HTF Basics Webinar Series

Part 2

Wednesday, June 1, 2022

Les Warner: Great, thanks Kate. So welcome back, everyone. If there are any of you that were not able to participate in last week's webinar because we're going to be working our way through the regulations, it's important that you not miss the material that was covered on the first week of this series. Those are going to be posted, and so I would recommend that you take the opportunity when those are posted to go back, listen to the recording, go through those materials because they're going to include important information that you need to understand. So this is day 2 of our series. We have the same group. Carrie Kronberg is my co-trainer today. I'm Les Warner. And we're going to jump right into today's materials. We have quite a bit of materials to cover. As Kate mentioned, we're going to be answering questions all throughout the webinar.

So as you have questions, go ahead and put those in to the question box. We also have reserve time at the end of this webinar. So we'll be able to go through questions and we'll probably go back and review some of those questions that may have been answered during the webinar. But we want to make sure that everybody has gotten those -- that information as those questions come up. A lot of times we have some common questions that everybody needs to know about. So last week we went through the basics, talked about the allocation of funding, the allocation plan, and began to talk about the program requirements, the eligible activities. We're going to focus more today on talking about cost eligibility and some of the targeting for this, dig into that a little bit deeper.

And then of course, tomorrow we're going to be doing the balance of the information. So make sure that you join us for that. So let's talk about eligible costs. What can I use Housing Trust Funds to pay for or what are the requirements that go along with that? So this is a quick list, and then we're going to be going through the details on these. These are found at 93.201 in the Housing Trust Fund regulations themselves. So let's begin to work our way through these. So when we're talking about hard costs in construction and particularly for folks that are a little newer to this, we're talking about the actual construction costs, so materials, labor related to the construction. And of course, those are going to be the expenditures that we're making to bring that property up to either to build it new and meet our property standards at 301 or also if we're doing rehabilitation, then you have written rehabilitation standards that are part of your Housing Trust Fund plan.

And those would be all the costs that were related to bringing that property up to those standards. And that might include some specifics that were -- amenities that were appropriate for that population, for that project as has been proposed. And so let's talk a little bit more about that. That also includes not only those typical construction costs, but we might be doing things like clearing away an existing structure before we build something new, or maybe there's an ancillary structure on the property that needs to be cleared out of that. That would be part of our eligible hard construction costs. Also a lot of times we're going to be doing utility connections. So we might build -- maybe we're building a new multi-unit complex, multiple buildings, and we're going to be then connecting in water, sewer connections, maybe power to those sites.

And so the rules for this are what's eligible is -- generally, it's for what's on that property or site that's going to be owned by that owner developer, and then going into where that connection is within the public right away. So where the water main is in the public right away, where the sewer connection is. So it would not be eligible to pay for maybe from the edge of our property down to the next block. We actually need to upgrade the water line maybe from an 8-inch line to a 12-inch line for fire suppression. That would not be eligible if this onsite and then to the connection in that public right away. Also, on that site would be all of the improvements that you're making. That might be things like sidewalks or streets, curbs, gutters.

We mentioned the waterline as part of that. But that also would include site improvements and the guidance on this that it needs to be -- it can be standard to what would be expected in that surrounding area. So in some areas, I happen to serve as the chair of the local planning commission. So in some communities, you're going to have zoning requirements that will have requirements about maybe replanting trees or other improvements that need to be made to that site. There may be some standards about whether you have to have sidewalks on both sides of the streets, those sorts of things, landscaping for that property. We're looking for this to be standard for what we would expect to see in that surrounding area.

And then one thing I really want to focus on, and this is something that oftentimes is misunderstood. And we've seen some examples where folks inadvertently had an ineligible cost. So there's very particular language in the Housing Trust Fund regulations at 93.201(4). And this is for those of you that work with the HOME Program. This is similar to what the HOME Program requires that it is eligible to pay for laundry facilities or community facilities, but they have to be within a building that is providing housing. They need to be something that's designed for the use of those -- of the project resident, maybe if they have guests using that. So it could not be -- and sometimes we see as part of a design for a new community that they build -- want to build a standalone community facility, maybe the laundry facilities are in some part of that. That would not be eligible for us to utilize our Housing Trust Funds to pay for that.

If it's part of a structure that includes housing, and of course, we're a housing program, then it would be eligible. So that would be something as part of reviewing a proposed project that you need -- going to need to determine is this an eligible cost for a Housing Trust Fund or not. And that might need to be separated out in your grant agreement of these are things that we are paying for that are eligible trust fund costs. Here are some other costs within the overall project, but we're not using our trust funds to pay for that because we have to separate what's going to be eligible, what's going to be ineligible. So reviewing those plans and specifying how your funds are going to be used as you are reviewing and determining whether you're going to fund that project is really important to make sure that you avoid inadvertently violating this requirement.

Let's talk a little bit about refinancing. And so in some cases where you were doing -- going to maybe acquire and rehab an existing structure, or you're going to, I guess with refinancing, we really would be talking about where we have, let's say a non-profit or a developer. He comes to us and is seeking funds to rehab that building. There may be existing debt on that structure. And so we, under limited circumstances are able to use our Housing Trust Fund dollars to refinance that debt. Now, it might be that we are assisting them to refinance bearing the costs of refinancing with another private lender or in some cases it would be that we would essentially take out that debt using Housing Trust Fund dollars. But the key to remember here is that this is only something that you can do when it is in -- the result of that is going to make those housing units more affordable.

So if we approach the projects that had a rather high interest rate existing debt on that property, we would be able to then document by refinancing this, and either methodology we're using that now their fixed costs for debt are now lowered for this. And so that's part of our justification to be able to make the use of trust fund dollars for refinancing eligible. We also need to make sure that the money that we're putting in is going to be proportional to the trust fund units in that project. So if we have a project and we see a lot of trust fund projects that is a mix of some trust fund units, maybe some home units or tax credit units. And so in this case, if we're putting in funding for towards refinancing, it would be proportional or our fair share of those costs based on the number of trust fund units that we have in that property.

And then the other part of this is, and I think we have some -- a little bit further language on this. But it needs to be proportional to the rehab cost. So our primary goal here or activity is the rehabilitation of that property for affordable housing. So we need to make sure that the rehab cost is the greater of that proportion. Some of things we're going to be talking about having standards that you would adopt. You may have a minimum amount of rehab before refinancing would be eligible, or maybe you will, as part of your policy set a percentage that at least, 60 percent of the cost per unit need to be related to the rehabilitation so that we're making sure that the primary use of our Housing Trust Fund dollars is for the rehabilitation, not for refinancing of units that are in standard condition or pretty close to that.

So we need to make sure fair share and also that proportional use on that. And so as part of that, you need to have refinancing guidelines in place. If you are going to allow refinancing, there are grantees that have chosen as a policy decision to say, We're not going to allow the use of our Housing Trust Fund dollars for refinancing. So if you're going to allow refinancing, it needs to be included in your consolidated plan. This is a public document, so it needs to be written in a way that's going to be generally understood by the public on that. So it's going to lay out what are our terms and conditions of when we would finance existing debt; what are any of the limits that we have on that. And so as part of that, as I mentioned, being able to demonstrate that the rehabilitation is the primary eligible activity here.

And so in doing that, we might be putting in minimal -- minimum levels of rehabilitation per unit before we would be willing to do refinancing or a ratio that you're going to use. So as you're looking at proposed projects that include refinancing, you would be using these refinancing guidelines to make a decision on whether that was going to be eligible or not. So in the end, you need to be able to document in your files that the rehab was the primary purpose of that activity.

Also to demonstrate in your underwriting that the impact of the refinancing was -- that it made these units more affordable, lowered the cost on that. And then again, if we've got a mix of funding in this, we need to make sure that your investment towards refinancing is proportional. We're doing that same thing when we approve rehab costs on what portion of that is attributable to our Housing Trust Fund units. And the same would be true then for those refinancing costs. All right. So one of the things that we may see some of our Housing Trust Funds used for would be for acquisition. And so that might be for an unimproved land where we're going to build a new structure. We might be purchasing something with existing units that we're going to be maybe rehabilitating or we're going to make those affordable for folks.

So keep in mind, as we mentioned before that until our Housing Trust Fund total allocation exceeds the $1 billion mark, 100 percent of our funding needs to or must go towards assisting housing that's going to be affordable for extremely low-income. So we're 30 percent and below. And so home buyer is not really something that is going to be part of this activity at this point. For the most part, we might see that change at the point that we go over that $1 billion mark. So we've been talking about the hard costs that are eligible for Housing Trust Fund property.

We're also going to have a lot of not construction costs, but related costs in making that project eligible for that; so architectural engineering, we may have site plans being done, some soil compaction testing, whatever to be prepared to be able to do the construction itself. And so a lot of our projects have quite a significant amount of soft costs that are going to be part of that. All of those work write-up specifications, those sorts of things. Now we will be mentioning on this that we have -- there is an eligibility for costs that were incurred by the owner back -- looking back up to 24 months prior to the commitment of our trust fund dollars, maybe eligible.

And we'll be talking a little bit more because of course, the environmental review requirements do apply on this. So we can't take any choice limiting actions prior to completing that environmental review and attaining a release of funds. So for the most part, any of those pre-development expenses are going to be limited to non-impacting things such as architectural or engineering as part of that, maybe a market study as part of that. And so grantees may have as part of your policies or rather specific language about soft costs and particularly on costs that are incurred prior to the commitment of funds. We'll talk about that a little bit later on. For some of you, it may be that you will choose to mirror what you already have in place for Low-Income Housing Tax Credits or the HOME Program as part of that.

So further examples of those soft costs might be all of the costs relating to putting financing in place. So origination fees, the credit reports, those sorts of things that are part of that. We also will have building fees, recordation fees with all the legal documents that are related to that. In some cases, those attorney fees are going to be pretty significant as part of that. And then of course, the builder or developer will probably have fees as part of that. So keep in mind that for those costs to be eligible, we always need to have backup documentation clearly describing what those costs are, how they are related to this project. So we document that they are eligible because they're part of the overall project. And then needing to show that they are reasonable and appropriate.

In many cases, we're going to have costs that there's a proportional share. And so we may need to have documentation also showing how we determine that the portion that Housing Trust Fund was going to be reimbursing were appropriate for that. Other things that would be included in that if we have audits that are required for that, and that might be particularly where we're doing certifications for costs where we have a public accountant complete those audits. That would be something that would be a project soft cost. And then we also have things like our affirmative marketing requirements.

So keep in mind that when we have a Housing Trust Fund project that has five or more Housing Trust Fund units, then we're required to have an affirmative marketing plan. And also since we talked about last week about the fact that you're able to have some additional tenant eligibility or preferences that are in place; that affirmative marketing plan also would need to reflect or be adapted for your project to be specific to how you're going to implement the marketing for this keeping in mind those tenant eligibility and preferences that are project specific for that. That language about tenant preferences is at 93.303(d)(3).

And I think that probably covers that adequately. So also let's talk about an initial operating deficit reserve. Now we're going to be talking later in this same section about operating cost assistance that is really looking at the overall operation throughout the affordability period. But when we're talking about initial operating deficit reserve, this is something very different. So this is where we have a new construction or rehab project and we have a potential risk for that property during that rent-up period. So we will have carefully underwritten our projects to make sure that they were going to be sustainable once we have all of our tenants moved in and have that flow of rents coming in to cover our debt service, our operating expenses. But during that rent-up period, we will have completed the project closed on our permanent financing and begin to be paying our debt service, utilities, all of our operating costs.

But we may, at that point still not be fully occupied, so not having that projected income yet in place. And so during that initial rent-up period, that project can be at risk of going into default. So this initial operating deficit reserve allows you to fund a reserve for that period, and it's to not exceed 18 months. So we know that we need to get our projects up and rented, our units put into place within our 18-month period. So this reserve can be used to cover all those expenses that that project is incurring during that period, but might not have enough cash flow to be able to do that; so all of the operating utility expenses, debt service sorts of expenses. But then also during the life of a project, we would expect that there are going to be payments that are being made into a replacement reserve.

We'll talk more about this a little bit later. But think about the fact that if I have a project that has an affordability for 30 years, I'm going to expect that some of the systems and components in that property are going to have to be replaced during that time. So maybe everyone's refrigerator in every unit will have to be replaced at some point, all the water heaters.

And so that replacement reserve is typically built up over time so that when the day comes that everybody's refrigerator starts to die, you have funds set aside to be able to cover that expense. And so replacement reserves are typically underwritten to determine what that amount of funding would need to be. And then a per unit annual deposit would be -- need to be made into that replacement reserve. So during this initial rent-up period, we would also have that obligation for those scheduled payments into the replacement reserve to be made.

And we may not have sufficient cash flow to be able to cover that. So in establishing this initial operating reserve, you would look to your underwriting and look to determine if we've projected that it will take maybe 14 months to get to a fully occupied property. We could project what that cash flow was going to be for each of those months based on our projection on rent-up, and then be able to identify these are our operating costs, our replacement reserve costs and what our shortfall is going to be over that time period. And that would be the basis for then funding with Housing Trust Funds that initial operating deficit reserve. It's stabilized that project on the front end of the project. All right. So other things that would be eligible for our Housing Trust Fund would be for grant staff and overhead costs that are related directly to this project.

Now Carrie's going to be talking a little bit later about eligible administrative costs but these are project-related costs. So if we've got a staff person who's going to be preparing the work specifications, we're doing all those onsite visits to make sure that work is progressing appropriately, making those inspections each time they're requesting a draw costs related to the loan processing. Other things that are specific to that project can be charged as an eligible project costs rather than admin costs that we'll be talking about later. So we obviously, would need to be able to document those costs; how they were related to that property. So for instance, if we're going to charge the time as a project cost for those work specifications; and maybe Bob, the rehab guy is the guy who handles that and all the inspections and he's doing that for your trust fund program, maybe also for your HOME Program, then we need to be able to track his time to each of those projects.

So we can say, okay, I've got a paper trail that shows that these expenses are related to the work specifications and inspections that were done for this project. So if we're going to charge those costs as a project soft cost, then we need to have that methodology of tracking and collecting, documenting those costs as being eligible. Again, if we have multi-unit projects that have a mix of trust fund and other funded units, then we're going to need to have a basis to be able to show these are the fair share or portion that would be attributable to Housing Trust Fund versus the other funding sources in that project.

And in some cases, we're going to have projects that have an impact fee that is being charged. That would be something that only would be eligible if all projects within that jurisdiction are being charged at so they could not say, Okay, we're going to charge only affordable housing projects. This impact fee would be something that would be standard for that jurisdiction. In that case, that can be an eligible cost. But keep in mind, again, it needs to be a proportional amount for that. So if we've got a mix of trust fund and other funded units, we're going to pay the proportional costs that's related to our portion of that project. And one thing I really want to call out here, make sure that you understand that these are costs that cannot be charged or paid by assisted families.

All right. So let's talk a little bit about relocation costs. I think we mentioned last week that there's a list of other federal requirements that do apply for the Housing Trust Fund usages. And that includes the Uniform Relocation Act; has a longer name. But essentially what that does is provides protections for anytime we have a project that includes federal dollars that is triggering either temporary or permanent displacement of tenants. So for instance, and this is something that we might see with Housing Trust Fund investments.

So we know that 100 percent of our Housing Trust Fund have to benefit individuals, families, households that are at -- that are extremely low-income, so 30 percent and below. If we were to use Housing Trust Funds, maybe our proposed project, we're going to buy an existing structure that needs rehabilitation, and it is currently at least partially occupied. If, as part of our proposal, we are proposing that they're going to be maybe 60 of the 100 units are going to be Housing Trust Fund units. If we have units that are currently occupied by a household that is above that

30 percent, the ELI income levels, then they're not going to be eligible to occupy a Housing Trust Fund funded unit.

And so if we use trust funds in that unit, we're going to have to displace that household. And so as part of that, we're going to be providing them services. We're going to help them identify other units that are available for them. And then depending on what the rent costs are for those other units, we may be subsidizing their rent for up to 42 months going forward. And so these are all costs that are eligible; the cost to relocate those households, the subsidy for those replacement housing units, the cost of all their moving expenses, anything out-of-pocket that they would incur such as utility, reconnection costs that would be part of that.

Also keep in mind, I think we mentioned that the Lead Safe Housing Rule applies for our Housing Trust Fund dollars. So we could have situations where maybe that household is income eligible to reside there, but during construction, they need to temporarily be relocated. Maybe we're going to be doing some Lead Hazard Reduction work. And that household, because of the lead hazard needs to be temporarily relocated. Those all are eligible costs, and we would be following the Uniform Relocation Act requirements for that.

So we've talked about the fact that we're going to cover those costs, but also included in that we're going to have costs that are relating to staff on implementing that. So there are notices that have to go to occupants. There's a initially a general information notice. And then once we determine that that project's going forward, we're going to provide them notices either you're not going to be displaced or you're going to provide them a notice of displacement and what their benefits would be.

So there's quite a bit of staff time involved in putting that together, and then also of course, the budget related to those costs of the benefits that are being provided. So all those costs in providing notices, working with those households to help identify comparable units, they have to be inspected to ensure that they are suitable, so they're decent, safe, and sanitary, some counseling being provided.

And so all of those costs would be part of what your relocation costs were for that project. And it would be important on these projects to plan on the front end as a reviewer in funding trust funds dollars. You would want to make sure that you had that information about current occupancy. There was a plan in place and all of those costs and staffing things were included in that proposal. Those could all be eligible costs as a soft costs for that project. Also, let's talk about eligibility on payment of loans. So in some cases, we're going to be putting our trust fund dollars in maybe not on day 1 on the project. That project might have construction loans, bridge loans in place, maybe a guaranteed loan in place that our trust fund dollars are going to go in at a later date.

So we're going to be taking out that construction loan or we're going to be covering the cost of the principal and interest on that to pay that off. Those are all eligible, but we need to make sure that they are covering -- so we're covering the cost of that loan. So we need to make sure that what that loan was used for was covering trust fund eligible costs.

This would also be as part of where we had trust funds that were originally as part of the original financing. So we would see the plan was always that we would have construction loan and trust fund dollars were coming in to take that out. And frankly, as part of the underwriting, you're going to be determining what's the most cost-effective way to be able to do this in a lot of cases because construction loans can be expensive, and we're now seeing interest rates go up.

In many cases, we're going to use our Housing Trust Fund dollars right upfront instead of having that project seek out construction loan, or maybe bridge financing on that. And so we just need to make sure that if we are using our trust fund dollars for this project, that we make sure that the project itself is meeting the trust fund requirements and that the use of those loan funds that we we're going to be reimbursing, those costs were used for trust fund eligible costs. So here's where we're revisiting this issue about where we have trust funds that have been -- that are essentially reimbursing costs that have been undertaken by that owner prior to the commitment date of your trust fund.

So we know that to have a viable application, there’s going to be some expenses that will have to have been incurred to put together that proposal, the information about that project.
And so that generally, would include things like we mentioned, architectural engineering, some other professional services, as I mentioned, might include a market study as part of that. And these are project -- these are costs that the Housing Trust Fund grantee can agree to reimburse. We have a limit that it can go back no further than 24 months. Those costs would be called out within that written agreement. And of course, as we mention, we cannot violate our environmental review requirements, so we can't reimburse for any cost that would've been choice limiting. And that's why we're really limiting that to architectural engineering and other professional service fees that are not -- don't have an impact on that property itself.

All right. So let's take a pause here and do our first knowledge checks. And so those will be popping up in a moment here. Here we go. So our first question; this is true or false. A proposed Housing Trust Fund project includes a standalone community room and laundry facility. Can Housing Trust Funds be used to pay for a portion of this building? You'll select your answer and then click on the submit button.

All right. Our poll has ended. We'll have results here momentarily. All right. So most folks got this correct. This is false. And this is when I was mentioning, we oftentimes see some confusion on this. So we said that it's -- laundry facilities and community facilities are only eligible when they are part of a structure that includes housing. So in this case, what's being proposed is a standalone community room and laundry facility. So that is not something that's going to be eligible, and so we would not be able to use our Housing Trust Fund dollars to pay for that. All right. Our next question. We have a developer that's proposing a project that includes soft costs. And these are costs that were incurred by the developer, the owner of the property more than two years prior. Are these costs going to be an eligible use of our Housing Trust Funds?

Our poll has ended. Okay. So most folks got this right. So it's important to understand this is false. So our limitation on these pre-development costs, so prior to that commitment of Housing Trust Fund dollars is that that look-back period is no more than 24 months. So in this case, these costs that are being fought for reimbursement with trust fund dollars are farther out than that 24 months limit. So they are not going to be eligible for reimbursement on that.

And so that's one of those questions that as we -- as you are looking at a funding proposal, you would need to determine whether there were any pre-development costs that the developer was seeking reimbursement for and be able to then show when those expenditures occurred and whether they would be considered to be eligible or not. That might be a project cost that's going to be reimbursed by some other source, but it would not be eligible use for the Housing Trust Fund dollars. So collecting that information upfront and reviewing it carefully becomes important to make sure that you're using your trust fund dollars for only for eligible costs. All right. We've got one more knowledge check.

So we've got a proposed Housing Trust Fund project that's going to utilize the trust fund dollars in the form of a construction loan. And once that project is completed, those funds are going to be paid off by some other source of permanent financing. So our question is, since these funds are going to be paid back, will this project still be required to have long-term affordability requirements? And if you'll answer yes or no and hit the submit button. Our poll has ended. So the correct answer here, and almost everybody got this. Those long-term affordability requirements are going to apply. Just the fact that you -- initially, you put Housing Trust Fund dollars into this project, it was part of the financial package on this. The fact that they've been paid back at some point, it is still a Housing Trust Fund project.

And so it must meet the eligibility criteria and that includes the long-term affordability requirement. So that repayment does not cancel that requirement. All right. So I'm going to close this on my screen and we're going to move back into the slides. All right. So one of the things that we talked about in the first session, one of the things that's unique about the Housing Trust Fund dollars is this ability to use a portion of our allocation towards funding operating cost assistance.

So let's first talk about what are operating costs. So for our project, once it's been completed; so these are not construction costs, these are not soft costs related to that, but that cost -- that project is going to have ongoing costs throughout the -- its affordability period of paying things like keeping the insurance, covering all of their utility costs.

Of course, we're going to have property taxes on that, but we'll also then have ongoing maintenance costs. And that includes in some of our projects, we're going to have onsite security that was part of that. We also talked about this need for regular payments to be paid in to fund a replacement reserve. So in some projects, we might have from another source of funding, have those replacement reserves funded upfront.

But most typically, we're going to see that we will have the schedule of payments for each of our units that will be paid in on an annual basis. So that fund amount might be relatively low in year 1, but it continues to grow with those payments being made. And so by year 13, when we start to see refrigerators, water heaters, other part -- portions of the amenities of this building need to be replaced, that we have funding in place for those components.

So that's a necessary part of having enough. It's an operating cost that is incurred for each one of those units. And so as part of our underwriting when we're funding projects, we're not only going to be underwriting to determine, okay, what will it cost us to build the property or maybe acquire and rehab the property, but we also are then going to do a separate pro forma and analyzing what's the income that's going to be coming in from the rents that are being paid for each of the units in the property. Maybe we're going to generate a little money off of the laundry facilities that are on-site. But then backing out of that available net cash flow, all of our expenses, so we would have our debt service that would be required as part of that, if we have debt that requires repayment on that property. And then all of these monthly operating costs are going to be part of that.

So our analysis then is figuring out what are our operating costs. And do we -- are we -- do we have adequate cash flow throughout that affordability period? So we're projecting that for the next 30 years for our affordability period, we're projecting, how do we think utilities are going to change over time? How do we think taxes and other costs will escalate over time? And along with that projecting what we think rents will do over time to be able to make that analysis over the life of our project. So with that, our analysis allows us to then look at that project and determine whether it's going to be sustainable without some further infusion of funding or whether there's a shortfall. And one of the challenges with Housing Trust Fund units, depending on how that -- what the mix is in that particular project is that with very low, very affordable rents, we don't have a significant flow of cash that's being generated from that rental income.

And so we may well be in situations where the ongoing operating costs, even if we have a project that is debt free may exceed -- those operating costs may exceed that cash flow that we have. So our underwriting is going to look to see what's our flow of cash that's coming in on monthly basis from all of our sources, and then backing out of that, all of our operating costs that are going to be incurred. And for those properties that are going to have a monthly shortfall; so what we would call an operating deficit, then we need to determine how will we fund that shortfall.

Now, in some cases, we're going to have projects that have a project-based subsidy that is actually providing additional funding over and above what that affordable 30 percent rent might be generating. We'll have other trust fund units that happen to be part of a larger project.
And so we not only have these really affordably low targeted units for trust fund, but we may have units that are either maybe affordable at 80 percent and below or 60. But we might also have a mix of market rate units in there. So that overall cash flow for the project essentially those other units may be helping to cover the operating costs of our Housing Trust Fund units. But in -- we have a liability, a risk that if our project does not remain sustainable and completes that affordability period, we would be required to repay the trust fund dollars. So we need on the front end to ensure that these are going to be sustainable.

So we're going to do underwriting on that project and determine what that shortfall would be. So based on our underwriting, we could provide operating assistance for that project.
So this would be called out within the written agreement between the grantee and the recipient. And so this could be committed from the current fiscal year and provide operating cost assistance for a multiple year period. And we're going to be talking about the limits on that.

So we have an expenditure deadline requirement that's going to apply, that expenditure deadline, which is at 93.400(d) is five years after the execution of that HUD grant. And so we need to make sure that we're going to be in compliance with that expenditure deadline. And so that's typically going to be limited at five years or less to ensure that we're going to be in compliance with that. There is the ability in future years then to out-of-future allocations provide additional operating costs assistance for that project. We'll be talking a little bit later about the fact typically for projects under trust fund or HOME. There are really limited circumstances when we can invest additional money during that affordability period.

This would be one of those exceptions that for an existing Housing Trust Fund project during its affordability period, we could add or renew that cost -- operating cost assistance for that project. We would need to, again, base that assistance on what those actual -- what that actual shortfall would be for that project.

So we're going to do the same underwriting look at what's our cash flow coming in, our operating costs and determine what that shortfall would be that would then be the basis for making that funding award. And so as part of that, also is the ability to provide funding for an operating cost assistance reserve. So I mentioned before about replacement reserves, where we are in many times building those up over time, or sometimes we will have another source of funding utilized to be able to fund that for our Housing Trust Fund project.

We do have the ability to upfront as part of our funding for this project to put funding into an operating cost reserve, establish that reserve. So over time, as there are shortfalls in our operating costs, that they would be able to draw from that reserve. So the rules on this are if we were working with appropriated Housing Trust Fund dollars; so that would mean that we had a federal appropriation.

At this point, our trust fund dollars are coming, our pay-ins that are coming from our GSES. And so right now, our trust fund dollars are unappropriate [sic]. So if we had appropriated funds, there would be a cap on this, a maximum of five years that we would be able to put the funding in on that. And again, the level of assistance is going to be based on that analysis of what is that shortfall going to be during that time period.

Currently, we are only -- our trust fund is funded only with non-appropriated funding. And so because of that, we are able to project what our operating cost shortfall would be for that period of affordability. And a trust fund grantee could choose to fund essentially capitalize that operating cost assistance reserve upfront for that project. Now, I don't know that this is being done and I would think a lot of folks you're only going to be doing this when you have a shortfall.

And I think for the most part, our funded projects to date have been able to be sustainable without needing this because of things like project-based rent subsidy contracts that are in place, or because of the mix of funding on that. Also if you were going to be funding these for the entire affordability period, you would realize that's going to take a large chunk of money, which means there are fewer actual projects that you would be able to do. But it is a flexibility that is written into the regulations and we want to make sure that folks understand what those requirements are.

So if we're providing operating cost assistance, we need to make sure that that is reflective within that written agreement and describes the requirements on that for the cost assistance. As we mentioned, they need to make sure that they will meet that expenditure deadline. And we mentioned that it can be renewed. But it's going to -- each time you renew it, you're going to have to go back over, do underwriting again to determine what are the actual costs to be able to project what that shortfall would be.

For the reserves, again, it can be -- we can fund that upfront or capitalize that. It's going to be based on our underwriting to determine what's needed for that. We talked already about the fact if we have appropriate for using appropriation trust fund dollars, then it's capped at five years. And we mentioned that it could be reviewed over time to make sure that those were still appropriate. All right. With that, I'm going to turn things over to Carrie. And we're going to change topics a little bit and talk about admin and planning costs.

Carrie Kronberg: Great. Thank you very much, Les. Yeah. But we've talked about project costs, operating costs, and so now we'll dig into administrative and planning expenses that can be paid with Housing Trust Fund. So HTF grantees like home can use up to 10 percent of their annual Housing Trust Fund allocation plus 10 percent of any program income that's accounted for, whether that comes back to the grantee or is received and reported by subgrantees during the program year. So you get -- here's our little slice of the pie, 10 percent of delicious admin funds. And these funds are available for grantees to spend on their own administrative and planning costs.

And we'll go through some -- what some of those are over the next few slides. Grantees can also allow subgrantees to spend all or a portion of those funds as well. And just as a reminder, a subgrantee is a unit of local government or a state agency such as a housing finance agency that is selected by the grantee to administer all or a portion of the Housing Trust Fund program. And if the grantee allows its subgrantee to spend a portion of the administrative and planning funds, the total of the HTF dollars spent on these costs still can't exceed that 10 percent maximum. So everyone administering a portion of the HTF grant has to share this 10 percent slice of pie.

Okay. So we'll start to go through some of the eligible costs that can be covered with admin and planning funds. And note the header here with everything we pay for, with federal funds, it has to be reasonable. And that is specified in the section of the HTF regulations, that list eligible activities. So reasonable administrative and planning costs are eligible. And I will just note reasonable can be subjective. What I think is reasonable, someone else might think is totally unreasonable. And I know when I worked at the state level, our attorneys often boxed it including reasonable in our written agreements.

What does that mean? So just a good practice is to document how and why you determine that costs are reasonable, especially if they're outside of the range of similar costs elsewhere. But they can be covered with administrative and planning dollars to things that include overall program management costs, so coordination, monitoring of course, evaluating your program. And we'll go into a little more detail on some of the program admin costs in a few slides. But just generally, for staff working on the HTF program, HTF admin funds can cover salaries, wages related costs, such as benefits, travel costs, if they're incurred while carrying out the program, so traveling to the site of an HTF project, conduct monitoring.

HTF admin and planning funds can also cover contracted services necessary to carry out the program, so legal accounting, audit costs, things like that are needed to run a compliant program. Additional reasonable admin and planning costs include costs to inform and engage the public on Housing Trust Fund administration. So this includes providing information and other resources to residents and citizen organizations that participate in the planning, implementation, or assessment of projects being assisted with HTF funds. These are public dollars. We need to provide the public information about it and seek input and those activities are eligible admin expenses.

Also of course, activities to affirmatively further fair housing as required by the program and in our certifications that we submit as part of the planning process. And then indirect costs are also eligible. And those need to be determined in accordance, of course, with 2 CFR Part 200. For those of you who aren't familiar, indirect costs can vary, but they typically cover things like facilities costs, so the office or a portion of salaries of maybe executive personnel, accounting staff so folks that form the infrastructure necessary to operate our program, but maybe not directly involved. And grantees typically annually calculate and seek federal approval of their indirect rate and then that's a percentage that's applied to other funds spent to cover those indirect costs.

Okay. So like every other CTB program, Housing Trust Funds trigger several other federal requirements affectionately referred to as cross-cutting requirements. And the cost to comply with these are also eligible to be covered with admin and planning dollars. So these include things like affirmative marketing to ensure that eligible populations have the information on an equitable opportunities to apply for HTF assisted housing, regardless of demographic characteristics or protected class, also the cost to comply with the Uniform Relocation Act.

So Les, mentioned earlier relocation itself, those expenses are ineligible project costs, but someone has to do the legwork to oversee and document compliance. And we have a little bit more detail about that in a few slides. Additionally, costs to cover compliance with Part 200 are eligible. Environmental review; so we'll talk more about this tomorrow, but costs to ensure that HTF projects comply with the environmental provisions in the property standards of the HTF rule. So before committing funds, the grantee or subgrantee should ensure that the project will be able to meet those environmental provisions requirements. Additionally, compliance with section 3. And just to remember, the new regulations are found at Part 75, and then of course, costs to comply with the Lead Safe Housing Rule.

Okay. So we mentioned earlier that program management costs are eligible, so including salaries, wages, benefits, travel necessary to carry out the program, et cetera. To further illustrate, now, here are a few examples of eligible general program admin expenses; so cost to develop systems and schedules to monitor compliance, cost to develop your written agreements, whether those are in a agency, maybe with a subgrantee or written agreements with developers or subrecipients receiving HTF funds, costs to monitor HTF funded projects for compliance with the requirements of course. So costs would be applicable to onsite visits where you're conducting a full monitoring or desk reviews in the off years between those onsite monitoring visits. And then of course preparing information to submit to HUD, including plans, reports, and other required documents.

Okay. So we have a few more eligible admin and planning costs to cover. And hopefully, it happens you don't want to have to pay for this, but coordinating the resolution of audit and monitoring findings is often a project cost or program cost. Evaluation; so going back and looking at your program to evaluate the results of your funding decisions and to compare what you thought would happen versus reality.

This is -- can often overlooked, but it can be an important practice to identify where you need to make adjustments to operate the most effective program that you can. So evaluation is an important component and something that's eligible to cover with admin and planning costs. And then finally, salary costs for management and supervision of employees that carry out these administrative tasks; that's also eligible.

Okay. And then so if carefully documented, cost directly tied to carry out a project can be charged to the project and not take bites out of that 10 percent slice of admin pie. But project delivery-related costs that the grantee or subgrantee incurs can also be paid with administrative and planning funds.

So these include things like preparing work specifications for rehabilitation projects, underwriting and processing loans, those onsite inspections again, evaluating for lead-based paint hazards and risks, and then any other services to assist HTF beneficiaries, whether they be tenants or home buyers, so for instance, with Housing Counseling Services. Additionally, continuing on with project costs that could be paid with these admin funds, you can incur staff costs related to complying with URA, as Les mentioned covering the costs of the relocation itself.

But you can also -- there has to be some oversight. Someone has to do the work, and those costs are eligible. So a staff person who's ensuring that occupants impacted by the acquisition or rehabilitation project get timely written notice of the project activities and their rights for someone to look for and provide referrals to potential replacement properties for occupants that will be displaced. The cost to inspect potential replacement properties and ensure they meet habitability standards. And then providing housing counseling or other eligible assistance that can minimize the hardship of displacement.

Now, as I mentioned, all of these costs is properly documented as associated with the project can be charged to that project or to the administration, and that's at the grantees discretion. But if you as a grantee find yourself up against that 10 percent cap and you're charging these kinds of costs to administration, you might want to reevaluate your program and see, can we make changes and charge these things to the actual project to those delivery -- to the delivery of that project as opposed to our admin, our limited admin funds. And then just keep in mind that most of these costs can't be passed along to beneficiary families. The one exception would be the cost of housing counseling.

Okay. So let's talk about one final eligible use of HTF funds but where you need to tread carefully, and that's public housing. So HTF can be used to construct or rehab public housing units including, or in combination with these programs. So the Choice Neighborhood program and the Low-Income Housing Tax Credit program, and then also projects that rehab and convert existing public housing to privately owned housing using the Rental Assistance Demonstration or RAD program.

For other public housing projects, HTF funds can go into a project that also contains public housing units, but HTF can't be used for those public housing units themselves. So if it's 100 percent public housing and not part 1 of these other programs, HTF couldn't be used for those units. And then of course, as always, we've talked at length today about eligible costs -- eligible project costs. So HTF can only cover costs that are otherwise eligible.

Okay. So in order to support public housing under the provisions in the HTF program, they have to replace units removed from the public housing inventory as part of that Choice Neighborhoods program or a mixed-finance development project. So the number of units replaced can't exceed the number of units removed. So HTF is a replacement option for existing public housing, not an expansion of public housing. Something else to keep in mind, HTF operating assistance, whether that's ongoing operating assistance or capitalized operating reserve, can't support the financial viability of public housing units constructed or rehabbed with Housing Trust Fund.

So underwriting must demonstrate that these public housing units will be sustainable as funded without the addition of operating assistance or Housing Trust Fund reserves. And then for those of you who are familiar with HOME, this is one aspect where HTF is significantly different. So while it's subject to limitations that we just reviewed, HTF does have greater flexibility to combine with public housing.

All right. Now, let's talk about what's not allowed; activities that are explicitly prohibited. So we just talked about something where HTF and HOME are significantly different on this first prohibited activity. We're back to a similarity. So HTF grantees and subgrantees can't provide trust fund dollars to a project that was previously supported with it if it's still in the 30-year period of affordability.

Of course, there are some exceptions. So again, similar to HOME, if a housing project was previously or a unit was previously assisted with HTF and is going to be acquired by an HTF eligible beneficiary or buyer, then HTF funds can be used to help that home buyer with the purchase. Grantees and subgrantees can also renew ongoing operating cost assistance or replenish an operating cost assistance reserve. So let's talked about that about establishing it.

And we have -- can only use up to 30 percent of the grant for operating cost assistance. So that's already limited but it's something where you can continue to infuse funds into the project periodically up to every five years. And then along the same lines as HOME, an additional infusion of HTF funds can be committed to a project up to one year following completion. So keep in mind that this speaks to the importance of early monitoring during that first year, and maybe some of that evaluation that we talked about.

So do a careful comparison between the stabilized operating proforma and the actual cash flow. This period, this first year is a critical time to identify any financial gaps or needs before that year-long window closes. And you may have a potential looming troubled project or workout if financial issues weren't addressed. And I would think that that would be a time you could, if you hadn't provided operating assistance or an operating reserve, that might be a time you want to evaluate is this project going to be viable in the long-term without that assistance? And if not, is it feasible for us to provide it? And then just also keep in mind when you do invest additional funds, the total HTF investment can't push that per unit development subsidy over the limit that you've established, that the grantee has established in the allocation plan.

Okay. So other prohibited activities include paying to acquire a property that the grantee owns. So if a state owns property, can't use HTF funds to buy it unless it was acquired with HTF funds or it was acquired specifically for the HTF project. Another prohibited activity related to acquisition is paying delinquent taxes, fees, other charges on properties that would be assisted with HTF funds. So if there are outstanding taxes that need to be settled in order to have clear title or for the acquisition to go through, those can't be covered with HTF. You'd have to find another source.

I think just like every HUD program, I know HTF funds can't be used for political activities. So you can't advocate lobby or try to influence elections or appointments to political positions. HTF funds can't mix with politics. As far as I know, HUD funds don't mix with politics. And then additionally, counseling services are ineligible except housing counseling as we've mentioned a few times. Okay. So then additional prohibited activities include travel expenses unless they're related to carrying out the HTF program or otherwise eligible under 93.202(b) tax advice or tax preparation, so providing that advice for preparing tax returns. And then HTF funds can't be used for management and operating costs for the grantee, except as allowable at 93.202. So I think the takeaway here is refer back to the portion of the regulations that says which costs are eligible. And then prohibited costs are anything that hasn't been called out in the list of eligible expenses at 93.202.

Okay. Let's talk about fees. Grantees and subgrantees can't charge fees to cover the cost of administering HTF except as provided in the regulations. So one exception here is that grantees can charge rental project owners annual fees for monitoring compliance. So these costs have to be based on reality, what it actually costs the grantee or subgrantee to monitor the HTF rental project.

The method used to determine the fee needs to be documented. So again, we're showing our work. This is reasonable. It's related to the actual cost of carrying up the work, so document that show how the cost was determined. And then the monitoring fee; just keep in mind, it has an impact on the sustainability of the project. It's a cost of the project so it needs to be included in underwriting. That underwriting can project an escalation of fees. I think long-term performance typically do. Three percent is the percentage I often saw, an escalation of expenses.

But you need to base the actual fee charge over the life of the project on documented actual costs. And so this just -- because it needs to be included in underwriting if you're five years into a project and realize, wow, this is costing a lot to monitor, it's too late. If it wasn't part of the original project underwriting or written agreement, you can't start charging that monitoring fee after the fact.

And then just a reminder, grantees need to ensure that requirements for eligible and ineligible fees are passed down to subrecipients at the project level. Okay. So other fees that are allowable to potential eligible recipients, so they need to be nominal. So nominal application fees are allowed and they just are intended to discourage frivolous applications, acknowledging there is a cost to review applications. HTF dollars can't be used to pay these fees.

And if these fees are being collected, grantees need to determine that the amount of the fee is appropriate to the type of application. So just remember who we're serving here. The fee needs to be nominal. It shouldn't be a barrier or an undo impediment for participation in HTF assisted housing for an otherwise eligible applicant. So we are serving for the most part, extremely low-income households. They don't have a lot of funds laying around to pay application fees.

Okay. One more slide on fees. So all fees are applicable credits, which means they're not considered program income. You don't have to track and report them in IDIS. You'd track incoming fees and use them to offset admin costs that would have otherwise been charged to your 10 percent piece of pie. And rental project owners can also charge some reasonable fees to applicants and tenants.

So again, reasonable application fees, parking fees, if it's appropriate to the neighborhood or the context, services offered onsite such as a shuttle service or meals. So similar to fees charged by a grantee or subgrantee to say, a developer or maybe a homeowner or home buyer typically, something such as these collected from laundry facilities for instance, is listed as an additional source of revenue and utilized to cover ongoing operating costs of the property, operating costs and debt service.

So when we're talking about rental projects again, as I said, parking could be -- you could for parking, if it made sense for the neighborhood. So say in an urban environment, you wouldn't necessarily provide parking or maybe you have a garage that you could charge for. But if it's a suburban or rural setting, parking would typically be free, so you'd be doing that assessment.

And then any fees for services must be voluntary. So grantees may need to watch for fees that are added into rents and/or in leases and not optional such as required fees to access an onsite health club. If the beneficiary -- if the tenant doesn't have a choice, whether or not they pay it, then it could be considered part of the rent. And this is something I've actually seen happen early in my career.

There was a rental project that was charging, I think they called it service fee or activity fee or something like that. And it actually pushed the rents over the allowable minimums and it was not very fun to unwind. There was a lot of finding former tenants and making sure that they were repaid for anything that they were overcharged. So keep an eye on that when you're monitoring and looking at leases.

Okay. So one final note before we finish the presentation for the day, and this is something we mentioned before on who HTF is intended to serve and how that may expand if the size of the fund grows. So it's important and worth repeating that while the size of the Housing Trust Fund nationally is less than $1 billion, which it has been since the fund -- the program was first funded in 2016.

One hundred percent of HTF funds must benefit households that are extremely low income, which means households earning out or below 30 percent AMI, or less than the poverty line, whichever of those two is greater. I think I've -- in every market I've worked in, the 30 percent AMI number has been higher, but there are some where the poverty line is above 30 percent AMI for the area. And then once the size of the national fund exceeds $1 billion, then there will be a little bit more flexibility to serve.

Slightly higher income households will still be -- so at least 75 percent of the grant will have to benefit that ELI under the poverty line group. They are the focus of this program, but the remainder of the funds can benefit very low-income households or those earning up to 50 percent of area median income. And I think with that, I'm going to pass it back to Les for our last pause for knowledge checks.

Les Warner: Great. So we're going to do a couple of knowledge checks and then we're going to open things up for question and answer. And we've had lots of really good questions coming through. So we'll probably also go back and review some of those because you probably would've had trouble keeping up with those.

So our first knowledge check that's -- there we go. So admin and planning costs are capped at a maximum of 10 percent of the sum of each fiscal year grant. And this is a true or false question. This cap applies to the funds used by the grantee, costs incurred by a subgrantee are not included in this calculation. Is that true or false?

All right. Our poll has ended. Let's see how folks did on this. So the correct answer here is that it's false. So you might like to think that that 10 percent was just for the state Housing Trust Fund grantee and that anything you were providing for the subgrantees to cover their administrative costs would be in addition to that. That's not correct. The 10 percent applies not only to what the grantee is using in-house, but also for any admin that's provided for any subgrantees on that. So it's a budgeting thing to make sure that you're going to be within those limits.

All right. Our next question. You'll have to going to go through these a little carefully. So which of the following statements is not correct about the rule when Housing Trust Funds are being added to a previously funded Housing Trust Fund project? If you'll select the one that is not correct and then hit the submit button.

All right. Our poll has ended. So the one that's incorrect here is A. And we'll walk through these just to make sure why that's the case. So option A was saying that there never was the ability to add additional funding to a completed project. And that's not correct because we have a couple of ways that we are able to do that. So one of those is option B here, that additional trust fund dollars can be added to a completed project up to one year after completion.

And that is the rule that also is in place for the HOME program. And so what this means would be that if you've completed that project, you've placed it in service and you determine that there is a problem that is going to maybe impact long-term sustainability for that project; and so that it is still eligible at that point up until that one year after completion to be able to amend that and add funding to be able to correct that.

So many folks will always make sure that prior to that 12-month limit, which is monitoring requirement that you get to that site, that you complete the monitoring to determine, are there any issues that we can identify here while we still have the opportunity to make that correction? And so we do have this little window that closes then at that one-year mark for that. So option C was that operating cost assistance or operating cost reserves can be added. It would really be I believe operating cost assistance is what we would typically see. And so we could -- we talked about projects being able to be funded for up to five years of operating cost assistance. And we talked about the fact that there's an expenditure deadline that applies to that.

So we could, as part of our Housing Trust Fund award provide an initial operating cost subsidy. That's going to be drawn down as they're needing those funds to meet those operating shortfalls. That has to be completed within that expenditure deadline, so we have a maximum of five years on that. But that project then could come back.

We could allow them to come back to us and apply for a renewal, so adding additional operating costs, and that would be during that affordability period. So if we're providing that and they may be coming back to us every five years during that 30 year affordability period. That would also mean, and I know we've had, I think last week there was a question about if we have a project-based rent subsidy contract in place that has a 10-year period on it, what happens if we find that that is not renewed for that property?

You would have the ability for that project to come back and apply for operating cost assistance to be provided out of that current allocation of funding, and so we do have a safety valve there. And so we know that all items are not incorrect. B and C are correct, A is not correct on this.

All right. We've got one more question here. So if the total Housing Trust Fund available for the annual allocation exceeds $1 billion, Housing Trust Fund grantees will be required to use a minimum of 75 percent of their grant to benefit extremely low-income households but could use the remainder of the grant to benefit very low-income households that be at 50 percent and below. Is that true or false? All right. Our poll has ended. We'll have results in the moment here. All right. Yeah. So this is true. And that's what Carrie was talking about just a couple of minutes ago. That at this point since the inception of the program, we still have been below that $1 billion mark.

And so we have been restricted to 100 percent of our funds being used to benefit households at the extremely low income level, so 30 percent and below, or as we talked about the poverty level. But we do have the possibility written into the regulations themselves that if at some point in the future, that that would go above that $1 billion mark, then you as a Housing Trust Fund grantee would have the option, as you were thinking about how am I going to allocate my funds? What's the best use for these funds? You could choose to then have -- you'd still have to have at least 75 percent of your funds going towards the extremely low income. But it would give you that flexibility for the balance of your funds could go towards 50 percent and below.

So that would give you some flexibility. And we mentioned a couple of points about, and we have coming up in the series tomorrow talking a little bit about home buyer, the requirements for home buyer programs. Right now, I don't think anyone is doing a home buyer program with the trust fund dollars, because it's thought that it's really not probably an appropriate target for folks that are 30 percent or below in income. It's probably not a way to make that sustainable for those buyers.

But if we were to exceed that $1 billion mark and be able to work at the 50 percent and below level, it might be where grantees would choose to undertake those kinds of projects in the future. So keep an eye on what the total allocation is. And if that were to go over 1 billion, then that would open up some other opportunities for folks.

All right. So let me try to -- here we go. So let's go to our question and answer. And we've had a whole bunch of these that have come through that we've sent answers back. And I think on some of these, we probably should revisit a couple of these. I'll just start out. And Carrie, maybe you can identify the next one to do there. We've had a couple of questions again about laundry facilities and the requirement. We said that laundry facilities or community facilities cannot or be they're not eligible to be funded if they are standalone structure.

So they need to be part of a housing -- a building that includes housing units. There was a couple of folks have asked the question of, well, does that mean that it has to specifically be Housing Trust Fund funded units? When you go back to the language in the regs, it's just specifically talks about that it would need to be in a structure that included housing units. It does not specifically call out that they have to be trust fund units. Carrie, you want to take the next one?

Carrie Kronberg: Sure. Okay. So let's see. We got a good question. I don't think either of us answered, Les, that came in early -- earlier. So for supportive housing; can a supportive services reserve be included in the operating cost assistance reserve? And I'd be really careful here about making sure we understand what supportive services are and what operating costs are. And the eligible costs for operating costs assistance are listed in the rule. I was just looking for it, but didn't quite get there before Les, tapped me. But services in general are separate from operations and would not be eligible for HTF operating cost assistance.

Les Warner: And I think for the most part, it's difficult for projects to be able to pay for supportive services for their project. So I know many projects are looking for community-based services to see if there's the ability to create linkages with that. And there certainly are as you have specialized population, you may have a need for supportive services, and it's obviously appropriate to figure out what do we need here? But the challenge because of having --

depending on the mix in that project, having enough cash flow coming in to be able to fund that is a real challenge.

Carrie Kronberg: Yeah. And I did find, I just will quickly revisit the operating cost assistance. The eligible costs are listed in the regulation, insurance utilities, real property taxes, maintenance, scheduled payments to reserve for replacement. So these are things associated with the operation of the property, not with supporting tenants.

Les Warner: Yeah. So I answered a question that was talking about; could my program allow projects to reapply in the future from future allocations? And asking, are there multiple affordabilities periods if this is done? So we're used to, and some of our other program requirements that if we added funding that we would then have to add an affordability period for that additional investment.

So that's not going to be -- it's not going to trigger an additional affordability period. And as we mentioned, we have a 30-year affordability period. So if we're providing operating cost assistance, we might have a project coming back multiple times and asking for additional renewals on that. And you'd have to think about as part of your allocation plan, having funds available to be able to do that in the future.

So I would assume that you would see allocation plans that would set aside certain percentages of their funding for new or rehab rental projects, and then have some up to an amount set aside for operating costs assistance. And that would be for new or for renewals on that if needed. I -- my understanding at this point is that we've not seen much usage or perhaps any usage of the operating cost assistance at this point.

And I think that's because most projects have been able to either have project-based rental contracts in place that are making that sustainable for them. Or because of these units being incorporated into a larger project that included some higher rents, maybe some market rate units that it's helped balance out those costs. But it is a really important aspect of what the rule allows for folks and it helps to address one of the key challenges on making this work.

Carrie Kronberg: Yeah. And I do -- I know of at least one state, Les, that is -- I don't know if they've closed yet, but they've worked in their way towards --

Les Warner: Yeah. I had that, because I wasn't sure if they were doing it yet or they were about to do it yet.

Carrie Kronberg: I think it's been part of the application process, so it's good.

Les Warner: Good.

Carrie Kronberg: Getting close. I think this one -- this question is just the point of clarification on ongoing operating cost assistance versus an operating cost assistance reserve. And that's really, it's for the same purpose, but just the mechanics of it and how it's administered is different. So if you're doing an ongoing operating cost assistance, say the grantee, the state would hold the funds and the project manager or property manager owner would submit, say quarterly requests for disbursement to cover that operating deficit.

So they would document, okay, "Here are my costs to operate these units. Here was the revenue from rent and fees and here's my gap. Please, pay me." So that's the operating -- ongoing operating cost assistance. And then the reserve is where the grantee would capitalize an account that then the project owner would have access to, but would be controlled and some way require grantee approval to take disbursement of it. But it's just where the money sits. But ultimately looks the same that the property is drawing on those funds as they're needed to close that operating gap.

Les Warner: And I think that key difference solves that expenditure deadline because as you mentioned for the operating cost assistance, that's being drawn down as needed. And we've got a five-year limit on being able to draw those funds. In the case of a reserve, those funds are drawn upfront, deposited into this reserve account. And then are there available for use over the affordability period? And I would think that in the case where you had particularly with the operating reserve, I would think you as the trust fund grantee would want some regular reporting about the status of this.

Our concern on both of these is to make sure that this project is going to be sustainable over that affordability period. And so if you have funded this operating reserve that is meant to do that, I would think you're going to want some financial reporting over time of what the current status of that -- what the rate was that funds were being drawn. If it turns out that that operating deficit is actually more than what had originally been projected, that operating reserve could run out before the end of that affordability period. So the sooner that that was identified, the better chance you'd have to be able to address that.

Let's see. So I'm -- I'll answer this one and, Carrie, if you want to weigh in. So we have a question about if it's determined there's a need for additional funding with a completed activity in IDIS be reopened, or would you set up a new activity for the additional funding? My understanding, and I'm no longer actively have access to IDIS, which I'm probably happy about. My understanding would be that you would reopen that project, modify the setup to add additional dollars on that. Carrie, is that your understanding also?

Carrie Kronberg: I don't -- I'm not IDIS expert enough to speak to that.

Les Warner: I think that's the case. I would recommend that you work with your HUD field office. They'll be able to walk you through that. Most, every office has an IDIS. Go to person on that, but I believe that's going to be the situation. In the cases where we are adding additional operating assistance to projects over the life of the project, since you're going to be using your new -- that current year's allocation, I would presume that it would be set up as a new project. But I think that's another very valid question on this.

Carrie Kronberg: Okay. We had another question about; you said you see the use of operating costs assistance increasing over time. What makes you say this? What is changing? And I'll speak a little to that from my perspective. When I was a state grantee, we didn't dip our toe into the operating cost assistance. As Les, mentioned we had access to project-based vouchers or properties had internal subsidies where say, the 80 percent units made up the difference for the 30 percent units.

So we found other ways, plus it was just something new. We didn't have a process in place to implement it. We had in our state, the fiscal rules made it difficult to capitalize a reserve. I think they can work through it, but the initial easy answer was, No. We can't do that because it scares us; that we don't have control over that money necessarily in our own account.

So I think it was just a new flexibility that there wasn't -- and there were other options. But now I think HTF is a little bit more of a stable program. It's been around longer. And so that the expectation that it'll continue to be there subject to change. But I think the longer something's around, the more stable it seems. And states can start to think about using that flexibility that they have as just another tool in the toolbox.

I'll also say, I said this on the last webinar, but the HOME app program also allows this operating cost assistance reserve or ongoing operating cost assistance. And so now we have two office of affordable housing programs that offer this flexibility. If you get policies and procedures in place to do it for HOME App, those could be applied to HTF. So that's why I see it increasing over time. Anything you want to add, Les?

Les Warner: Well, I was just going to say that I think -- I mean, it is always that challenge of most times states are trying to get as much impact for the funds that they have available. So if you were using a significant amount of your allocation towards funding, either reserves or ongoing operating costs assistance, then that's less dollars you have for new projects themselves.

And so I think as long as states have been able to make these projects work and sustainable by being able to either place these units in larger projects that we're balancing and in some ways subsidizing their operating costs or having access to being able to get project rent subsidies in place, I think states have chosen to go in that way so that they could create more targeted units because there's such a desperate need for that.

I think as there's then a challenge on how do we -- have we outstripped the access to make this work without some operating assistance? Then I think you'll see states beginning to say, we need to have this at least as an option within our Housing Trust Fund allocation plan and see some of that being done. There was a question about; is there a guide on how to best leverage trust fund dollars with other federal sources. I'm not aware of a guide that really addresses that. But I think if you commonly look to see how states are integrating their trust fund dollars with the other federal sources that they may have available, I mean, first off being able to get using public housing rental subsidies for projects has been a significant.

Other source that's been leveraged, I think the Low-Income Housing Tax Credit program has been a significant. Other -- it's not really a federal source, exactly. It's an IRS process to be able to have equity investments. I think you'll -- you see the home program paired with that. So I think those are the models that folks are doing, but I I'm sure there are other models out there. And I think Carrie, on the HUD Exchange, they have been trying to then create more project write-ups and examples of projects around the country. And I don't know if those are in place for trust fund at this point. But if they are, that might be also something to look to for some other examples that have worked with that.

Carrie Kronberg: Yeah. And we just had someone point out when we're talking about operating costs. Another challenge is just limitation on what's actually eligible right there. It's not every -- I think debt service is ineligible. So there are limitations and that can constrain states in being able to use operating cost assistance.

Les Warner: Well, I think -- I mean, part of the option here is you can 100 percent pay for the construction or rehabilitation of the trust fund units with your allocation, but it's those ongoing operating costs that is the challenge. And I think that's why those limitations are written in that way. But the issue that was raised about supportive services being a challenge is certainly true as part of that.

There was a question about written agreements and could you use exhibits as part of that? And a lot of folks will have -- they'll have a written agreement template and then have exhibits that are incorporated in that to help them cover some of the required elements. And I would just note that if you look at 93.404, that it lists out what those requirements elements are within that written agreement.

But keep in mind that for each project that you funded, you may well have your own. The state may, as part of their allocation plan had some state-specific requirements. Or you may have some project-specific requirements as part of that, and you probably are going to want to also capture those within that written agreement.

There was a question earlier about, would that written agreement if we were providing them funding for operating assistance, would we want to call that out within the written agreement? I think you always want to do a line-item budget as part of your written agreement, because we spend a lot of time talking about what's an eligible cost, what's not eligible. You're needing to be able to show within that written agreement. These are the things that I'm paying for, and they're all eligible costs.

There may be other costs within this project. Maybe there's a standalone laundry facility. Maybe there are expenses that were incurred by that owner prior to that pre-development period. They're still part of the total project costs, but you're not using your trust fund dollars to pay for those. So if I am funding an operating cost reserve, I'd want to call that amount out in that written agreement as they are drawing funds. You want to make sure that they are drawing funds for the intended usage.

Because we want to make sure that when that project is completed, if I've funded, I don't know $500,000 into a operating cost reserve, I want to make sure that that amount of money actually was deposited into that reserve because my calculation was that that was the amount that was needed to meet those shortfalls in their operating funding. So it's going to be really important to make sure that what I actually paid for actually ends up in that reserve account.

Carrie Kronberg: I had to come back to unmute myself. We had, of course the leaf blower right outside the window for a minute. So someone early on asked a question, let me see if I can find it. All HTF are allocated the states -- oh, no. That's you. "HTF is awarded and administered by states. Why is there an opportunity for direct allocations to PHAS and cities?"

And this is really just -- that's the way the program was designed that it goes to states. But I will say as part of developing that allocation plan, there are citizen participation requirements and consultation requirements. So get involved with the state and you can maybe work with them and talk to them about direct allocations or from them. Sorry. So being, if you're a city say being a sub grantee to the state to administer a portion of the grant in your community. So it's -- it would be up -- it would be the state's decision, but not out of the question.

Les Warner: And I just want to mention, we had the question earlier about; with the laundry facilities and the fact that that building needed to also include housing units. We had a question of, do they need to be Housing Trust Fund units or simply other housing units? We have our subject matter expert on also. And she's responded back saying that if the cost to construct or rehabilitate laundry facilities are paid with trust fund dollars, then the laundry facility must be in the same building as the trust fund units. So it is more specific.

All right. "Is there number to call with someone over at HUD in regards to a project idea?" So if you are participating in this, and you're thinking about a Housing Trust Funded project, you would need to contact the trust fund grantee in that area. So our trust funds are going to allocated to states. And so you would need to contact the state that -- where that project idea was.

And as Carrie, mentioned in the earlier session, each state is putting together an allocation plan. So how they are providing their funds, what their -- what that process is going to be is going to be different on a state-by-state basis. So I would suggest that as your first stop on that. And you can on the HUD Exchange and I would believe also on hud.gov, you could go to the Housing Trust Fund landing page. And that would, I believe you could look up contact information for the grantees.

Carrie Kronberg: And if you are a representative of a state, your HUD field rep is always a great place to start, I think. When I was trying to work through how to do something, I would usually have an idea, I think. But if I wasn't totally sure, I my call up our field rep and just talk it through and get their take on it.

Les Warner: Trying to scroll through and see if there's anything else from the questions that were answered here. So there was a question about how often is operating cost assistance recalculated. So if you are providing operating cost assistance as part of that initial award, you're going to be using those current numbers and they'll be projected as part of your proforma, how they will change over time. So looking at that, we know that we're limited to a five-year period.

So you're going to be projecting what that shortfall would be over that five-year period. And that's how you would determine that amount. So if they come back in apply for after that five-year period for another five-year award, you would be collecting -- you're going to have to essentially go through that same process again. And you would be looking at current numbers.

So these projections are going to be based on information about what current actuals are, and then again, as you project them to escalate over time. So each time they're asking for additional funding, you're going to want to go back and go through that same process. Again, update those numbers. So particularly, how you're projecting cost changing over time. If this is five years later, you may well have changed what your underwriting standards are going to be on that based on the actual numbers that you're seeing in your communities.

All right. Well, that brings us to the top of our hour. I'm going to thank everybody for the participation and the great questions. Remember, we've got our third and final session tomorrow at the same time. And we'll look forward to having you join us then. Thanks, everybody.

(END)