

# **COUNTY OF KAUAI**

## **NATIONAL HOUSING TRUST FUND PROGRAM**

### **ALLOCATION PLAN**



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## **I. INTRODUCTION**

The National Housing Trust Fund (“HTF”) was created under Title 1 of the Housing and Recovery Act of 2008, Section 1131 (Public Law 110-289) and is administered by the U.S. Department of Housing and Urban Development (“HUD”). The regulations which govern the HTF are contained in 24 CFR Part 93, Housing Trust Fund. The purpose of HTF is to provide grants to State governments to increase and preserve the supply of decent, safe, and sanitary affordable housing for primarily extremely low-income (30% AMI) households.

## **II. STATE ALLOCATION PLAN**

The Hawaii Housing Finance and Development Corporation (HHFDC) is a designated HTF Grantee for the State of Hawaii. HHFDC’s HTF Allocation Plan has received approval from HUD for allocating HTF funds to the counties. HHFDC’s Allocation Plan requires HTF projects to be selected and awarded through an HTF Application issued by the counties. The County of Kauai (“County”) is a designated HTF Subgrantee.

## **III. DISTRIBUTION OF FUNDS**

The County will receive an allocation of \$3,557,201.85 in PY 2022 HTF funds. The HTF allocation includes \$3,369,980.70 in program funds, and \$187,221.15 for administrative and planning expenses. The County’s Consolidated Plan identifies a substantial need for new affordable rental housing. Consequently, the County will invest PY 2022 HTF funds for rental housing activities. The County expects to implement rental projects through a third-party Recipient (e.g., owner; developer) that meets the eligibility requirements described herein. The annual distribution is described below:

- a. County will retain \$187,221.15 of the HTF annual allocation for allowable administrative and planning expenses.
- b. The balance of the HTF annual allocation will be provided to Recipient(s) selected through the County’s HTF Application.
- c. The HTF Program requires the commitment of funds within 24 months of HUD’s execution of the HTF Grant Agreement. In order to meet this requirement, the County must commit funds by the commitment date established in the Subgrantee Agreement.

#### **IV. ELIGIBLE ACTIVITIES AND EXPENSES**

Rental Housing – County will focus HTF funds on providing affordable rental housing to 30% AMI households. HTF funds may be used for the production, preservation, and rehabilitation of affordable rental housing through the acquisition, new construction, reconstruction, or rehabilitation of nonluxury housing with suitable amenities.

All rehabilitation projects must meet applicable HTF rehabilitation standards and the requirements of 24 CFR 93.301(b). However, inasmuch as the County intends to expend PY 2016 HTF only for the new construction of rental housing.

Eligible HTF activities and expenses include: real property acquisition, site improvements and development hard costs, related soft costs, conversion, demolition, financing costs, relocation assistance, operating cost assistance and reasonable administrative and planning costs for HTF program administration.

#### **V. ELIGIBLE RECIPIENTS**

An organization, agency, or other entity (including a public housing agency, or a for-profit entity, or a nonprofit entity) is eligible to apply for HTF assistance as an owner or developer to carry out an HTF-assisted project. An HTF Recipient must:

- a. Make assurances to the County that it will comply with the requirements of the HTF program during the entire period that begins upon the selection of the recipient to receive HTF funds, and ending upon the conclusion of all HTF-funded activities;
- b. Demonstrate the ability and financial capacity to undertake, comply and manage the eligible activity;
- c. 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
- d. Have demonstrated experience and capacity to conduct an eligible HTF activity as evidenced by its ability to own, construct, or rehabilitate, and manage an affordable multifamily rental housing development.

#### **VI. CONSOLIDATED PLAN PRIORITY**

A 5-Year Consolidated Plan (2020-2025) has been adopted by the County of Kauai to address the County's housing needs and strategic plan. The County has amended the PY

2022 Annual Action Plan to include this HTF Allocation Plan and selected project(s) for

PY 2022 HTF funding.

## **VII. APPLICATION AND AWARD PROCESS**

Applications for the HTF are issued, accepted and selected by the County for project funding consideration, subject to the availability of funds. Applications are reviewed for eligibility and are rated using the selection criteria. Each application must describe the eligible activity to be conducted with HTF funds and contain a certification by the eligible Recipient that housing units assisted with HTF will comply with the HTF requirements.

In addition, Recipients must provide performance goals and benchmarks that the County can use to monitor efforts to accomplish the rental housing objectives. Rental housing projects may provide tenant preferences in accordance with 24 CFR 93.303, if provided for in the County's consolidated plan. Any limitation or preference must not violate nondiscrimination requirements in 24 CFR 93.350.

Based on the County's PY 2022 HTF project selection, no identifiable tenant preferences are provided with this Allocation Plan.

### Minimum Thresholds:

Applicants must meet all the following Minimum Threshold requirements to receive consideration for an allocation or award of HTF. Failure to meet any Minimum Threshold shall result in the immediate rejection of the application.

1. Market Assessment - A market assessment of the housing needs of extremely low-income individuals to be served by the project must be submitted as a part of the application. The assessment should review the neighborhood and other relevant market data to determine that there is a current demand for the type and number of housing units being developed.
2. Site Control – Evidence of site control shall be submitted with the application for HTF funds. Site control shall be substantiated by providing evidence in the form of an executed lease or sale option agreement, fee simple deed, executed land lease, or any other documentation acceptable to the County. Evidence of site control must be provided for all proposed sites.
3. Capital Needs Assessment (For projects acquiring an existing property) – A Capital Needs Assessment of the property shall be submitted with the application. A Capital Needs Assessment is a qualified professional's opinion of a property's current physical condition. It identifies deferred maintenance, physical needs and deficiencies, and material building code

violations that affect the property's use, structural and mechanical integrity, and future physical and financial needs. A Capital Needs Assessment shall identify any work that must be completed immediately to address health and safety issues, violation of Federal and State law, violation of local code, or any work necessary to ensure that the building can continue to operate as affordable housing.

4. Proforma Criteria:

- a. Debt Service Ratio (DSR) for Projects with hard debt service requirements:
  - i. Project is required to evidence a DSR of no less than 1.15x on all hard debt service requirements for the first 15 years.
- b. Debt Service Ratio for Projects with no hard debt service requirements:
  - i. Project is required to evidence a positive Net Operating Income throughout the 30-year pro forma period.
- c. Hard Debt Service Requirement:
  - i. Defined as scheduled regular and periodic principal and/or interest payments of project loan obligations made for its direct benefit, as evidenced by a note and loan agreement.
- d. Applicants are required to support all hard debt service loans and terms with executed lenders' commitment letters, letters of interest, or term sheets.

5. Underwriting Criteria and Requirements:

- a. Applicants are required to use the following parameters and assumptions in the preparation of the project pro forma:
  - i. Annual Income Inflation Rate of 2% for first 15 years and Annual Expense Inflation Rate of 3% for first 15 years, or term of the first mortgage, whichever is greater.
  - ii. Annual Income Inflation Rate of 2% and Annual Expense Inflation Rate of 2% for the remaining term of affordability.

- iii. Vacancy Rate of no less than 5%.
  - iv. Annual Replacement Reserve Allocation of no less than \$300 per unit per year.
6. Phase I Environmental Site Assessment – All proposed multifamily (more than four housing units) HTF projects require a Phase 1 Environmental Site Assessment. For acquisition/rehabilitation projects, the Phase 1 Environmental Site Assessment should address lead-based paint and asbestos.
  7. Developer Fee – For new construction, the maximum developer fee is 15% of total development costs or \$3,750,000 (whichever is less). For acquisition/rehabilitation, the maximum developer fee is 10% of the acquisition costs and 15% of the rehabilitation costs, or \$3,750,000 (whichever is less).

## **VII. SELECTION CRITERIA**

The following selection criteria shall be used in the evaluation of HTF Applications:

- a. Timeliness and Readiness to Proceed (Max. 30 pts.) – The proposed project is feasible and will meet the required timelines to commit and expend HTF funds. Factors to be considered for timeliness and readiness are site control, financial commitments, environmental factors, zoning, utilities and site and neighborhood standards;
- b. Consolidated Plan Priorities (Max. 10 pts.) – The extent to which the project proposes accomplishments that will meet the rental housing objectives for the County. Other factors are considered, such as where the project is located in proximity to transit or employment centers, and housing that includes green building and sustainable building features or housing that serves special needs populations;
- c. Development Experience and Financial Capacity (Max 25 pts.) – Applicant's ability to obligate HTF dollars and undertake funded activities in a timely manner, past performance using federal funds, evidence of experience in developing and managing projects of similar type and scope, staff qualifications, fiscal soundness, and qualifications of the proposed project team, including proven record of experience with comparable projects;

- d. Financially Feasible Project (Max. 25 pts.) – Project pro forma to cover a minimum 30-year HTF affordability period and include rents that are affordable to extremely low-income households. Priority to be given for projects with extended affordability periods and project-based rental assistance; and
- e. Use of Non-Federal Funding Sources (Max. 10 pts.) – For extremely low-income targeting of 30% AMI, other funding sources compatible with HTF are needed. Priority consideration will be given to the extent HTF leverages non-federal funding sources.

A minimum score of 50 points (out of the 100 total points) must be scored to be recommended for the award of HTF funds. Successful Recipient(s) will receive a Notice of Award, which will state that the County's intent to award HTF funds is subject to approval by the approving authorities of the County, HHFDC, and HUD.

- f. Maximum Per-Unit Development Subsidy Limits – Each year, HHFDC must establish maximum limitations on the total amount of HTF funds that may be invested per-unit for development of non-luxury rental housing projects. The HOME Program Maximum Per-Unit Subsidy Limits have been adopted for the HTF program. The development costs of affordable rental housing across the state are generally higher in comparison with the HOME subsidy limits. However, due to the limited funding, the HTF projects will require leveraging with other significant sources of funds. The HOME subsidy limit provides a reasonable maximum to develop a greater number of HTF assisted units throughout the state.

To allow greater flexibility, the maximum per-unit subsidy limits for HTF will be set at HUD's Public Housing Total Development Cost Limits (TDCs) for elevator structures, in effect at the time of commitment of HTF funds.

The current HTF limits are shown in the chart below:

Bedrooms	Maximum Per-Unit Subsidy Limit As of April 24, 2022
0	\$196,026
1	\$274,436
2	\$352,846
3	\$470,462
4+	\$588,077