demonstrate the proficiency of the development team. In their applications or before loan approval, eligible recipients must:

- Certify to MSHDA that they will comply with all requirements of the program and that housing units assisted will comply with HTF requirements;
- Provide a description of the eligible activities to be conducted with the HTF funds;
- Demonstrate their financial capacity to undertake, comply with and manage the eligible activities, including compliance with the financial requirements and standards shown in MSHDA's Direct Lending Parameters located at http://www.michigan.gov/documents/mshda/MSHDA_Lending_Parameters_3-23-16_BOARD_APPROVED_FINAL_518833_7.pdf.

No proposal will be accepted so long as any member of the sponsor's development team or any other party who, directly or indirectly, has the ability to control a member of the development team or exercise significant influence over a member of the development team in making financial and operating decisions:

- Is in default or in material non-compliance with the Low Income Housing Tax Credit (LIHTC) or any other MSHDA program;
- Has outstanding flags in HUD's national 2530 National Participation system; or
- Has been debarred or suspended from any MSHDA, HUD, or Rural Housing programs.

In addition, a history of defaults or material acts of non-compliance, even if none are currently outstanding, may preclude acceptance of a proposal until appropriate assurances of the development team member's ability to comply is given.

3. Will the State distribute HTF funds by selecting application submitted by eligible recipients? If yes, describe all the criteria that will be used to select applications and the relative importance of these criteria. At a minimum, as required in 91.320(k)(5)(i), the selection criteria must include:

- **Priority based upon geographic diversity**
- **Applicant's ability to obligate HTF funds**
- **Applicant's ability to undertake eligible activities in a timely manner**
- **For rental housing, the extent to which the project has Federal, State or local project-based assistance so rents are affordable to extremely low-income families**
- **For rental housing, the duration of the units' affordability period**
- **The merits of the application in meeting the State's priority housing needs (please describe)**
- **The extent to which application makes use of non-federal funding sources**
- **Other (please describe). Please attach response if you need additional space.**

MSHDA will distribute funds via a rolling application window that will be announced approximately 45 days after funds are released by the Department of Housing and Urban Development. Distribution will be made statewide. Given the small amount available and based on feedback received from its public hearings in this first round, MSHDA will not determine set percentages to be used by region or within specific geographic types. This will be reevaluated and modified if necessary in subsequent years in consultation with partners and stakeholders.

Applications will be reviewed and selected with equal consideration being given in each of the following areas:

- (1) Readiness to proceed including the ability to expend funds in a timely manner and achieve required expenditure benchmarks including the ability to proceed to Commitment within six months and loan closing within one year;
- (2) Availability of project based subsidy for extremely low-income tenants, or similar mechanisms to ensure that deeply targeted HTF units are both feasible and affordable. For example, the leveraging of project based vouchers from local housing authorities will be strongly considered given the scarcity of MSHDA resources, and the needs for deeply targeted units identified in the State of Michigan's planning documents.;
- (3) Proximity to appropriate amenities including compliance with site selection criteria and state place based priorities identified at http://www.michigan.gov/documents/mshda/mshda_li_ca_38_tab_cc_site_selection_criteria_183895_7.pdf;
- (4) Capacity of the development team including those requirements identified at http://www.michigan.gov/documents/mshda/MSHDA_Lending_Parameters_3-23-16_BOARD_APPROVED_FINAL_518833_7.pdf, as well as a review of the depth of experience by each member of the development team in past success in developing and managing affordable multifamily housing projects with MSHDA. ;
- (5) Availability of Support Services. All supportive housing projects will be required to submit the Addendum III located at http://www.michigan.gov/documents/mshda/mshda_li_ca_05b_addendum_iii_checklist_app_532268_7.pdf with all plans being reviewed by the Addendum III Committee which includes representatives from the Corporation for Supportive Housing, MSHDA Rental Assistance and Homeless Solutions staff, the Department of Health and Human Services (MDHHS) and others. In addition, non-supportive housing populations that also include a Memorandum of Understanding (MOU) for the provision of on-site services from local health and human services providers will also be strongly considered.;
- (6) Leveraging of non-federal sources (equity from federal tax credits will be considered federal for purposes of calculating leverage within this program).;
- (7) Need for the funds to complete the development – including whether all other sources of subsidy have been sought, whether deferred developer fee and owner equity are being utilized and an analysis of whether the transaction can proceed without HTF.

MSHDA anticipates receiving HTF funding annually.

Other factors that will be considered include the inclusion of accessible and visitable units and alignment with nationally recognized sustainable development protocols such as USGBC's LEED platform, Home Innovations Lab National Green Building Standard or Enterprise Community Partner's Green Communities Criteria.

In 2016, HTF funding in the amount of \$3,174,973, which is equal to 90% of its \$3,527,747 award, will be distributed competitively through a rolling window. Depending on demand funding in subsequent years may be made through funding windows. The remaining 10% will be used towards planning and administrative costs associated with the program.

Given the requirements of the program and the need for rental housing affordable to ELI households in the state, MSHDA will use HTF program funds to provide affordable rental housing to ELI households. It is anticipated that most units financed under this program will be integrated into general occupancy affordable housing properties serving family and elderly households, that are financed using MSHDA tax-exempt or taxable bond products, LIHTC or federal historic tax credits.

State Preferences

MSHDA will preference projects that create units for Veterans with these funds. Developments that screen for Veteran status when establishing wait lists for available HTF units and units will be offered to Veterans first. A Veteran is defined as any member of the household that has served in Active Duty, Reserves or National Guard as established through a DD-214 or NGB 22. In the event that multiple projects with equal merit in consideration of MSHDA's evaluation criteria are submitted, then projects that create units for Veterans will be selected first.

Further, in an effort to produce the maximum amount of deeply targeted units in the broadest array of communities, given the scarcity of resources, projects otherwise having equal merit will be ranked according to the amount of leverage (as identified in Criteria 6) documented via a written commitment at the point of application.

Eligible Developments

Any new construction, adaptive re-use, or rehabilitation of a multifamily rental housing development in Michigan including existing affordable housing and small scale rental developments are eligible to apply.

Nursing homes, adult foster care homes, rooming houses, student housing, transient housing and single room occupancy developments are all considered ineligible.

Eligible Costs

Costs including property acquisition, site improvements, demolition, conversion, and operating reserves.

Form of Assistance

Assistance to project will be made in the form of equity investments or loans to the project.

Income Targeting

All HTF Units in Eligible Projects must be targeted at households with incomes at or below 30% of the Area Median Income (AMI).

Affordability Period

Applicants must commit to keeping HTF units affordable, including all applicable income and rent restrictions of a period of no less than 30 years from the point of Project Completion.

Rehabilitation Standards

All projects must comply with MSHDA's Multifamily Standards of Design, attached as Exhibit 0 and also shown at http://www.michigan.gov/mshda/0,4641,7-141-5587_26092---,00.html. All developments must also comply with Uniform Federal accessibility Standards and property standards shown at 24 CFR 92.251. In addition to meeting MSHDA's Multifamily Standards of Design, the following also apply:

1. For existing buildings containing life threatening deficiencies, all such deficiencies will be required to be corrected. Any life threatening deficiencies will be identified as part of the development's scope of work and will be required to meet all applicable local code requirements. Additionally, as outlined on page 10 of MSHDA's Pre-Construction Manual, attached as Exhibit 1 and also found at (http://www.michigan.gov/documents/mshda/mshda_mf_preconstruction_manual_293411_7.pdf), MSHDA will also conduct its own inspections to ensure that any deficiencies are addressed and that the development is completed to the appropriate standards. Following are some examples of life threatening deficiencies that must be immediately addressed:

Site

Air Quality – Propane/Natural Gas/Methane Gas Detected
Electrical Hazards – Exposed Wires/Open Panels
Electrical Hazards – Water Leaks on/near Electrical Equipment
Building Exterior
Electrical Hazards – Exposed Wires/Open Panels
Electrical Hazards – Water Leaks on/near Electrical Equipment
Emergency Fire Exits – Emergency/Fire Exits Blocked/Unusable
Fire Escapes – Blocked Egress/Ladders
Fire Escapes – Visibly Missing Components

Building Systems

Air Quality – Propane/Natural Gas/Methane Gas Detected
Domestic Water – Misaligned Chimney/Ventilation System

Electrical System – Missing Breakers/Fuses
Electrical System – Missing Covers
Electrical Hazards – Exposed Wires/Open Panels
Electrical Hazards – Water Leaks on/near Electrical Equipment
Emergency Fire Exits – Emergency/Fire Exits Blocked/Unusable
Fire Protection – Missing/Damaged/Expired Extinguishers
HVAC – Misaligned Chimney/Ventilation System

Common Areas

Air Quality – Propane/Natural Gas/Methane Gas Detected
Electrical – Missing Breakers
Electrical – Missing Covers
Electrical Hazards – Exposed Wires/Open Panels
Electrical Hazards – Water Leaks on/near Electrical Equipment
Emergency Fire Exits – Emergency/Fire Exits Blocked/Unusable
HVAC – Misaligned Chimney/Ventilation System
Outlets/Switches/Cover Plates – Missing/Broken
Smoke Detector – Missing/Inoperable
Windows – Security Bars Prevent Egress

Unit

Air Quality – Propane/Natural Gas/Methane Gas Detected
Electrical Hazards – Exposed Wires/Open Panels
Electrical Hazards – Water Leaks on/near Electrical Equipment
Electrical System – Missing Breakers/Fuses
Electrical System – Missing Covers
Emergency Fire Exits – Emergency/Fire Exits Blocked/Unusable
Hot Water Heater – Misaligned Chimney/Ventilation System
HVAC – Misaligned Chimney/Ventilation System
Outlets/Switches – Missing
Outlets/Switches – Missing/Broken Cover Plates
Smoke Detector – Missing/Inoperable
Window – Security Bars Prevent Egress

2. All rehabilitation developments will be required to complete a Capital Needs Assessment (CNA) to determine the project scope. Included in the CNA will be an estimated useful life of each of the items that are included in both the scope of the rehab and also those that will be replaced in the future. A replacement reserve will be established to cover the costs of ongoing physical needs of all components of the property, including those items identified in the CNA that are not in the initial scope of work. Funding for the replacement reserve will be established based on a combination of an initial deposit and ongoing annual deposits, the size of which will be based on the need of the development. More specific replacement reserve details are outlined in MSHDA's Lending Parameters, found in Section K of the document attached as Exhibit 2 and also found using this link:

http://www.michigan.gov/documents/mshda/MSHDA_Lending_Parameters_3-23-16_BOARD_APPROVED_FINAL_518833_7.pdf. While these standards make reference to a 20-year term, is intended that replacement reserve funding levels will continuously be monitored on an ongoing basis to allow the development to operate successfully at least through the applicable period of affordability.

3. Lead-Based Paint – As outlined in MSHDA’s Multifamily Standards of Design, all rehabilitation developments will be required to repaint all painted surfaces and paint all repaired surfaces to match existing and/ or adjacent. Lead based paint shall be abated in conformance with applicable law. Additionally, all developments will be subject to an environmental review and all hazardous substances, including lead-based paint, must be abated before a development is allowed to proceed. The specific provision related to MSHDA’s Lead-Based Paint requirements (and HUD’s requirements at 24 CFR part 35) can be found in Section H.2 of MSHDA’s Environmental Review Requirements, attached as Exhibit 3 and also found using the following link:
http://www.michigan.gov/documents/mshda/MSHDA_2015_Environmental_Review_Requirements_Final_478201_7.pdf
4. If applicable, developments will be reviewed to assess and/or mitigate potential disasters. As outlined in MSHDA Environmental Review Standards, attached as Exhibit 3 and also found at (http://www.michigan.gov/documents/mshda/MSHDA_2015_Environmental_Review_Requirements_Final_478201_7.pdf), developments will be reviewed for their location in a flood plain and flood hazard areas, among other things, including conformance with CFR Part 58. Developments will be expected to meet all of the applicable requirements found in the Environmental Review Standards for the development to be able to proceed. Additionally, developments will need to meet all applicable code requirements, including those relating to disaster mitigation, and will also be appropriately insured to address issues that may arise should there be a disaster. Beyond this, MSHDA does not have and will not impose any other specific state-level requirements to address potential disaster areas or mitigation.
5. As outlined in Section 00010 of MSHDA’s Rehabilitation Standards, attached as Exhibit 4 and also found at (http://www.michigan.gov/documents/mshda/MSHDA_Rehab-standards_02_01_16_-_mv_512674_7.pdf), all developments will be required to meet all applicable state and local codes, ordinances, and requirements. Additionally, MSHDA will review applicable developments (and drawings for those developments) to ensure they meet the required standards, will work with development team members to ensure code items are being met, and will ultimately require a copy of the building permit to ensure that the plans have been reviewed and approved by the local building official.
6. All developments will be subject to inspections as outlined on page 10 of MSHDA’s Pre-construction Manual (http://www.michigan.gov/documents/mshda/mshda_mf_preconstruction_manual_29341_1_7.pdf) to ensure compliance with all applicable program requirements, the scope of work, and required rehabilitation standards. Additionally, all developments will be required to be in compliance with UPCS requirements on an ongoing basis where applicable

http://www.michigan.gov/mshda/0,4641,7-141-5555_8002_26576_26578-113476--,00.html).

For the Housing Trust Fund, MSHDA Compliance will use the same computer based inspections that are used for all of the rental developments in the MSHDA Compliance portfolio. The system allows the contracted inspectors to download property, print out a copy of the inspection, and then upload the data from the report to the MSHDA system so MSHDA Compliance can track progress on correction of the items. Attached as Exhibit 5 is a copy of our inspection data base for the inspection deficiencies that can be selected in our databased inspection protocol. MSHDA uses the HUD UPCS physical inspection protocol as the foundation for the MSHDA inspection system. All UPCS deficiencies are included in MSHDA inspections. For the properties that also have MSHDA bond funding there are additional deficiencies that UPCS does not have. These additional items are marked as "M" items in the attached list and are included in what is called MSHDA's UPCS Plus inspection. Contracted inspectors have the ability to select either the UPCS inspection or the UPCS Plus inspection depending on the development funding.

Underwriting and Subsidy Layering

MSHDA will solicit applications for funding through an annual process. Applications will be scored by a staff level review committee. In the event that MSHDA sources such as taxable or tax-exempt bond funding is also being requested projects will also be presented to the Authority Board for approval of those sources. All successful applicants must comply with MSHDA underwriting criteria and adhere to the requirements of other applicable MSHDA programs, which are identified at the following link <http://www.michigan.gov/mshda/0,4641,7-141-5587-60010--,00.html>.

Maximum Per-unit Development Subsidy

MSHDA has elected to adopt the attached HOME per-unit subsidy limits for purposes of the Housing Trust Fund. The current limits to be used are attached as Exhibit 6. The state feels that consistency with the HOME program is critical for this initial year of this new program. MSHDA knows from its fifty years of experience in financing affordable rental housing, that transactions with deeply targeted units require the blending of multiple funding streams in order to make them feasible. While we are not specifically prioritizing HOME funded projects, we anticipate that many, if not most, will be bringing HOME funds as part of the broader project. Additionally, based on data analysis that the agency conducted on the various projects within MSHDA's portfolio, which covers multi-family developments of all types across all portions of the state, the HOME per-unit subsidy limits should be sufficient in determining the maximum amount of Housing Trust Fund dollars that can be used. The HOME per-unit subsidy limits being used account for differences in bedroom size (as shown in Exhibit 6). Additionally, based on actual costs of developments in MSHDA's portfolio, and the geographic location of the projects that have been done around the state and that are likely to be done with HTF, these limits appear to be to be adequate for at least the initial year of the program. MSHDA intends to evaluate at the end of the funding year, as it does in all of its program areas, and will make adjustments if necessary based on updated actual construction costs, data, or other modified assumptions.