

# 2018 Vermont National Housing Trust Fund Allocation Plan

## Overview

The National Housing Trust Fund (HTF) is a new federal affordable housing production program that complements 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 HTF 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 HTF funds. The proposed HTF program rule ([FR-5246-P-02](#)) was published on October 29, 2010 for public comment on the regulations that will govern the HTF. 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 HTF.

Federal fiscal year 2016 was the first year of the program. HUD plans to issue a final rule for the HTF after states have had experience administering the program and are able to offer comments regarding the initial implementation. The initial years of the program are crucial in demonstrating states' ability to effectively use this new funding source. HUD expects to issue additional HTF program guidance in the future. This plan and VHCB's implementation of the HTF program is subject to change based on any updates and new information from HUD.

The HTF regulations are modeled on the HOME Program, but there are several key differences. Most importantly, HTF has deeper income targeting, lower rent requirements, and a longer minimum affordability period. For years when total HTF 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 HTF 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 HTF 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 HTF comes from an assessment on loans made by Freddie Mae and Fannie Mac. Total national FFY18 funding for HTF is undetermined at this time. Vermont will likely receive the small state minimum of \$3,000,000 if HTF funds are available.

## **Distribution of Funds**

HTF funds will be distributed statewide, including the City of Burlington. HTF funds will not be distributed through subgrantees, but rather will be awarded to eligible recipients on a competitive basis for 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 HTF regulations allow up to 10% of HTF 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 HTF program funds exclusively for rental housing to meet the priority housing needs as identified by the State's Consolidated Plan. In accordance with HTF regulations, up to 10% of the State's HTF allocation will be used for administration.

HTF project funds may be used to pay for the following eligible costs: development hard costs (new construction and rehabilitation), 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 HTF 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 HTF funds will be no more restrictive than required by HTF regulations. Eligible applicants/recipients of HTF 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 HTF program during the entire period that begins upon selection of the recipient to receive HTF funds, and ending upon the conclusion of all HTF-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 HTF funds to ensure compliance with all applicable requirements and regulations of such programs; and
- Have demonstrated experience and capacity to conduct an eligible HTF 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 HTF dollars for eligible projects may submit applications for funding to VHCB using the [Common Housing Application](#). A HTF application supplement, available on VHCB's website, must also be completed and submitted to VHCB.

Applications will be accepted on a rolling basis, however funding decisions shall be made by the VHCB Board at regularly scheduled meetings. [VHCB board meeting and application due dates](#)

The following *threshold criteria* must be met by an application to be considered for a HTF 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 remain affordable in perpetuity after the expiration of the HTF required period via a VHCB 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 must include a description of the eligible activities to be conducted with the HTF funds in accordance with 24 CFR 93.200 (Eligible activities), and must contain a certification (included in the HTF application supplement) by each eligible recipient that housing units assisted with the HTF will comply with HTF requirements.

All HTF applicants seeking funding for affordable multi-family rental housing (for new units and rehabilitation of existing units) shall describe the plans and tools they have in place to achieve the goal of making available at least 15% of the units in their portfolio to those who are experiencing homeless.

### **Selection Criteria**

On a competitive basis, applications that have met the threshold criteria described above will be evaluated according to how and the extent to which they meet the HTF criteria listed below. These criteria will carry equal importance and weight. The HTF criteria, together with the criteria and considerations in the [VHCB Affordable Housing Funding Policy](#) and the [Underwriting Policy and Procedures](#) will be used to determine "Need," "Impact," and "Quality" scores (up to 10 points each) for a project's funding recommendation to the VHCB Board of Directors.

### **HTF Criteria:**

1. The applicant's ability to obligate HTF funds and undertake eligible activities in a timely manner
  - Applicants will be evaluated on their development capacity (do they have experienced development staff, are they using a development consultant, are they

partnering with another development entity?); their experience with federal affordable housing programs (what other federally-funded affordable housing projects have they developed?); and their track record for developing projects within a reasonable timeframe (were those projects successfully completed in a timely manner?)

2. 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

- While project-based rental assistance is not a HTF requirement, applications will be evaluated based on whether any of the units in the project, including the HTF units, will have project-based rental assistance to ensure residents do not pay more than 30% of their income towards rent and utilities. The type of project-based rental assistance and the length of commitment for the assistance will also be considered.
- Other mechanisms that ensure affordability for extremely low-income households, such as cross-subsidization or operating assistance reserves, will be considered.

3. The duration of the units' affordability period

- All HTF funded projects will be subject to a minimum 30-year affordability period. Consideration will be given to projects that propose a HTF affordability period greater than the minimum 30 years.
- After the expiration of the HTF period, all projects will be subject to perpetual VHCB affordability requirements at less restrictive income and rent levels, and every reasonable effort must be taken to structure the project in a manner that avoids displacement. The proposed number of VHCB restricted units and the level of the VHCB restrictions will be considered.

4. 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)
  - Does the project increase the supply and quality of affordable housing?
  - How many of the following Consolidated Plan Affordable Housing strategies are addressed by the application?
    - House lower income families and individuals, with special preference to projects housing extremely-low income families and individuals at or below 30% of area median income.
    - Increase the supply of affordable rental housing through the acquisition and/or rehabilitation of existing units especially in communities where there are tight housing markets, very low vacancy rates or there is a high incidence of distressed housing.

- Increase the supply of affordable rental housing through the construction of new units especially in communities where there are tight housing markets, very low vacancy rates or there is a high incidence of distressed housing.
  - Promote mixed income developments to create integrated communities.
  - Promote the development of new rental housing designed and built to a level of energy efficiency that meets or exceeds the levels required to qualify for the Energy Star label.
  - Preserve existing affordable housing projects in a manner consistent with prudent investment criteria.
  - Redevelop existing properties with consideration given for projects that leverage other resources specific to the preservation of historic structures.
  - Redevelop foreclosed properties for affordable rental housing.
  - Provide accessible or adaptable housing for persons with disabilities.
  - Provide service enriched housing serving persons with disabilities.
  - Produce affordable senior rental units in regions where a market analysis identifies a shortage of elderly housing affordable to lower income seniors.
  - Provide service enriched housing that allows seniors the opportunity to age in place.
  - Locate affordable rental housing in close proximity to public transportation services with access to employment centers, services, recreational opportunities, and schools.
- *individuals and families experiencing homelessness* (decrease the number experiencing homelessness, increase supply and quality of affordable housing)
  - Does this project serve households experiencing homelessness and those at risk of homelessness? Are services specifically designed to meet the needs of the homeless populations proposed? Is there an MOU with a social service agency for the provision of these services? Will rental assistance be provided to formerly homeless households ensuring that they pay no more than 30% of their income towards rent? (Also see list of affordable housing strategies above)
- *strong communities* (increase supply and quality of affordable housing, strengthen communities and improve quality of life)
  - Regarding increasing the supply and quality of affordable housing, see list of strategies above.
  - Regarding strengthening communities and improving quality of life, how many of the following related Con Plan strategies will be utilized by the project?

- Promote projects in Designated Downtowns and Village Centers, Growth Centers, Neighborhood Development Areas and New Town Centers.
- Reinvest in downtown properties, particularly in the upper stories including elevators, sprinklers, and other code-related improvements.
- Promote projects in Designated Downtowns that are also area-wide low and moderate income benefit communities with façade, streetscape and other infrastructure improvements.
- Participate in projects that leverage other State and federal programs such as tax credits and transportation grants in order to promote public and private investment in downtown areas.
- Redevelop Brownfields into productive use.
- Support municipal projects to remove barriers to public buildings to bring them into compliance with current ADA standards.
- Remove barriers to accessibility for places of business and/or residential facilities to bring them into compliance with current ADA standards.
- Promote facilities and services that stabilize living environments and enhance quality of life for families and individuals.
- Use New Market Tax Credits to attract investment for community and economic development projects in high poverty areas.

5. The extent to which the application makes use of non-federal funding sources

- Does the applicant plan to apply for and/or anticipate a commitment of non-federal sources of funding? How much, and from what source(s)? What percentage of the total development cost do the non-federal funding sources represent?

6. The extent to which the project Affirmatively Furthers Fair Housing

- Overall, how will this project comply with applicable fair housing rules and guidelines?
- Are there ways in which this project goes beyond the minimum fair housing requirements in order to help reverse patterns of economic and/or racial segregation and inequality and achieve full equal housing opportunity?
- Is this project located in an area of racial or ethnic minority concentration (defined in the State's Analysis of Impediments to Fair Housing Choice (AI) as an area where the presence of a minority is more than 2X the presence in the State as a whole)?
- Is this project located in an area of low-income concentration (defined in the AI as an area where 51% or more of the households are at or below 80% of area median income)?

- Is this project located in an “area of opportunity”, including but not limited to, proximity/access to quality schools, job opportunities, recreational opportunities, and other services?
  
- 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? Please elaborate by answering the following questions:
  - Is the project located in an area of blight and/or an area that has not seen investment of public funds for affordable housing in recent history?
  
  - Will the project improve the neighborhood’s appearance, safety, reputation, etc?
  
  - If the property is occupied by low-income households and is at risk of being lost or converted to uses other than affordable housing, will the project enable the existing low income residents to remain living in the community by creating or maintaining affordable housing opportunities?

As referenced above, additional analysis will be performed by VHCB underwriting staff in accordance with VHCB’s Underwriting Policy and Procedures. The following will be assessed and contribute to project scores in the areas of “Need”, “Impact”, and “Quality” prior to making a HTF funding recommendation to the Board:

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

### **Subsidy Limits**

For FFY18, the third year of the program, while VHCB and its development partners gain more experience using HTF to create rental housing affordable to ELI households, the maximum per-unit subsidy limits for HTF will again be set at HUD’s applicable limits for the HOME Program. They will be applied statewide and are adjusted by the number of bedrooms per unit.

These limits are currently \$141,089 for 0BRs, \$161,738 for 1BRs, \$196,673 for 2BRs, \$254,431 for 3 BRs, and \$279,286 for 4BRs+.

The decision to use the HOME subsidy limits and apply them statewide is based on an analysis of the actual total development costs of affordable multifamily rental housing properties in Vermont. While there is significant difference in individual project costs, there is relatively little variation in the averages across the State's counties. The averages for the counties with the highest and lowest total development cost per unit both differ by less than 20% compared with the statewide average. The data do not support consistently higher development costs in some geographic areas over others.

Setting the HTF maximum per-unit subsidy limits at the existing HOME limits is allowed by HUD and cost data indicate the use of the HOME limits is appropriate as the initial baseline cap for the amount of HTF investment that may be put into any HTF-assisted unit. However, it is important to note that the cap is not the only mechanism VHCB will use to allocate no more HTF funds than allowable and necessary for project quality and affordability. Each application for HTF funding will be reviewed and analyzed in accordance with VHCB's Policy & Procedures for Project Underwriting, which includes a subsidy layering review. VHCB staff has extensive experience in this area, including through its administration of HOME. The review includes an examination of sources and uses (including any operating or project-based rental assistance) and a determination that all costs are reasonable. Through its underwriting process, VHCB will ensure that the level of HTF subsidy provided: 1) does not exceed the actual HTF eligible development cost of the unit, 2) that the costs are reasonable and in line with similar projects across the State, 3) the developer is not receiving excessive profit, and 4) HTF funding does not exceed the amount necessary for the project to be successful for the required 30 year affordability period.

As required by HUD, the HTF maximum subsidy limits will be assessed and adjusted annually as needed.

### **Performance Goals and Benchmarks**

Distribution of HTF funds as part of the State's 2018 CP Action Plan will support goals to create 102 new rental units and rehabilitate 153 rental units. With Vermont's anticipated FFY18 allocation of \$3,000,000, it is estimated that HTF dollars will assist approximately 5 rental projects, resulting in approximately 15 units affordable to ELI households.

### **Preferences & Limitations**

While Vermont's HTF Program is not limiting beneficiaries to a particular segment of the extremely low-income population, VHCB will give funding preference to projects that include the creation of *permanent supportive housing* (PSH) with rental assistance and support services

for persons who are homeless or at risk for homelessness. VHCB is establishing this preference in accordance with its long term commitment to creating housing for the most vulnerable, the priorities of the State's Consolidated Plan, results of the most recent Point in Time Count, and HUD's emphasis on permanent (over transitional) housing. It is also consistent with Vermont's 2016 Executive Order (No. 03-16) which establishes the following goal: "owners of publically-funded housing [shall] make available at least 15% of their affordable housing portfolio to homeless families and individuals, including those with special needs who require service support and rental assistance to secure and maintain their housing."

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 also 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 HTF 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 HTF 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 HTF Rehabilitation Standards](#) shall apply to HTF assisted projects. The standards provide details on what work is required, how that work should be performed (methods), and what materials should be used. The standards refer to applicable codes and in some circumstances establish requirements that exceed the minimum requirements of codes. Methods and materials are specified in some of the incorporated applicable codes referenced on pages 1-2, including International Building Code (IBC). In addition, VHCB's HTF Rehabilitation Standards include language that provides detail on methods and materials. The rehabilitation standards address the following categories: health and safety; major systems; lead-based paint; accessibility; disaster mitigation; State and local codes, ordinances, and zoning requirements;

and inspectable areas and observable deficiencies from HUD's Uniform Physical Condition Standards identified by HUD as applicable to HTF-assisted housing.

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 procedures.

### **Refinancing Guidelines for HTF Projects**

Multi-family projects developed by locally based housing organizations that receive HTF funds for rehabilitation may utilize HTF 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 HTF affordability period shall be 30 years. All HTF assisted projects are required to remain affordable in perpetuity after the expiration of the HTF required period via a VHCB Housing Subsidy Convent;
7. HTF funds may be used for refinancing anywhere in the State of Vermont including the City of Burlington;
8. HTF funds cannot be used to refinance multifamily loans made or insured by any Federal program, including CDBG.