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**Louisiana Office of Community Development,
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Louisiana Recovery Authority

Action Plan Amendment # 21 (First Allocation)

Small Rental Program Advance Funding Amendment

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**Bobby Jindal
Governor**

**Mitch Landrieu
Lieutenant Governor**

**Angele Davis
Commissioner of Administration**

**Dr. Norman Francis
Chairman, LRA Board**

**Office of Community Development
301 Main Street, Suite 600
P.O. Box 94095**

Baton Rouge, LA 70804-9095

<http://www.LouisianaRebuilds.info>

<http://www.doa.louisiana.gov/cdbg/cdbg.htm>



Introduction

This Amendment replaces program descriptions previously published in the State's original Action Plan, Action Plan Amendment 1, Action Plan Amendment 4, Action Plan Amendment 11 and Action Plan Amendment 18. This Amendment replaces Section 3 of the *Road Home* Housing Plan and is to be considered current policy for all Workforce and Affordable Rental Housing Programs upon its publication.

3. Workforce and Affordable Rental Housing Programs

Approximately 82,000 rental housing units received major or severe damage in Hurricanes Katrina and Rita. Replacement of the damaged or destroyed rental housing in the hurricane ravaged areas is vital to the return of a strong workforce, and is a lynchpin of Louisiana's economic recovery. All sectors of the economy have reported a workforce shortage due to a lack of affordable housing. Rental housing stock is also imperative to support the return of the high proportion of residents that were renters prior to the storms, particularly in New Orleans, as well as the return of homeowners transitioning into repaired and rebuilt homes over the coming months.

With funds appropriated from Public Law 109-234, the second allocation to Louisiana, \$1,112,650,000 will be used for affordable rental housing programs, the vast majority of which will directly benefit households earning less than 80% of the Area Median Income. It is noted that this exceeds, by a substantial amount the required 19.33%, or \$811,907,984 required by HUD regulations as published on 10/30/2006. Moreover, the State is also committing a sizeable portion of its first disaster allocation to rental housing programs. All told, approximately \$1.5B of disaster CDBG funds will be devoted to affordable rental housing programs. These CDBG funds are also leveraging the federal allocation of Gulf Opportunity Zone Low Income Housing Tax Credits, which are expected to generate an additional \$1.7 billion in tax credit development equity. The combined net result is an estimated \$3.2 billion for affordable rental housing recovery efforts.

The Road Home Workforce and Affordable Rental Housing Programs have four broad goals:

- To ensure that the workforce needed to accommodate full economic recovery has access to affordable rental housing;
- To provide affordable rental housing to low income households who could not otherwise afford to return to their communities;
- To ensure that affordable rental housing is provided in the context of high-quality, sustainable, mixed-income communities; and

- To ensure that a portion of affordable rental units will host supportive services for families with special needs or high risks following their extended displacement.

To achieve these goals, the programs described below will serve a range of households, including some “deeply affordable” units targeted to households earning between 20% and 40% of the Area Median Income, as well as a range of units for other low income households, including working families earning less than 60% of Area Median Income, and moderate income units targeted for households earning up to 80% of the area median income. Low income units created in conjunction with the Tax Credit program will remain affordable for at least 20 years.

These programs are also designed to ensure that a significant portion of these affordable units are created within mixed income settings. Mixed-income communities will be created by fostering market rate rental units in properties that also serve a range of low income households or by supporting single family homes in the same development with a range of affordable and deeply affordable rental units, for renters 20% to 60% of the area median income.

3.1 Low-Income Housing Tax Credit (LIHTC) “Piggyback” Program

The LIHTC-CDBG program (referred to as the “Piggyback” program in the Louisiana Recovery Administration Action Plan) supports affordability for low-income Louisianans primarily in properties receiving Low Income Housing Tax Credits (LIHTC), which are allocated by the Louisiana Housing Finance Agency (LHFA). Furthermore, GO Zone LIHTC benefits are also being targeted to those parishes which suffered the most damaged or destroyed rental properties as described for the Workforce and Affordable Rental Housing programs above.

Through the Piggyback program, the State is seeking to promote the following types of rental housing units:

Workforce Housing Units. Including *market-rate units*, units initially affordable to households with incomes below 80% of AMI and *units affordable to (and restricted to occupancy by) households with incomes below 60% of AMI.*

Additional Affordability Units. OCD and LRA seek to facilitate development of units affordable to (and restricted to occupancy by) households with incomes at or below 20% of area median income (“AMI”), hereinafter referred to as “20% AMI Units;” 30% of AMI, hereinafter referred to as “30% AMI Units;” 40% of AMI, hereinafter referred to as “40% AMI Units.”

Permanent Supportive Housing (“PSH”). OCD and LRA also seek to facilitate the development of permanent supportive housing for a variety of households including extremely low income people (30% of AMI and below) with serious and long term

disabilities, and/or who are homeless and/or who are most at-risk of homelessness. OCD and LRA will pursue several PSH strategies:

The primary strategy is a PSH Set-Aside Program, under which all properties that receive 2007-2008 GO Zone Credits will agree to make at least 5% of total units available to PSH clients, who will be supported by appropriate services (provided through local agencies using CDBG funds).

An additional strategy is development of PSH properties (in which at least 15% of units are designated for PSH clients). PSH clients will be supported by appropriate services (provided through local agencies and the property's sponsor using CDBG funds). Permanent supportive housing is an "evidenced-based" best practice housing model which provides affordable rental housing units in a non-institutional setting linked with flexible community-based supportive services. It is anticipated that a significant number of PSH units will be created in PSH developments due to the priority granted through LHFA's QAP and the availability of additional Piggyback funding. In addition, it is certain that a significant number of PSH units will be created through "set aside" requirements in non-CDBG assisted GO-Zone LIHTC developments, as well as in other governmentally assisted affordable housing developments that are not receiving 2007-2008 GO-ZONE credits, including projects receiving tax exempt bond financing and/or other CDBG assistance such as the Small Rental Program.

In addition, as noted above, the Piggyback Program in accordance with the second supplemental appropriation (PL 109-234) - places a special emphasis on the rehabilitation of damaged Public Housing developments and other HUD assisted housing developments affected by Hurricanes Katrina and Rita. This program will also address the special housing challenges faced by people with disabilities by ensuring that all buildings comply with Section 504. Also, as noted earlier, all LIHTC developments within the 2007 and 2008 GO Zone LIHTC rounds have been required to set aside at least 5 percent of their units as Permanent Supportive Housing for people with special needs.

Financing Tools

To support these goals, OCD will make available the following types of financial assistance:

Louisiana Project Based Rental Assistance –operating support funding in the form of Project Based Rental Assistance will be available for units affordable to households with incomes below 40% of AMI. This subsidy will be a key tool in making governmentally assisted rental developments (including those with 2007-2008 GO Zone tax credits as well as those without tax credits) affordable to households in need of Permanent Supportive Housing (PSH). While most affordable housing development initiatives do not provide units with rents below 30% of 50% of Area Median Income (AMI), PSH households generally require a rent at or below 30% of 30% of AMI. In addition, the State may provide additional operating assistance to selected units receiving GO Zone tax credits that prove to be unable to fully cover the difference between the approved rental limits and the actual costs to operate the housing -- due to disaster related increases in operating costs such as property insurance.

Louisiana Mixed Income Flexible Subsidy –financial support for Mixed Income

units primarily in 2007-2008 GO Zone developments, but also in other governmentally assisted rental housing developments including those receiving tax exempt bond financing and four percent LIHTC.

Louisiana Additional Affordability Gap Financing -- gap financing for Additional Affordable units in rental housing developments receiving 2007-2008 GO Zone Tax Credits or other governmental assistance including projects financed through tax exempt bonds and four percent LIHTCs.

Louisiana Permanent Supportive Housing Gap Financing -- gap financing for Permanent Supportive Housing (PSH) units in affordable housing developments receiving 2007-2008 GO Zone Tax Credits or other governmental assistance including projects financed through tax exempt bonds and four percent LIHTCs.

Allocations of Piggyback Program dollars among these financing options will be determined based upon the responses to the GO Zone QAP and subsequent public offerings of CDBG funding. These responses, in turn, will be shaped by current development costs and anticipated operating costs for rental projects.

Note: Louisiana Supportive Services Grants, which are contained in a separate funding category, will be devoted to all PSH units developed through the Piggyback Program and will be a significant part of the Piggyback initiative. As explained in the following section, these funds pay for the cost of supportive services for occupants of PSH units.

In order to ensure that units created through the Piggyback program are readily available to returning households, the State will require that developers promote their available units through the Rental Housing Registry, available online at www.LAHousingSearch.org.

Additional Information

Additional information on the Piggyback Program can be found in the draft program design document posted on the Office of Community Development's website at www.state.la.us/cdbg/DRactionplans.htm.

3.2 Services Funding for Supportive Housing

Louisiana will use CDBG funds or other available financial resources to fund supportive services for approximately 3,000 units of Permanent Supportive Housing (PSH). The principal mechanism to develop this housing is the Piggyback program and each unit of Permanent Supportive Housing that is produced through this program will receive a full allocation of supportive service funding. Other Federal programs such as the McKinney Vento Act, Project Based Section 8 Vouchers, Section 811, Section 202 and State operated programs such as the Small Rental Property Program will also be utilized to increase the supply of PSH units eligible to receive these service dollars.

The supportive housing units will serve individuals and families with special needs, most importantly, renter households who are returning to Louisiana after enduring, very often, traumatic relocations from shelter to shelter, to hotels, and to other temporary living arrangements in other cities. Supportive housing units are also needed for returning families and individuals who are disabled, frail elderly, or have other special needs.

This program component and use of CDBG funds for supportive services is proposed with the recognition that the number of supportive housing units that can be developed in Louisiana over the next few years will be severely limited by the scarcity of public and private funding for the necessary resident services.

3.3 Small Rental Property Program

Before the disaster, a large portion of low income and other working families lived in small rental properties - single-family homes, “doubles” and small, multi-family buildings - that were owned and operated by small-scale owners. A sizeable number of these properties were underinsured or uninsured and no longer available for occupancy. The State will provide up to \$867,000,000 in financial assistance to small rental property owners so that they may effectively return an estimated 18,000 affordable and “ready to be occupied” units to the rental housing market.¹ The primary purpose of this financing program is to enable small-scale rental properties to return to the market while limiting the amount of debt (and therefore debt service) required for the properties so that the owners are able to charge affordable rents. By limiting the rents that may be charged in these properties, the State seeks to ensure that the participating units will be affordable to households who would otherwise not be able to find housing in a tight market. In addition, it is hoped that the return of offline units will increase the available supply of housing thereby engendering an overall reduction in the going market rates for housing. This Action Plan Amendment clarifies and updates the program description that was previously published as part of the Road Home Action Amendment #11.

The Small Rental Property Program will, on a competitive basis, offer incentives in the form of forgivable loans to qualified owners who agree to offer apartments at affordable rents to be occupied by lower income households. Subsidies will be provided on a sliding scale, with the minimum subsidy provided for units made available at affordable market rents (rents affordable to households with incomes at or below 80% of median) and the maximum amount of subsidy going to units affordable to families with incomes at or below 50% of AMI. In addition to funding incentives for providing affordable units in small rental properties, the program encourages owners to provide their tenants with units that are less susceptible to damage from natural events.

In keeping with the priorities established under the above introduction to Section 3 of this Action Plan: **Workforce and Affordable Rental Housing Programs**, the Small Rental Property Program will also seek to ensure that a significant percentage of the units

¹ The number of units assisted will depend on the average amount of subsidy per unit. In general, the more affordable the rents, the higher the subsidy per unit, and the fewer total units that will be funded.

assisted through the Program will be available as Permanent Supportive Housing (PSH) for households with special needs or high risks following their extended displacement.

Eligible properties for the Small Rental Property Program will be selected based upon a preference for properties located in well-designed residential communities and in neighborhoods that are prioritized by local redevelopment plans. Each application will be reviewed by program staff in light of selection criteria to be developed by the State and based on the proposed project costs. The State reserves the right to negotiate with applicants to seek the best possible outcomes for each project while preserving valuable incentive funds.

In exchange for accepting financial incentives, property owners will be required to accept limitations on rents (with inflation clauses) and incomes of renters for a period ranging between 3 and 20 years, to assure that the assisted housing remains affordable and is occupied by families with incomes corresponding to several tiers of affordable rents. The amount of CDBG financing available will range from \$10,000 to \$100,000 per unit (with the highest awards available only where special circumstances warrant this level of assistance). In general, higher per unit amounts will be available to property owners who agree to offer lower rents to reflect the lower amount of rental income these properties will receive and their more limited ability to retire debt service. The assistance will be offered as deferred payment loans at 0% interest, due only upon resale of the property (prior to the expiration of the affordability period) or failure to comply with the agreed-upon restrictions on rents and household incomes (during the affordability period).

Unlike the *Road Home* Homeowner Assistance Program, funds for the Small Rental Property Program will be insufficient to provide every eligible property owner with enough money to return their rental units to service at affordable rent levels. Prioritization of properties that will be selected for assistance will be based on factors including, but not limited to, the following:

- Property owners demonstrating readiness to provide an acceptable unit in a timely fashion.

Note: The incentive structure of the award will also result in funds flowing to those owners with the financial and technical capacity to provide and maintain quality housing. In order to maximize the number and the quality of the units offered through SRPP, the program will endeavor to increase the capacity of program participants to provide and maintain units that will serve as decent safe places for tenants to reside.

- Properties that are cost-effective to bring back into service, and located in areas that have adequate infrastructure, amenities, and redevelopment activities occurring.

- Properties held by small-scale owners where rental revenue constituted a substantial portion of household income and/or assets so long as these investor-owners meet the threshold requirements for capacity necessary to return their units to service, and then manage their units.
- Small property owners and Louisiana residents and businesses.

Eligible properties include:

- Small Rental Properties
- Small Owner Occupied Properties with one or more rental unit

It is anticipated that the majority of buildings assisted through this program will be between one and four units, though multiple properties under the same ownership (whether they are scattered or contiguous) may be eligible to receive incentive awards as a single, larger project if practical.

In order to promote the rapid restoration of as many damaged units as quickly as possible in the wake of the Storms, and in direct response to the difficulties many owners are having in obtaining bridge financing, the State may, where warranted, “advance” SRPP incentive funds to benefit eligible projects either in the form of a CDBG funded loan guarantee to inspire banks to provide interim financing to participating owners - or if necessary - in the form of direct CDBG advances on incentive awards prior to the completion of the project.

The primary advance funding mechanism will be to establish CDBG funded “loan loss reserve funds” or “loan guarantee funds” to spur private lenders to provide “bridge” or interim financing to SRPP owners that they would not ordinarily serve for reasons such as low credit scores, low incomes, or low loan to value ratios. The loan guarantee structure will have the result of getting funds into owners’ hands at an earlier stage while limiting the State’s liability by requiring lending institutions to take a portion of the risk. This structure has the additional advantage of tapping the skills and resources of the private lending industry and will involve existing lending institutions where owners may have existing relationships. Such reserve/guarantee funds will only be used to support loans for eligible owners in receipt of SRPP Incentive awards, and before being eligible for this advance funding initiative, owners would first need to demonstrate that they had been rejected by a participating lender and did not meet the standard lending requirements established by the SRPP participating lenders for loans NOT backed by a State guarantee.

If the Loan Guarantee initiative does not result in an adequate number of participants receiving the bridge financing they need, the State – or its designated agent – may supplement this effort by providing direct advances to qualified participating owners. Any such advances would be discretionary and recipients of standard incentive awards would not be entitled to advance funding. Applications for “advance” funding would be underwritten by the SRPP based on the feasibility and viability of the project as presented by the applicant – i.e. can the rental units reasonably be expected to be delivered within the available funding – (1) the owner’s own contribution, and (2) the

advance funding provided by the State. The State's advance funding would be limited by the program guidelines established for the standard Incentive Program above – i.e. funding would range from \$10,000 to \$100,000 with (with the highest awards available only where special circumstances warrant this level of assistance). In general, higher per unit amounts will be available to property owners who agree to offer lower rents to reflect the lower amount of rental income these properties will receive and their more limited ability to retire debt service.

In keeping with the SRPP program rules established in Rounds One and Rounds Two, both loan guarantees and direct advances would be subject to the following restrictions. Eligible Properties would necessarily be limited to one to four unit properties and owners would be limited to Louisiana residents or corporations. Additionally, eligible owners for these initiatives would be limited to owners with fewer than 20 units – Small Owners. The affordability and occupancy of the owners units would be bound by the same requirements contained in their original incentive awards – e.g. If an owner elected to provide 2 units at affordable rents to households initially earning less 50% of AMI, he would be required to maintain those rents and incomes or be held in default of his “advance loan agreement”.

In light of the rules governing Federal disaster recovery programs and the use of CDBG funds, these “advance incentive loans” may also be subject to additional requirements not generally applicable to standard SRPP Awards. For example, unless expressly allowed by the United States Department of HUD, owners' may not be able to receive ANY advance funds until they have cleared Federal environmental review and have demonstrated that they will be using Lead Safe Work practices, including securing a Lead Certified contractor. Advance awards may also be subject to “duplication of benefit” tests – unless determined otherwise by the Federal authorities. Consequently advance funding could be limited in amount depending on the amount of other funding the owner had received to support his rehabilitation – e.g. Insurance Proceeds, SBA loans etc.

Obviously, any direct advances of CDBG incentive funds made to an applicant serve to reduce the State's commitment to provide the funds upon completion of the project – i.e. owners would NOT be allowed to receive “double” funding through the Advance Funding and the Standard Funding components of the SRPP Incentive Award. *For instance, an owner with a \$50,000 standard SRPP incentive award who subsequently receives a \$50,000 “advance funding” incentive loan from the SRPP would not be eligible for an additional \$50,000 upon completion. It is possible that an owner would only be eligible for a partial advance award (for example, \$30,000) that is smaller than the full amount of their standard Incentive Award (for example \$50,000) he has been promised. In this case, the owner would receive the partial advance upfront and the remaining balance (i.e. the difference between these two award amounts or in this case, \$20,000) upon completion of the unit and fulfillment of his original Incentive Requirements.*

Note: Owners of doubles (2-unit properties) who rent one unit and live in the other must decide whether they will receive compensation through the Road Home Homeowner

Assistance Program or through the Small Rental Property Program. If the Road Home Homeowner Assistance Program is chosen, the full double-unit structure will serve as the basis for calculation of assistance up to the program cap of \$150,000. If the owner elects to compete for funds from the Small Rental Property Program and is selected, the property is eligible for assistance for all eligible rental units, but is subject to the caps and limitations stated above. Owner occupants who own and live in 3-4 family homes will be eligible to compete for assistance through the Small Rental Property Program. They will be eligible to receive a separate compensation award on the unit they live in as well as a rental incentive award for all of the eligible rental units on their property – based on the affordable rents they are committing to provide. The award from the Small Rental Property Program for their owner-occupied unit will be a pro-rated amount of the total property, with assistance available up to \$150,000 for that unit.

The State is committed to promoting homeownership opportunities for low and moderate income households. The LRA and the OCD are working with the Louisiana Housing Finance Agency (LHFA) and other partner agencies to promote the use of funding from the HOME program and other available sources including Mortgage Revenue Bonds to foster first time homeowner initiatives. In addition, the Small Rental Property Program will be structured in such a way as to accommodate the participation of potential homebuyers (including existing tenants) who are receiving homebuyer assistance through other programs. In order to assist additional homebuyers, the State will develop its own pilot program(s) to provide incentives, not only to encourage the return of damaged properties, but also incentivize the conversion of these properties to owner-occupied housing. For example, a Lease-Purchase Pilot Program would allow an owner to sell a repaired one-family or two-family property to a low- or moderate-income homeowner, rather than rent the home. A Homebuyer Assistance Pilot program would allow low- and moderate-income households to purchase one-family and two-family properties that are “ready to occupy”, as well as un-repaired one-family and two-family properties where the purchaser would carry the home through the repair process. For purposes of the pilot program, participating properties must either be (1) those (formerly rental or ownership) properties that received severe or major damage through the storms of 2005 or (2) properties located in locally designated redevelopment zones. Creating first-time homebuyers would be a priority, but the pilot program may also serve buyers who have previously owned homes but currently do not own their own home. Homeowners who are exercising the "sell" or "relocate" option under the Road Home Homeownership Program are not eligible to receive additional financial assistance from the State through these pilot programs. Pilot programs will be expanded if successful in using funding from the budget for the Small Rental Assistance Program as well as other sources that may become available.

Participants in the pilot programs as well as owner-occupants of small rental properties may have access to expert real estate advisors to assist them to understand the program’s procedures and better meet the program’s obligations to deliver an acceptable unit in a timely fashion.

This amendment also clarifies that, in keeping with the program guidelines for the Community Development Block Grant program and the incentive structure of the

program, the State's primary focus will be on the affordability and quality of the units that are being restored. Consequently, the State will not preclude or discriminate against recipients of incentive awards who have found it practical to utilize reconstruction as a means to providing an acceptable unit that is feasible and sustainable for the foreseeable future.

Small Rental Property Program funds will be distributed geographically (by Parish) in direct proportion to the number of rental units damaged by Hurricanes Katrina and Rita, based on FEMA Rental Units with "Major" or "Severe" Damages. Applications for assistance will first be sorted by Parish and then scored. Funding reservations will be issued, by Parish, to each project that meets the minimum threshold score, up to the number of projects that can be funded within the Parish's dollar allocation. If there are unallocated funds remaining in a Parish's allocation pool after all of the projects that meet minimum score have been funded in a single round, these funds may be "forward allocated" for qualifying projects in other eligible Parishes. However, these funds will be "charged against" the receiving Parish's total allocation and so will not reduce the overall amount that is available to the Parish that experienced a shortage of applications.