Local Innovative Fast Track Program (LIFT)

OREGON HOUSING and COMMUNITY SERVICES

Program Manual

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Introduction

The Local Innovation and Fast Track (LIFT) program was established in statute[1] to expand the supply of affordable housing in Oregon. LIFT Homeownership funds are made available through a streamlined competitive Notice of Funding Availability (NOFA). LIFT Rental funds are made available through the Oregon Centralized Application (ORCA).

Program Goals

The primary goals of the LIFT program are to increase the supply of affordable housing for both rental and homeownership opportunities in historically underserved communities, including communities of color and rural communities throughout Oregon.

Secondary goals of the LIFT program are to place affordable housing units in operation as quickly as possible, while serving families earning at or below 60% Area Median Income (AMI) through rental housing and families earning at or below 80% AMI through homeownership housing. This includes lending resources for the construction and permanent financing of projects or just as permanent financing to take out a construction loan. LIFT investments to increase the supply of affordable housing are made to support new construction, conversion of buildings into new housing, or to acquire like-new market rate rental housing. LIFT also encourages projects to focus on service connections including but not limited to those from:

1. Community Action Agencies
2. Coordinated Care Organizations
3. Culturally specific organizations[2]
4. Culturally responsive organizations[2]
5. Homeownership Centers

Measurable Outcomes

Measurable outcomes of the LIFT program are determined by reviewing the increase in affordable housing inventory; measured by the supply of affordable units in rural communities as well as how many affordable housing units are available to serve communities of color.

LIFT Homeownership

OHCS Homeownership has also implemented construction cost evaluation, measured through comparison of the construction costs for projects funded with LIFT proceeds to traditional housing construction, such as RS Means, as another measurable outcome of the program.

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[1] ORS 458.485

[2] See Glossary at end of manual.

LIFT Rental

LIFT Rental evaluates applications using the standards and processes in the ORCA.

Serving Communities of Color

To meet the legislative intent of LIFT and to further OHCS' policy priorities around racial equity, all projects, in both rural and urban areas, are to serve communities of color. OHCS recognizes that these approaches may look very different in urban communities, which could have a larger array of culturally specific or responsive developers or service providers in close proximity, than in rural communities where such organizations may not be as present. Furthermore, we are aware that some communities are more diverse than others and the outreach strategies must be tailored appropriately. Any approach that is chosen must include intentional and meaningful engagement of communities of color in services planning for the development.

Service to communities of color can be achieved in a number of ways and should be relevant to the community in which the project is located, and the focus population anticipated to be served. It might include such things as:

- An ongoing service partnership with a culturally specific or culturally responsive organization
- A project explicitly designed and located to address displacement of communities of color
- Agreements with area service providers to engage in culturally appropriate services for residents
- Project building design influenced and informed by the community or communities the project is serving.

Additionally, each project will be required to submit a relevant marketing and outreach plan designed to publicize the availability of new housing opportunities created by the project to communities of color in the applicant's service area, to address any barriers that communities of color might encounter in applying for and accessing housing, and to help OHCS affirmatively further fair housing[3].

Serving Rural Communities

Predating the Statewide Housing Plan, rural communities were named in the statute creating LIFT as a historically underserved community. As such, fifty percent of LIFT funds will be set-aside specifically for projects located in rural communities. These projects are also required to serve communities of color, as mentioned above. Culturally responsive resources that foster connections with communities of color in rural areas are less likely to be stand-alone organizations. Instead, culturally responsive services and resources may be part of the array of services offered through organizations that serve the broader community and have connections to provide support to communities of color, for example places of worship, community centers,

[3] For further information see Title VIII of the Civil Rights Act of 1968, 42 U.S.C. 3608 and Executive Order 12892.

stores that sell culturally specific products, or engaging community agencies with outreach partnerships.

Funding Set-asides

There may be location specific set-asides for the LIFT program included in the Homeownership NOFA. Prior year set-asides have included:

1. Urban Communities – 25% of LIFT Funds

   Defined as: All jurisdictions within the Portland Urban Growth Boundary, and jurisdictions with populations of 40,000 and above in the balance of the state.

2. Mid-Sized Urban Communities – 25% of LIFT Funds

   Defined as: Jurisdictions outside the Portland Urban Growth Boundary that are also located in counties within Metropolitan Statistical Areas with populations between 15,000 and 40,000

3. Rural Communities – 50% of LIFT Funds

   Defined as: Jurisdictions outside the Portland Urban Growth Boundary that are also located in counties within Metropolitan Statistical Areas with populations under 15,000, or jurisdictions with populations under 40,000 in the balance of state.

4. LIFT Rental will use the set-asides and definitions in the ORCA.

Alignment with Other OHCS Manuals

All projects that receive LIFT funds are required to adhere to OHCS' Minority, Women-owned, Emerging Small Business and Service-Disabled Veteran Business Enterprises (MWESB/SDVBE) Compliance Manual found here for Rental project: https://www.oregon.gov/ohcs/development/Pages/mwesb-sdvbe-rental-housing.aspx and here for Homeownership projects: https://www.oregon.gov/ohcs/homeownership/Pages/mwesb.aspx.

Rental project must adhere to the General Policy and Guideline (GPGM) Manual found here: https://www.oregon.gov/ohcs/development/Documents/admin/manual-general-policy-guidelines.pdf.

Program Requirements

Eligible Activities

LIFT funding can be used to increase the number of net affordable housing units in Oregon. Eligible activities are new construction or conversion of existing non-residential structures to affordable housing.

For LIFT Rental only: permanent loans for construction takeout financing for affordable rental developments and loans for acquisition of like-new market rate rental properties for conversion to affordable rental housing are also eligible.

Acquisition of like-new properties means properties that:

- Have been placed in service recently; generally, with certificates of occupancy within 7 years prior to submission of a complete impact assessment application
- Requires no funding for renovations, including, but not limited to:
    - Major systems (electrical, plumbing, HVAC)
    - Envelope (siding, doors, windows)
    - Roofs
    - Replacement of finishes for durability
    - Elevators

Please note: In like-new market acquisition projects, the only rehabilitation use of resources allowable is to convert community or outdoor space to support tenants. LIFT funds cannot be used for relocation of tenants.

In order to use Article XI-Q General Obligation bonds for housing development, the State of Oregon is required to hold an operational or ownership interest in the project[4]. The LIFT program is structured to hold an operational interest and uses an Operating Agreement approved by the Oregon Department of Justice (DOJ) as the instrument to do this.

Affordability Period

The LIFT Homeownership

The LIFT Rental program has a minimum 30-year affordability period, which starts the end of the year that the Project is placed in service, or the length of bonds outstanding, whichever is greater.

Construction Standards for Development Projects

LIFT construction requirements are intended to encourage innovation and allow for all types of new construction. All projects must meet local and state code requirements. In the case that another funding source has its own requirements, the most restrictive requirements must be met.

Methods: Both traditional and alternative methods of new construction are allowable; construction that is innovative in containing costs or otherwise serving low-income populations is encouraged.

Quality: Construction that balances the initial cost of building with on-going costs of operation for the building owner (e.g., energy standards).

Durability: 30-year building standards.

Evidence that the Project's General Contractor is currently licensed with the State of Oregon Contractor's Certification Board (CCB) in good standing will be required.

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[4] Constitution of Oregon, Article XI-Q: Real or Personal Property Owned or Operated by the State

Development Timeline

Units must be ready for initial lease-up or sale within 36 months of the date of the Reservation Letter. At application, the project's construction schedule must support the 36-month lease-up or sale requirement. For any LIFT Rental acquisition, it is expected that all LIFT-funded units in a property will be leased to tenants earning at or below 60% AMI within 36 months of purchase. LIFT Rental acquisition projects are considered placed in service when all LIFT-funded units are leased to tenants earning at or below 60% AMI or 36 months after applicant's purchase of the Project, whichever is earlier.

For LIFT Homeownership OHCS requires that projects be planned and fully financed (with the exception of OHCS funding) at the time of application and ready to proceed upon meeting all requirements in the project Reservation Letter.

For LIFT Rental, requirements of the ORCA process will be followed, and the 36-month timeline starts at final funding commitment.

LIFT Loan Terms

In order for LIFT funds to be loaned to qualifying Applicants, site control in the form of either an undivided fee simple interest in the project site, or a long-term lease for at least the length of the affordability period, executed at or before loan closing, must be verified.

The LIFT loan must be secured by a first-lien deed of trust acceptable to OHCS and recorded against the fee interest in the Property. OHCS may share a first lien security interest with other lenders, subject to the execution of OHCS' Intercreditor agreement and other documents necessary to establish the relative priority and rights of the parties.

LIFT funds are loaned at 0% interest with deferred payments throughout the affordability period. Loans are due and payable upon completion of the affordability period. LIFT loans may be prepaid without penalty, though the affordability restrictions will remain upon repayment for the full affordability period. In lieu of payment, LIFT loans can be satisfied by extension of the affordability period for an amount of time at least equal to the original affordability period (20 or 30 years) or by a combination of repayment and extended affordability as acceptable to OHCS[5].

If the LIFT loan is foreclosed prior to the completion of the affordability period established in the LIFT loan documents, the affordability will be extended for an amount of time equal to the affordability period established in the LIFT loan documents.

[5] See OAR 813-135-0040.

Homeownership Development

To use LIFT funds for a homeownership development project, the project must use an ownership structure that enables OHCS to secure its loan against the land and not against the improvements on the land. This allows for guaranteed affordability of the homes at 80% AMI throughout the affordability period.

Acceptable ownership structures are:

- community land trust (preferred)
- leasehold condo
- new manufactured home park

Guidelines

The following guidelines will be applied by OHCS in its due diligence and project review process to ensure ongoing project viability and risk mitigation associated with the LIFT funding source.

Applicant Requirements

LIFT applicants must demonstrate that they have experience and/or understanding in being the administrator of a community land trust or applicable association or have partnered with an organization that has this type of experience and/or understanding.

Demonstration of Market

Applicants must demonstrate a market for the homeownership units exists in the area that their project will be built, including:

- ✓ That there are potential lenders available, documenting what corresponding down payment / terms are or will be available for initial and future home buyers, and
- ✓ Evidence of interested income-eligible households.

Financing Requirements

Due to the LIFT requirement that all units be ready for sale 36-months from reservation, all financing sources must be identified and committed/available for project development at application. If a construction lender will be used to finance the project, a letter of interest is required for the overall project.

The NOFA scoring process will include a complete review of the development budget and all supporting documentation. Among other possible items further outlined in the NOFA, the budget will be reviewed to confirm:

- All resources listed in the proforma are realistic and available, including ensuring that the LIFT request is within guidelines specified in the NOFA and that maximum LIFT subsidy for the project is not exceeded
- All resources listed except for LIFT funds are committed at the time of application
- Sources and Uses listed on the application proforma are balanced, there is no gap in funding and no excess funds
- The construction costs are well-documented and explained through:
  - Construction documents that provide enough detail to adequately calculate project hard costs
  - Construction estimates that substantially agree with the budget

Profit / Developer Fee

Sponsor/Developer profit from the initial sale of homes in the project plus any developer fee is limited to up to 10% of the total project costs and may not increase above the amount stated in the application.

Subsidy Amount

The maximum amount of subsidy that a LIFT Homeownership project can request will be calculated using the lesser of the following:

1. The value of the land plus the value of infrastructure/site-work, this does not include the value of the homes that will be built. The value must be verified through one of the following methods:
   a. An as-built appraisal from a qualified appraiser
   b. Assessed value on property tax statement
   c. Real market value on a property tax statement
2. The maximum per unit subsidy identified in the applicable NOFA. The subsidy must not exceed the maximum per unit subsidy cap in the applicable NOFA

Documentation Requirements for Construction Close

- ✓ Organization documents for the ownership entity
- ✓ Board resolution documentation (if applicable)
- ✓ Site Review Checklist with relevant exhibits (submitted as part of the NOFA application)
- ✓ Preliminary title reports
- ✓ DUNS number to be active during the course development
- ✓ Certificate(s) of insurance

- ✓ Phase I Environmental Study*
- ✓ BOLI Wage determination letter**
- ✓ Recorded community land trust or equivalent document for a lease hold condominium
- ✓ Letters of interest or support from mortgage lenders if a project sponsor is not self-funding homeowner mortgages

*All LIFT projects are required to provide a Phase I Environmental Study. For homeownership projects that are 4 units or fewer, applicants can choose to opt out of a Phase I study and instead certify that the sponsor will not request additional funds from OHCS to mitigate issues found before, during, and/or after construction and during operation that would have been discovered by a Phase I. The waiver can be found here: https://www.oregon.gov/ohcs/homeownership/Pages/homeownership-development.aspx

**To determine if a LIFT homeownership project is subject to prevailing wage requirements through the Bureau of Labor and Industry (BOLI), a determination letter is required. For more information, please contact BOLI here: https://www.oregon.gov/boli/employers/Pages/coverage-determinations.aspx.

Working with the Oregon Bond Residential Loan Program

Homebuyers purchasing homes built using LIFT Homeownership funds may be eligible to apply for mortgages through the Oregon Bond Residential Program (ORBRP).

The process to certify a LIFT Homeownership project for the ORBRP requires the Applicant to contact OHCS's Homeownership Division for specific guidance. Please reach out to the Assistant Director of Homeownership Lending for more information at the following email address: hcs.reservations@hcs.oregon.gov.

Construction Period

Upon recording of the LIFT regulatory documents, home construction may begin. Quarterly progress reports updating the Department of the status of construction, including the percentage of construction completed the previous month, are expected by the 10th of each quarter through project close out.

NOTE: Any changes to the property's legal description after construction closing will need to be updated in the LIFT regulatory documents. Changes in the property's legal description can cause delays on the sale of the newly built homes if not addressed promptly.

Project Completion, Home Sale, and Close Out

Upon receipt of each Certificate of Occupancy, homes are ready to be sold. Once the last home in the project is sold, the following items are provided to OHCS's LIFT Homeownership Development Officer within 90 days of the last homebuyer taking possession of their new home:

- ✓ Copy of the recorded master land lease that the community land trust was established under (if updated since original submission).
- ✓ Certificate of Occupancies or Final Building Inspections for all homes.
- ✓ Photos of the exterior of each home.
- ✓ Final updated and balanced sources & uses.
- ✓ Written statement of how plans for outreach to communities of color were used and results.
- ✓ Copies of income certifications for each initial Qualified Homebuyer (see Household Income Verification.) Income certifications must include the date of sale of the home and homebuyer demographics.
- ✓ Final subdivision plat map
- ✓ Updated Applicant and Project Information sheet
- ✓ Commercial General Liability Insurance from the CLT, and evidence of homeowner's fire insurance with OHCS listed as an additional insured
- ✓ MWESB Final Report

Once the close out items listed above have been received, the construction phase of the project is considered complete.

Household Income Verification

LIFT Homeownership has specific requirements for homebuyer income calculation. This information can be found on the LIFT Homeownership Program Page: https://www.oregon.gov/ohcs/homeownership/Pages/homeownership-development.aspx

Annual Compliance Requirements

Compliance monitoring begins upon sale of the first home. The OHCS Homeownership Division is responsible for compliance monitoring for LIFT Homeownership projects. If there are any questions about the status of a project's compliance, please contact the LIFT Homeownership Development Officer.

Annually in December, a Certificate of Continuing Program Compliance (CCPC) will be provided by OHCS to the project owner named on the LIFT Operating Agreement for each project in the OHCS portfolio. The owner fills out the CCPC and returns it to OHCS with information on each project.

An annual compliance fee will be invoiced and billed by the end of the year, with payments due by January 31st of the next year.

Home Sales and Subsequent Purchases

When a LIFT homeowner sells their home and a new homebuyer purchases it, it is the responsibility of the CLT operator named on the LIFT Operating Agreement to notify OHCS. This must happen within 30 days of a LIFT home being sold to a new Qualified Owner. Three items must be provided to OHCS via the project's Procorem work center upon resale of a home:

1. Copy of the new Qualified Owner's Initial Income Verification Certification showing that the new owner is earning at or below 80% AMI, to the appropriate Project Procorem WorkCenter
2. An updated listing photo of the exterior of the home
3. Updated liability insurance coverage for new homeowner.

OHCS will acknowledge the sale of the unit to a new owner via written communication to the CLT operator.

Rental Development

All new construction units funded through the LIFT Rental program must be affordable to households earning at or below 60% HUD Area Median Income (AMI) at the time of initial lease, with an exception for the one manager's unit per project location.

All takeout financing units funded through the LIFT Rental program must be affordable to households earning at or below 60% HUD Area Median Income (AMI) at the time of initial lease, with an exception for the one manager's unit per project location.

All like new market rate properties acquired with a LIFT Rental program loan must transition all units (with the exception of one manager's unit, if applicable) to lease to households earning at or below 60% AMI within 36 months of purchase. The amount of the LIFT award available at financial closing will be proportional to the percentage of units in the property occupied by 60% AMI households. As units turn over and are subsequently occupied by 60% AMI households, additional funds can be drawn by the owner and as long as all requirements are met, paid by OHCS.

Underwriting Guidelines

Underwriting guidelines will be applied by OHCS in its due diligence and project review process to ensure ongoing project viability and risk mitigation associated with the LIFT Program. Such guidelines will be consistent with the industry standard minimum requirements of mortgage lenders, investors, and other potential public sources.[6]

Developer Fee Calculation:

Calculation of the developer fee for new construction and conversion of nonresidential structures to residential is specified in the equation below and limits are shown in table A below.

$$\text{Maximum Developer Fee} = \frac{\text{Developer Fee} + \text{Consultant Fee}}{\text{Total Project Cost} - (\text{Acquisition} + \text{Developer Fee} + \text{Consultant Fee} + \text{Capitalized Reserves})}$$

Table A-New Construction/Conversion

Project Size	LIFT Only	LIFT with 4% LIHTC
< 31 Units	16%	18%
31-75 Units	14%	16%
76-100 Units	12%	14%
100+ Units	10%	12%

[6] As described in OHCS' GPGM Manual.

For acquisition projects, developer fee is limited to 5% of overall costs to purchase the property and complete conversion of community space, if applicable.

For takeout financing, no developer fee is available.

Alignment with other OHCS manuals

LIFT Rental can be paired with 4% Low Income Housing Tax Credits (LIHTC)/Private Activity Bonds (PAB). If paired, the project will need to incorporate the requirements of the LIHTC Qualified Action Plan (QAP) which can be found here:
https://www.oregon.gov/ohcs/development/Pages/low-income-housing-tax-credits.aspx and the Core Development Manual which can be found here:
https://www.oregon.gov/ohcs/development/Pages/core-development-manual.aspx

Documentation Requirements for Construction Close

For this information, please refer to the ORCA.

Project Completion, Lease-up, and Close Out

If a new construction or conversion from nonresidential to residential project does not utilize 4% LIHTC/Conduit Bonds, then upon receipt of the project's Certificates of Occupancy and successful lease up, the following items need to be provided to the Production Analyst working with the project:

- ✓ Updated Final application with updated and balanced sources & uses
- ✓ Certificates of Occupancy or Final Building Inspections for all buildings
- ✓ Digital Photos of the exterior of the project
- ✓ Any amendments to the property management agreement approved before construction close.
- ✓ Certificate(s) of insurance naming OHCS as a loss payee
- ✓ Site Map showing building addresses and unit numbers
- ✓ MWESB Final Application Matrix

If the project has 4% LIHTC/Conduit Bonds, follow the process for receiving 8609's in the QAP.

For like new acquisition projects, closeout will happen within 36 months from closing and once all units are leased to households earning at or below 60% AMI.

For takeout financing for affordable rental housing, the project's production analyst will let the owner know if there is any additional information needed after financial closing.

Ongoing Compliance and Asset Management

LIFT Rental has adopted the LIHTC Compliance Manual, found here:
https://www.oregon.gov/ohcs/compliance-monitoring/Pages/compliance-lihtc-program.aspx as the standard for the ongoing monitoring of operating projects. Information will be transferred to the OHCS Portfolio Administration Section for on-going compliance until the end of the project's affordability period. An annual Certificate of Continuing Compliance will be

required as well as periodic onsite inspections and monitoring, according to Portfolio Administration's guidelines and the LIHTC Compliance Manual.

Appendix A: Allowable Article XI-Q Bond Costs

Article XI-Q bonds are State issued bonds that are to be used to acquire, construct, remodel, repair, equip or furnish real property that is owned or operated by the State of Oregon. The Oregon Legislature has approved the use of Article XI-Q bonds for developing affordable housing for low-income Oregonians.

LIFT Projects are eligible to submit draw requests with invoices for reimbursement of Project expenses upon the recording of the LIFT loan documents. Upon receiving a request for reimbursement, the assigned Production Analyst reviews all invoices to determine eligibility of payment out of the Article XI-Q bond proceeds.

Examples of allowed bond costs:

- ✓ Construction Costs
- ✓ Engineering Costs
- ✓ Architectural Costs
- ✓ Development Contractor Costs

Examples of un-allowed bond costs:

- ✓ Related Party Costs (LIFT cannot pay OHCS fees.)
- ✓ Moving Costs (relocation costs)
- ✓ Pollution Remediation Costs
- ✓ Rent Costs (temporary office space for employees to work)
- ✓ Operating Costs (Office supplies, training, meals, etc)
- ✓ Indirect or Administrative Costs (operating reserves, replacement reserves, staff payroll, etc)
- ✓ Professional Membership Dues