

Memorandum



TO: Economic Transformation, Stabilization & Workforce Development
Advisory Commission

FROM: Cheryl Cohen, Division Administrator, Commerce

DATE: October 20, 2021

SUBJECT: Gap Financing for Affordable Housing

Overview:

Montana Housing with the Department of Commerce will direct up to \$15 million of ARPA Section 602 funds under HB 632 Section 12(1) to ensure affordable housing in the development pipeline that has already received federal funding awards or Housing Credit allocations in prior years will be successfully completed. These funds will provide critical gap financing for projects experiencing significant development cost increases due to COVID-19 related worker shortages, supply chain disruptions, and price escalations in key building materials like lumber. These cost escalations have jeopardized the financial feasibility of these projects, and gap funding is critically needed to ensure affordable housing developments that the state of Montana has already invested in will be successfully completed and placed in service.

Allocation Request and Deadlines:

To ensure prompt delivery of funds to meet immediate needs of projects under development, we recommend the Advisory Commission take action during the October 27, 2021 meeting to approve the allocation recommendations – see table on page 4 - from Montana Housing for the \$15 million of ARPA Section 602 approved for affordable housing gap financing on August 12th, 2021. Montana Housing will work with the Executive branch and budget office to rapidly deploy funds to impacted projects.

Structure:

Gap financing grants will be administered via an executed contract to an associated nonprofit of the project. The nonprofit will then determine the appropriate grant or loan structure on a project-by-project basis. These nonprofits are familiar with federal reporting guidelines and will act as the subrecipient for Treasury monitoring requirements. Commerce and Governor's office legal counsel have reviewed and approved the written contract as compliant with ARPA Section 602.

Montana Housing will also utilize expertise of our long-standing outside legal counsel to ensure deployment of grant funds will adhere to Treasury requirements. The Montana Housing staff and legal counsel have prior experience deploying funds under the 2009 American Recovery and Reinvestment Act via a written program agreement. The 0.5 FTE "resource needed to execute" approved with this allocation of funds will assist in adhering to the Compliance and Reporting Guidance of the State and Local Fiscal Recovery Funds released by the U.S. Department of the Treasury.

Eligibility:

Eligible applicants were limited to affordable housing projects in the Montana Housing development pipeline previously allocated Housing Credits (9% or 4%) or awarded HOME or Housing Trust Fund (HTF) funds. Priority was given to the seventeen (17) projects that responded to the July 2021 COVID-19 gap financing need survey. Developers were asked to submit an updated Uniform Applications, documenting the shortfall the project is experiencing, describing steps the development team has taken to fill the funding shortfall and identify the remaining gap financing request needed to successfully complete the project. In accordance with ARPA Sec. 602 requirements, eligible costs for gap funds are limited to those incurred during the “Covered Period” beginning March 3, 2021. Montana Housing staff assessed the updated Uniform Application, developer narratives and documentation to verify the shortfall identified and then determined the amount of gap financing needed to ensure the project’s financial feasibility.

Application and Verification:

Fifteen (15) of the seventeen (17) projects that responded to the July 2021 COVID-19 gap financing need survey submitted the required documents for review by Montana Housing staff by the established September 15, 2021 deadline. Seven (7) of these projects also submitted requests for additional HOME or HTF funds. The two projects that did not submit application were ultimately able to resolve their gap financing needs. Montana Housing staff assessed the updated Uniform Application, developer narratives and documentation submitted to verify the shortfall identified and determined the amount of gap financing needed to ensure the project’s financial feasibility.

Based on the gap financing requested, three (3) projects with prior Housing Credit allocations now have Total Per Unit Costs exceeding the \$280,000 per unit limitation in the Housing Credit Qualified Allocation Plan. These projects include the 200 unit project in Missoula County, 19 unit project in Yellowstone County and the 38 unit project in Yellowstone County. Waiver requests to exceed the \$280,00 per unit limit up to a \$320,000 limit were submitted to the Montana Board of Housing. The Board voted at their October 18, 2021 to approve the staff recommendation permitting waiver requests up to \$320,000.

Due to a history of unique circumstances, one of these three projects is facing some challenges with regards to bringing costs within \$320,000 per unit limit under the approved waiver. The developer is exploring options, including project redesign to increase the number of units to spread costs. However, in the event this project – which is recommended to received \$2 million in ARPA gap financing – is not able to bring costs within the \$320,000 limit, Montana Housing would request flexibility from the Advisory Commission and executive branch to shift ARPA gap financing from this project to other project(s) not currently recommended for ARPA gap financing to potentially reduce the amount of additional HOME or HTF funds that may be awarded, thus preserving more HOME and HTF funds for new projects.

Applications for additional HOME and HTF funds are currently under review for those projects that are eligible for additional HOME and HTF funds. Awards of additional funds will be determined after completed staff reviews, with final decisions made by the Department of Commerce Director.

Equity:

These funds will ensure affordable housing projects in the development pipeline impacted by cost escalations due to the COVID-19 pandemic can be successfully completed to provide over 900 quality, affordable homes to Montana's lower wage workforce, seniors, and persons with disabilities – populations that have, in many cases, experienced disproportionate hardships under the COVID-19 pandemic. These projects include eligibility criteria such that the primary intended beneficiaries earn less than 60 percent of the median income for the relevant jurisdiction, to align with Treasury Compliance and Reporting Guidance on targeting funds towards economically disadvantaged communities.

Performance Metrics:

- Support development of over 900 affordable rental homes
- Leverage existing resources - Housing Credits (4% and 9%), HOME, and HTF
- Preserve current year Housing Credit, HOME and HTF funds for new development. Absent this allocation, a significant portion of current year funds will likely need to be directed to pipeline projects to ensure successful completion, drastically hindering production of critically needed new affordable homes.

Awarded projects will need to meet both HB 632 Section 27(2) Performance measures requirements and Department of U.S. Treasury [Coronavirus State Fiscal Recover Funds Compliance and Reporting Guidance](#). Montana Housing proposes the following generally applicable outcomes under HB 632 Section 27(2):

- Number of affordable homes completed
- Percent of ARPA 602 funds respective to total of all other project financing sources (leverage)

Treasury requires Project and Expenditure Quarterly and Annual Reports on projects funded, expenditures, and contracts and subawards over \$50,000:

- Projects: Project Name; Identification Number (created by recipient); Project Expenditure Category (3.10 Housing Support: Affordable Housing); Description; Status of Compliance
- Expenditures: Current period obligation; Cumulative obligation; Current period expenditure; Cumulative expenditure
- Project Status: Not Started; Completed less than 50 percent; Completed 50 percent or more; Completed
- Project Demographic Distribution: Physically located in Qualified Census Tract (QCT); Primary intended beneficiaries live within a QCT; Eligibility criteria of intended beneficiaries earn less than 60 percent of median income; Eligibility criteria of intended beneficiaries include 25 percent with income below federal poverty line

The above summary is not inclusive of all Treasury requirements. Montana Housing will coordinate with the Executive branch, budget office, legal counsel, and fund recipients to ensure all Treasury compliance and reporting guidance is met.

Recommendation:

Advisory Commission to recommend to the Governor to approve \$15 million in ARPA Section 602 under HB 632 Section 12(1) as gap financing for the following eleven (11) affordable housing projects. In accordance with the August 12, 2021 memo to the Advisory Commission, Montana Housing recommends funding be capped to \$2 million per project. Montana Housing staff will complete application reviews for the seven (7) projects requesting additional HOME or HTF funds, with recommendations for those funds presented to the Department of Commerce Director. In the event one or more projects is unable to proceed with the recommended ARPA funding, Montana Housing would request flexibility from the Advisory Commission and Executive branch to shift ARPA gap financing from one or more project(s) not currently recommended for ARPA gap financing, to one or more of the seven (7) projects requesting additional HOME or HTF funds.

Montana Housing's goal is to ensure all projects in the affordable housing development pipeline are successfully completed. Some projects may be better suited for an additional HOME or HTF award, rather than ARPA Section 602 funds.

Housing Type	Construction Type	County	Units	Gap Funding Requested	Gap Financing Recommended	Additional HOME Requested	Additional HTF Requested
Family	Acq/Rehab	Big Horn	43	\$1,580,483	\$1,580,483		
Senior	Acq/Rehab	Deer Lodge	74	500,000			Yes
Family	Adaptive Re-Use	Fergus	16	380,000		Yes	
Family	New	Flathead	38	280,000	280,000		
Family	Acq/Rehab	Hill	60	250,000			Yes
Family	Acq/Rehab	Hill	32	832,000	859,517		Yes
Family	New	Lake	24	210,000	210,000		
Family	Acq/Rehab	Lewis & Clark	44	400,000			Yes
Family, PSH	New	Missoula	200	2,500,000	2,000,000		
Family	New	Missoula	202	2,500,000	2,000,000		
Family	Adaptive Re-use	Park	37	520,000	520,000		
Family	New & Adaptive Re-use	Yellowstone	29	2,500,000	2,000,000		
Family	New	Yellowstone	19	2,000,000	2,000,000	Yes	
Family	New	Yellowstone	38	2,000,000	2,000,000	Yes	
Senior	Acq/Rehab	Yellowstone & Carbon	62	1,550,000	1,550,000		
Total	15 projects		918 units	\$18,002,483 requested	\$15,000,000 recommended	3 projects requested	4 projects requested

This is a final copy of the memo.