Jane: Thank you very much, Mary Beth. This is Jane Bilger, and welcome to another NSP Webinar. Today's topic is Meeting the 25% Low Income Requirement. Clearly this is not a new topic for NSP, but it is important and timely as grantees move towards winding down their NSP activities in their communities. Equally important, around the country we have seen NSP resources used to create valuable housing for low-income families who find it very difficult to locate affordable housing.

With us today from HUD we will have David Noguera, from the HUD NSP team. David is a little bit delayed from another meeting, and he will be joining us. In his stead at the moment we have Njeri Santana, who will be sitting in.

I am Jane Bilger from CSH, one of the HUD NSP technical assistance providers, and we also have two additional panelists: your colleagues from Maricopa County, Arizona, Ursula Strephans, and Greg Fitzgerald from the city of Newark, New Jersey.

A bit of housekeeping:s you heard from the WebEx host, your telephone lines are currently muted. Later in the presentation we will open up the lines for questions. Njeri, anything you want to start with? Anything you want to add, or shall I move right into the presentation? Hearing nothing, let's move on.

The format for today's webinar will be familiar to many of you. The first half we will present background information on the 25% set aside, and then we will also provide information on updates for policy, and then we'll talk about reporting and closeout as it relates specifically to the 25% set aside. Ursula and Greg will then highlight the strategies and lessons they learned in their communities as they were meeting the 25% requirement.

So I think as most folks know, the background information will be repetitive, but we wanted to make sure that we had a common understanding of the 25% requirement, which is often referred to as the low income set aside or the 25% set aside, or also LH25, which refers to the reporting of these targeted activities and expenditures in the DRGR system.

So what is the 25% low income set aside? Basically it says that 25% of the NSP's funds must be used to house individuals or families at incomes that are less than or equal to 50% of the area median income. Keep in mind that the requirement rests with the grantee. You can meet this requirement by investing in a single type of program, or you can invest in several large development projects. In some instances grantees have chosen to pass the obligation on to each of their sub-grantees, and we'll talk a bit more about that later.

One thing to remember about the 25% requirement is that it is applicable to each of your NSP programs 1, 2, and 3 individually. Even if you exceed the requirement under your NSP 1 program you are not able to carry over this over-investment in LH25 in NSP that you may have experienced or expended in NSP 1 and have it count towards your NSP 3 grant. Certainly as we've already mentioned, there's tremendous demand for low-income housing in all our communities, and so we collectively will be ahead if we are able to exceed the 25% minimum requirement.

Another thing to keep in mind about the 25% requirement is that it's measured by occupancy in the NSP assisted unit by an income-eligible resident. Many of you have completed your units or have expended the appropriate level of funding to complete those units to meet the 25% requirement, but you will not actually satisfy the requirement until you can document the occupancy of the resident in the unit, meet the national objective, and then record in the DRGR system.

We know that many grantees are beginning to think about closeout, but you cannot close out your grant until the units are occupied, and specifically they're occupied with low-income residents.

So let's take a moment, now that we're a couple of years into the NSP program, to see where we are. Margaret, load the poll? Are we seeing the poll? Okay, there we are. So what percentage do you think we have expended nationally for low-income households under LH25 for each of the NSP programs? So you can select from the percentages that are provided there, and we want you to do this based on each individual program, for NSP 1, NSP 2 and NSP 3. Go ahead and submit your thoughts.

Okay, do we have some results? Okay, well here's a little bit of advance. So for NSP 1 we have expended 31.6% of the funding equivalent to $1.46 billion for LH25 households. Under NSP 2 we've expended 34.9%, equivalent to $673 million. And for NSP

3 we're at 23.8%, equivalent to $240 million. Keep in mind, this percentage may be below the 25% for NSP 3, but we're still 8 to 9 months before the final expenditure deadlines. Overall, $2.37 billion coming from both grant dollars and program income dollars have been invested to develop housing that serves lowest income population, and I'd say congratulations to everybody.

Now we do see the results of the poll and people were pretty much on target with the results.

An important point that I just mentioned is that the amount of the expenditure for LH25 is made up of both the grant funds and also program income funds. So let's talk about some policy updates that we had related to the 25% set aside and program income.

HUD has determined that the language in the legislation, NSP Funds, includes both the original grant plus all program income earned on grant activities across each of the NSP programs. Many of the grantees around the country may have set up projects in their initial planning for NSP to meet the set aside requirement, not anticipating that the requirement would continue to grow as program income was earned. We're going to talk today about some of the strategies that have been used by grantees around the country to expand their LH25 activities as program income has been earned.

So a real quick example, pretty basic math, let's say you have an NSP grant in the amount of $10 million. Thus far you have earned NSP 1 program income equivalent to $3 million. So your 25% set aside requirement is $3,250,000, and that's based on 25% of the total of $13 million.

A question has come up whether or not the permitted 10% allowance for administrative costs should be deducted from your grant and program income before you calculate the 25% set aside. And the answer is no. You need to calculate the LH25 amount based on the total grant plus total program income.

So in order to meet the obligation for LH25 you must provide permanent housing for households at or below 50% of the area median income, and this can be achieved through a wide range of activities. The financing activities, acquisition rehab for rental or for sale, and also for redevelopment.

You may recall that there was guidance issued back in October of 2010 that permitted vacant properties not abandoned or foreclosed to be qualified as LH25 if they were providing housing for households at or below the 50% area median income. Previously in the initial announcements, the requirement was narrower and that LH25 had to be met either through properties that were abandoned or foreclosed.

The type of housing is wide varied as well. For rental housing we have seen scattered site as well as single site. We've also seen mixed income and mixed tenancy. For home ownership we have seen LH25 in single-family home sales, for condo sales, and in some instances, owner occupied rentals. The type of assistance can be both homeowner assistance or in many instances we have seen development cost assistance, writing down the purchase price of the home to make it affordable for the target population.

One thing I wanted to mention about eligible activities is land banking, because I've heard some grantees say we're going to develop LH25 housing or low-income housing with our land bank properties in the future. Land bank properties cannot qualify to meet the LH25 requirement based on future development plans. And this really connects back to what I had said earlier about LH25 is determined by occupancy and meeting a national objective. So if you're going to develop it in the future, you can't count it at this time as you're preparing to complete your general or your initial NSP activities.

We wanted to take a quick break and see how you are expending or meeting your 25% set aside requirement. So on the poll there we have a couple of ideas of what we've seen. So go ahead and submit – and you can choose more than one, because many grantees are using more than one activity to meet the LH25. So we want to get a sense of what you're doing out there. Go ahead and complete the poll.

Okay, have we had enough time for those that want to complete it, share the information? Let's see what the results are. As I mentioned, there's a wide variety that folks have been using to meet the requirements. And as we see from the results of the poll, it's pretty much even across the board. The high end 26% are doing it with development of multi-family housing, 20% with home buyer direct assistance, another 20% with scattered site rental, and about 13% with permanent supportive housing, as well as another 19% with the development and sale of homebuyer units. So it's a pretty good mix across the board.

So what are the effective strategies for LH25? As we've mentioned, most of the strategies have been successful that grantees started off their programs with. We saw in the earlier poll that we're exceeding the expenditure requirements, but in some cases a project may have fallen through, or if you're targeting home ownership for low-income households, the tightening of the mortgage market made it very difficult to find qualified low-income buyers. This has caused grantees to maybe reconsider their approach. For many grantees, the requirement that the 25% set aside be applied to program income caused them to either have to change gears or to line up additional projects that could provide housing for low-income households. So let's focus on what are some of these strategies that could help to line up projects now that we're midway or in the last quarter of our NSP programs.

For rental housing we've seen a wide variety, both new construction and rehabilitation of existing properties, both single site and also scattered site, as I mentioned. Many of the properties are mixed income, or in some instances they are 100%, as may be the case with permanent supportive housing, they may be 100% serving a single income population within one building.

Grantees have been very successful in leveraging NSP funds with other resources -- tax credit program, HOME funding, and maybe some public housing resources. So if you find yourself with program income and you don't have projects, one thing to think about is to look at the pipeline of maybe tax credit projects or other rental housing projects that are in your community, and identifying are these developments already setting aside units for the 50% AMI population? Can they add units to target that population based on investment of NSP funds? Is there a development-financing gap in the development that you can invest the NSP funds?

Of course, if you are investing NSP funds into a development that's in its current planning, you will have to determine how the NSP requirements fit in, both the rent and income targeting, what are the affordability requirements, and certainly subsidy layering, making sure that you're not over-investing in public resources.

Another way to increase your LH25 requirement is to look at community partnerships. A good partner may be your public housing authorities. Are there opportunities for public housing residents or public housing wait list persons to occupy the NSP units that are targeted to low-income households? Are there additional rent subsidies that may be available from the public housing authorities that can bring affordability to low-income households so that they can live in NSP assisted units that are already underway?

It's important to keep in mind that if you are changing strategies between the eligible activities, you're going to have to make changes in your DRGR action plan, and in some instances, if it's large dollar amount changes you may need to talk with your HUD field rep to make sure whether or not it's a substantial amendment. Certainly if you're adding a new activity you would need to make a change to your substantial amendment.

We're going to hear from both Ursula and Greg in a little while, who will talk about how they were able to increase their LH25 activities by working with partnerships in the community. Working partnerships in the community can also help to align the NSP program with other priorities for the community.

Permanent Supportive Housing – and for those of you who know the Corporation for Supportive Housing, the organization I work with, is a big supporter and helps many grantees develop permanent supportive housing in their communities. So this has been a good strategy for meeting the LH25 requirement.

As I've already mentioned, it satisfies multiple community benefits. You can partner with your continuum of care or homeless support service programs to look at what development plans, what the needs are for permanent supportive housing, and who are the providers that you might be able to partner with.

NSP also creates a tremendous opportunity for you to help create integrated community-based housing for persons with disabilities. Many jurisdictions are looking at how do they increase this integrated community-based housing, and NSP units, both scattered site as well as in larger developments, there is a good opportunity to team up.

One thing you need to keep in mind, and this is that group homes, shelters and some transitional housing are considered public facilities under CDBG and they are eligible to be funded with NSP under redevelopment under NSP 1. But these types of facilities may not be considered permanent housing and they will not meet the LH25 requirement.

Something to keep in mind is that in order for supportive housing to be considered permanent housing the tenant would be required to have a lease and general duration of at least one year, and it's not term limited. And also if there are services provided they must be made available voluntarily to the residents.

We saw from the poll that that a number of the many grantees that are on the call have identified home ownership as an opportunity for meeting the LH25, but it can be very difficult with some barriers. Those barriers are – are the properties affordable, is the purchase price affordable to the low-income household, and is that household able to qualify for a mortgage.

The purchase price can be reduced by offering NSP funds for a soft second to stay into the property and make it affordable to the household, or if you're using home buyer financing using a flexible mortgage product that can help qualify the resident. Also closing cost assistance can be valuable. It's really important if you are providing NSP dollars for home ownership for the low-income households that you partner with experienced organizations that have worked with low-income buyers. Some of those are mentioned on the screen here – Habitat, there may be local community development corporations, NeighborWorks or public housing authorities.

As I think many of you know, Habitat for Humanity has a structure where they provide the mortgage financing that is provided to the homebuyer and it can be flexible and more affordable. Some of the public housing authorities have also worked with grantees to provide resources that help residents come through a structured home ownership program with some of the public housing subsidies. These can be relationships that you can build in your community and also can be effective for providing home ownership for the targeted low-income population.

It's really important to make sure that you're emphasizing both pre and post homebuyer counseling. This will probably require going beyond the minimum requirement for housing counseling under the NSP program.

The Habitat model also uses, and other CDCs also focus on peer learning among the home buyers, and support, so they can move through that home ownership experience. The counseling should be focusing on the budgeting, debt obligations, what the owners' responsibilities are, as well as any maintenance of the properties. And as I mentioned already, it doesn't stop with just the purchase of the home. Post counseling and keeping in touch with the homebuyers is very important, especially for the low-income homebuyer.

With any scattered site program it's important to make sure you have a property management company that is available, and this is if you've moved to a lease purchase program, to make sure you have good property management. You want to be able to train the homeowner, to make sure they understand what the property management responsibilities are, and if you are in a lease purchase, make sure that there's good property management.

Here also in a lease purchase, which I know some folks have been moving towards, you want to make sure you're establishing the purchase terms and the responsibilities at the front end and make sure you're checking in with the tenant or the lease to own purchaser throughout the process.

Chances are there could be a problem and you want to make sure you've got a Plan B. What many folks are looking at is how do you turn that lease purchase either in identifying another potential homebuyer or maybe it's returning the property to a long-term rental strategy.

Let's take a moment and pause here a little bit, because we've been talking about a lot of program activities, and maybe we can open up and see if we have some questions on programmatic activities, and then we'll get into some of the reporting.

We do have one question, and this came in early on. Actually I do see that we have some questions. Doreen, do you want to open up the line and see if you have something?

WebEx Host: Your line is unmuted, you may ask your question.

Doreen: …is if I had incurred some cost such as an appraisal fee for a property that I was going to put in our set aside program, and then the purchase fell through, can I still use that expense towards the set aside or do I have to apply that towards admin, or take that out of admin funds?

Jane: It cannot be applied to the set aside because the property is not being occupied. Whether it goes into admin or it's a project delivery you have to determine, but it definitely cannot be allocated to the LH25.

David: You would be able to add them to an activity delivery though.

Doreen: Okay, but just not for the set aside. You're talking about for a different activity?

David: Well, for your overall activity. In DRGR, as I understand it, you have your overall acquisition rehab activities, not at the address level. At the higher level.

Doreen: At the higher level, yes, okay. All right, well thank you.

Jane: And welcome, David.

David: Hi, how are you.

Jane: Good. We do have another question, Joanna?

WebEx Host: Joanna, you may ask your question at this time.

Jane: We're not hearing you, Joanna, but I do see that you wrote in the question, so let me try reading that. Oh, are you there? Okay. So Joanna did ask a question: "Will activities carried out with program income be limited to eligible census tracks or can they be expanded to an agency's service area?"

David: So what we've said in the unified notice is that program funds, be it your initial allocation or any program income that's generated through the use of your initial allocation could be used in your approved target areas. So, no, this idea of the service area, unless you're going to amend your NSP action plan to encompass this service area, that would not be permissible.

Jane: Any other questions at this point from folks that are on the call? Okay, we have another question here, Tampek.

WebEx Host: Tampek, you may now ask your question, your line is unmuted.

Tampek: Hi, we sold rental properties to the Housing Authority, and in our agreement with them it is their intention for these properties to be occupied by tenants with an AMI of over 50%. But the current tenants right now that are in place are below 50%. What DRGR activity do we put these properties under? LH25 or the over 50% AMI?

David: So I think it really depends on your long-term plan for those properties. Is your plan to have them meet the set aside, or is your plan for them to serve the 120% AMI households? Because once you determine what that plan is, that's when you become locked in. So you have to make some decisions as to whether that is where you want to go. Right now it sounds like you gave yourself the flexibility, or the Housing Authority gave itself the flexibility to put a family in there whose income went up to 120%, and they just happened to place a family in there that's under 50% AMI. But if you change it so that that becomes an LH25 unit or that you're counting it as an LH25 unit, then that means for the next however many years of your affordability period you're going to need to ensure that that who it ends up benefiting. So you've got to figure out what works best for you if you're going to do that.

Tampek: And how do we report that beneficiary information? Because we're supposed to report it when the property is occupied right away, right? Is that how it works?

David: Yes, I know it's DRGR –

Jane: But you should also have the beneficiary information on site, it should be in the folder.

David: Oh, in your file.

Jane: Right, in the file.

David: So the family's name doesn't go in DRGR.

Jane: No, it shouldn't have any personal information in there.

David: So you keep your own separate records of that. In DRGR you're just putting the fact that 123 Main Street is occupied.

Tampek: Oh, really, and not the income level?

David: That too, but not the name of the family.

Tampek: That's correct, but should we report it as the below 50% AMI?

David: That's what I'm saying. If you plan to keep that unit serving below 50% AMI for the duration of the affordability period, then, yes, do that. But if you don't, then I wouldn't make that change.

Tampek: So can we not report the property now if the intent is that it's going to be over 50% AMI?

David: Okay, so it sounds like you're thinking that serving under 50% means it has to be an LH25 designated unit.

Tampek: Right.

David: And I'm saying no it doesn't. Under 120% means it could be 119% or it could be 10% of AMI, right? It could be anywhere from 120 to zero. The LH25 designation restricts it from going over 50. So you can either put it in the LH25 restriction or use no restriction and have it go up to 120.

Tampek: I got you, thank you.

Jane: The other thing worth mentioning, I know the DRGR will be issuing a new release and new screens that will be tracking long-term affordability for the properties, and that will be coming out in the next couple of months, right, David? That's been mentioned. So that might be a way that you're going to be tracking the long-term affordability of these units going forward.

Tampek: Thank you.

Jane: Okay, I think that's it for the moment on questions, so let's continue with the presentation and then we'll open it up again in a little bit.

The next part is Attributing Costs to the LH25, which is somewhat appropriate tied to the last question. So most NSP costs can be specifically tied to a unit that's occupied by a 50% AMI project or household. And so those direct costs, those direct development costs that can be attributed to a specific address, whether it's construction, acquisition or home buyer assistance, those should be put into DRGR as LH25.

There's also related costs that if they're able to be tracked to a specific address that is going to be long-term LH25, like site demotion or onsite infrastructure or activity delivery costs, again tied to a specific address that is targeted for LH25, those costs can be attributed to LH25. Administrative costs are not attributed to LH25.

When you are looking at the cost for LH25, it's easy if it's a 100% building that all of the units are serving households at 50% or below, and if the building is 100% NSP-funded. Then your total NSP investment can be attributed to LH25. But the reality is that's not how most of the developments have been put together. Most of the developments have some form of mixed income or mixed financing using tax credits or bond financing or HOME funds. In that case you really need to be looking at the proportion or the percentage of LH25 and NSP units ratio to the total units, and also the ratio of the LH25 and NSP funds to the total development cost.

An added note: when you are looking at these proportions of units and total dollars, you need to make sure that the units are comparable in size, bedrooms, amenities. If you do not have comparable units in a mixed tenancy building, you need to look at the actual cost for the development of each unit when you are attributing them to LH25.

So let's take a pretty simple example here. We have a 50-unit rental development and the total development cost is $10 million. NSP is invested in the amount of $2.5 million, and the balance of $7.5 million is coming from other resources. And if we look at the unit mix we'll see that LH25, ten of the units are targeted for households at 50% of area median income, and these are the LH25 units. 30 additional units are being targeted for households up to 120% of the area median income. And so these also are NSP eligible. 10 of the units are not rent restricted at all, or not tenant income restricted at all, and this represents 20% of the units. So you can see from the slide that NSP over all, 80% of the units are NSP-eligible with 20% of the units being targeted for the LH25.

So in answer to our question, how much of the original $2.5 million NSP investment is LH25? And the answer is $2 million. And this is based on that 20% of the total units are LH25. That is 10 of the 50 units. And if you take 20% of the total development costs, that's $2 million. So 20% times $10 million is $2 million, and that's the amount – again, assuming these are comparable units that can be attributed to LH25. The additional $500,000 is also NSP eligible because you actually have additional units that are serving the units up to $120% area median income.

So hopefully that's clear. It's a pretty simple example and certainly it can get much more complicated in these multi-financed properties, but that's the basis of determining which of the costs in the NSP investment are eligible and attributed to LH25.

For the reporting on LH25, as we just mentioned with one of the call-in questions, you need to maintain accurate records that are demonstrating you're meeting the 25% set aside. You need to keep the cost documentation for the specific units and the income documentation as well as the rent rolls for the beneficiaries. You can use DRGR to identify and report the allowable cost directly related to the low-income units. And as I just mentioned a moment ago, the DRGR screens are going to be expanded so that you can track by address, the affordability requirements going forward.

Some folks I know are starting to think about closeout and we wanted to make sure in this webinar that we touched on how LH25 and closeout relate. So the first thing you need to keep in mind is that prior to closeout you can achieve LH25 by completing an eligible activity and meeting a national objective, the occupancy of the unit by an eligible household that meets the income requirements and that's in the NSP unit. You can verify that your LH25 expenses in DRGR are greater than or equal to the LH25 requirement, and as I already said, that you've updated the costs and the expenses in the DRGR system. We recognize that that's a lot easier said on that screen than in actually doing it, but those are the basic components that you will need to meet in order to think about closeout as it relates to LH25. There are a lot of other pieces you need to think about on closeout also, but this is just related to the LH25.

So let's say you have met the 25% requirement and you've been able to close out your grant. There are certain thresholds post closeout that relate to program income and LH25, and we wanted to make sure that we were presenting these just briefly here today. There'll be more information both in the guidance from HUD as well as additional guidance on closeout that will be coming.

So HUD has identified in the initial closeout guidance that there are several thresholds related to program income after you closeout. Keep in mind, before you close out your grant, LH25 applies to 100% of your earned program income for each of your grants. Post closeout it's a little different. If you earn $25,000 annually in program income you must spend it on NSP eligible activities. All the NSP requirements are applied and you can use 10% of that program income towards administrative costs. If you earn less than $25,000 annually – and this is for each of your NSP grants, not collectively – it can be expended for NSP administration and monitoring and does not have to be invested in NSP eligible activities.

How does this relate to LH25? Once you earn $250,000 annually in program income for each of your NSP programs – or I shouldn't say for each, in any of your NSP programs – then the LH25 requirement is triggered. So if you earn $249,000 of program income in a single year under your NSP program, after closeout you need to spend that money on NSP eligible activities, but it is not subject to the 25% requirement for low income populations. Hopefully that's clear, I can repeat it again. But the threshold for triggering the LH25 requirement post-closeout, is a level of $250,000 in program income in any of your individual NSP programs. Certainly you're encouraged to spend greater than those amounts for LH25, but those are the thresholds that are set post-closeout.

In the closeout notice the thresholds are slightly different depending on whether you are an entitlement grantee or if you're a non-profit consortia lead without a CDGB entitlement. And just briefly, I don't want to get distracted on that, but if you are the second, a non-profit consortia lead, you will be tracking program income for five years. You need to expend those dollars on eligible activities and beneficiaries, but the other federal requirements are not applicable. But the LH25 requirement is still applicable for $250,000 and above in program income.

We touched briefly on long-term affordability for LH25 in one of the questions that was just asked. So it's important as you're leading up to closeout, or even as you're continuing your program, to make sure that your NSP agreements have the appropriate long-term affordability requirements for LH25. You want to make sure that the affordability period matches the amount of the NSP investment, that the income levels and the rent levels are appropriately identified. This relates to the question that was just asked. Are they intending to rent to households below 50%? If that's going to be a requirement, that needs to be documented in the agreement.

Liens on NSP properties. This is across the board, not just related to LH25. And in your agreements you need to have information about non-compliance, if there are penalties, and recapture. And certainly as it relates to home ownership you need to clearly identify if you're using recapture or resale as the ongoing compliance and monitoring of long-term affordability.

On the multi-family we mentioned already the rent levels, the tenant income. You need to continue to set up systems in monitoring to make sure that the units are occupied. Also you need to make sure that there is some sort of monitoring of the NSP asset, which can relate to the condition of the property. On the home ownership, also long-term monitoring includes the occupancy and also the resale and recapture. If in fact you've used the resale requirement it means that any sale during that affordability period will require that another 50% area median income household is buying that property. So it continues on beyond the initial buyer of the property.

Well, I think everybody's probably heard my voice long enough, so I want to take a moment and see if we can transfer this over to Ursula Strephans from Maricopa County, and she's going to highlight some of the activities that have been involved with their LH25 program.

Ursula: Thank you, Jane, and thank you for this opportunity for us to share some of our success stories with NSP. As many of you know, Maricopa County was very hard hit by the foreclosure crisis. For several quarters running we were topping many of the foreclosure charts, in the Greater Phoenix area, Maricopa County.

For NSP 1 Maricopa County received approximately $9.9 million and of the three categorical activities that we identified to use the NSP money for we were actually very successful with two of them for the LH25. One of them, the scattered site rental for supportive housing was specific for our LH25 set aside. Our surprise came with our acquisition rehab resale category, and I'll talk about that in just a little bit.

We found that through our partnerships there was a high need for permanent supportive housing and so we identified rental housing as important and really partnered with non-profit agencies to implement that activity for us.

So for us partnerships was key throughout both NSP 1 and NSP 3. Our acquisition rehab resale turned out to be our surprise due to the amount of subsidy we were able to leave in the home for the homebuyer. Of the 43 houses that we acquired we rehabilitated energy efficient features, very extensive rehab in some instances. We were able to partner with housing counseling agencies and some lenders. They identified several homebuyers that were 50% below area median income. In some instances these counseling agencies worked with clients for several months to clean up credit issues and really prepare them for home ownership. And of the 43, I believe it was 22 or 23 homebuyers that actually were 50% below area median income. And again, that was due to the amount of subsidy we were able to leave in the homes in the form of a soft second.

What I refer to as our crown jewel of our NSP 1 funding really came as a result of the program income that we earned off of the acquisition rehab resale. We earned about $2.6 million and kind of the foreclosure crisis, the NSP stimulus funding was the perfect storm for us. And we were able to partner with the Arizona Department of Housing, with the Housing Authority of Maricopa County, and able to acquire a 300-unit single room occupancy building in downtown Phoenix.

That was identified, there's a huge need in our community for permanent supportive housing units, and so working with several people at the table – non-profit organizations, corporation for supportive housing. Again the state was very involved. Our local HUD office was very involved in this process. As well as our elected officials in the county advocating for us in DC at the HUD headquarters.

We were able to partner, pull in NSP money, acquire this property. The note went up for sale, HUD acquired the note. We were able to purchase it from HUD through the Housing Authority. The Housing Authority then turned around and deeded it over to a non-profit organization. We're rehabbing the property and all tenants will be 50% and below area median income divided a third equally between below 30%, 30% to 40%, and then 40% to 50%. So we are in the process right now of leasing up to the 30% and below area median income. So exciting times in our community for that specific project.

Again our program income was $2.6 million. As we started earning this program income we were losing political will as far as continuing down the single-family path. Again, it was timing of everything, it was the perfect storm, this property came up and we were able to put 100% of our program income into this property. The market turned around almost as quickly as the market bottomed out. In Maricopa County it has turned around, and so for NSP 3 again there was not much political will to embark upon single family units, nor did we receive as much money for NSP 3. We only received about $4 million. So we knew whatever we did we were going to have to be very focused, and again with the high need for permanent supportive housing in our community, we decided that 100% of that activity should go towards meeting LH25 requirements.

So again a non-profit partner was identified through an RFP process and that partner, Catholic Charities, had successfully acquired I want to say a 40-something unit multi-family property. That property is being substantially rehabilitated and will be used for permanent supported housing and will house formerly homeless and veterans.

For the County, our keys to success – there were several components to our success. Definitely the utilization of developer agreements versus a sub-recipient agreement. Through developer agreements there is more flexibility as far as what the developer can do, and oftentimes the tendency of grantees is to lean on sub-recipient agreements because they are in many instances I believe easier to comply. The regulations are much more straightforward, if you will. But definitely the flexibility through developer agreements is what helped us be successful.

Another key for us was really having dedicated staff consultants that were focused only on NSP projects. We hired an NSP consultant who has been fabulous throughout the process. We could not have done it without him. Originally I was brought on to staff only to work on NSP projects, and I think that made a difference for us as well, having staff that is dedicated only to NSP.

We were really forced to closely examine how we could successfully implement NSP 3, and engaging HUD throughout the entire process really benefited the County. Our HUD engagement included engaging our local representatives in our local office, really listening in on as many webinars as possible. HUD has done a fabulous job with NSP as far as getting information out through webinars. Just about everybody in the local HUD office, not only through the CPD side but the multifamily side too, engaging everybody was critical to our success.

When you look at some of our partnerships, for us it was really thinking critically about capacity issues with non-profit organizations and who the performers in our community are. It was engaging champions to involve the politicians and really not allowing “no” to be an acceptable answer to any of our questions. If we had a no answer we really pushed back a lot until we were able to come to yes answers.

Again partnerships, homebuyer assistance, having housing counselors and lenders that were committed to working with the 50% below median income buyers. They were tremendous and so patient and so considerate and so compassionate with those clients. We could not have done any of this without them.

When NSP 1 first started we came together as a community and we were holding quarterly stakeholder roundtables, so all of the local NSP grantees, we had banks at the table, we had the counseling agencies at the table, HUD came to the table. They were just quarterly forums for us to share best practices and solicit input and assistance in overcoming some of the challenges that each one of us were facing. And I think that as a community that really helped all of our grantees achieve success with NSP.

Overall NSP has been a great success and really a great opportunity for Maricopa County and some of our hardest-hit residents. I would say the majority of the NSP money definitely went to benefit the 50% below area median income residents of our county.

Real quickly, that's what I have to share. I'd be happy to answer any questions, and if not, I will move the ball to Greg, who can share their successes.

Greg: Good afternoon, everyone, this is Greg Fitzgerald speaking from the city of Newark in New Jersey. Thank you, Jane and Ursula and the rest of the team. I'm definitely excited to talk about what we've been able to achieve here within the city of Newark in terms of our ability to reach our LH25.

Here within the city of Newark we were hit hard with the foreclosure crisis as many other cities around the country, but it presented us with a great opportunity when we were awarded our NSP funding, and we received approximately $25 million throughout the three rounds.

So we have had great successes through our partnerships. Just to kind of give you the lay of the land in terms of the housing stock within Northern New Jersey and particularly within Newark, the bulk of our housing is between two and four family homes. We have some larger scale properties, but really it could be one owner and then two rental units if it's a three-family, or one ownership unit and then a rental unit.

At least when we first approached the NSP we approached it with the home ownership model. Of course, as we got down the road and into our program we realized that we were having a little bit of a challenge when it came to finding interested buyers as well as qualified buyers at the time. So we had to also switch our strategy and go looking at more renters and to also work with our partners.

So again what we did was, in our NSP 2 we have 17 members, the City of Newark being the lead member, and there's 4 other municipalities that are around the table, as well as a host of for-profit and non-profit developers. And all of them are very committed to creating affordable housing opportunities. Fortunately for our area, our area median income is very high for Essex County, which Newark is located in. It's about $90,000. So 50% of that, of course, would be about $45,000. And within the City of Newark the average household income for a family of four is about $40,000. So pretty much people who live within the city and who rent within the city of Newark are going to fall within that range.

So again through our partnerships, most of them being the non-profit developers, they're already very familiar with working with this population. Most of them already had current housing stock which they either were in the process of selling, and/or current housing stock which they were managing as rental properties.

So just to highlight a couple of our projects, we do have a partnership – actually it's a partnership that has a partnership with Habitat for Humanity. So one of our partners, which is the Ironbound Community Corporation, also went out and they have a direct partnership with Habitat for Humanity in Newark. So that's been great because that not only presented us with an opportunity to provide quality rental properties for this population, but also quality affordable housing home ownership opportunity for this population.

So we're really excited about that. It's an opportunity for many of these families that may not have been able to afford to own anything within the City of Newark until their income increased, to actually start owning something right now. And that's a little different model for some of us, because those are condo units, and again, like I said before, the majority of our housing stock is mostly two and three family homes. So it's been a little education for us as well as for Habitat in order to be able to present this as an opportunity to families to talk about the benefits of owning, and the benefits of being a first-time homebuyer and what that comes with, and the opportunities that may present. And then what is the benefit of actually owning a condo unit versus an actual structure of a home.

Also we had a partnership -- one of our consortium members was the Make It Right Foundation and Help USA. Make It Right Foundation, as everyone probably knows, is Brad Pitt's organization, who's done a lot of work around the country but specifically within the New Orleans community post-Katrina. So we also have a project within the City of Newark, and it has 56 units and 14 of those units were targeting disabled veterans. So again it's really a slam dunk for us because we had an opportunity to work with well known entities. Help USA has a tested and proven model around the country and they provide supportive services. So not only do we have disabled veterans that are renting in this property but they're also getting the supportive services that they need.

The wonderful thing as well is that the community surrounding the building received a benefit because they have a community space, and so if people wanted to have a meeting or wanted to use the facility in some way they have an opportunity to do so. But over and above that, it's a lead platinum building and they have a green roof and all the bells and whistles that come with being lead platinum. It's a phenomenal project, it opened last year in May 2012, so really a fantastic opportunity for residents not only of the building but for residents of the community.

And then we had another project by one of our for-profit developers. Again NSP 2 was a consortium with other municipalities. So one of our neighboring cities, the City of Orange, has a project of 70 new units, and those 70 new units, we're targeting seniors. And so some of the seniors, their finances were very low and they may not have had an opportunity to live on their own as they grew older. So again, this is a new building, and it's a new building that was lead platinum, Energy Star, and again the developer was able to have supportive services for this population in terms of financial literacy and computer training and other health-related services. So it's another opportunity for us not just to meet the need of our national objective but also really to meet the need of another population that sometimes doesn't get the services that they also need.

Those are three great projects that we like to highlight, but all of our consortium members and all of our non-profit partners have really been phenomenal in terms of meeting the objective. One thing that we did early on was as we were developing our agreements is we made it a requirement for any of the rental units to be targeted towards the 50% of our AMI. And again, like I said, in our community, 50% AMI is really our standard population who live within the City of Newark as well as the surrounding cities. It's really been phenomenal and really been awesome for us to be able to provide this as another opportunity for people to get quality built or quality renovated housing.

In terms of the staffing within our team we have a dedicated staff, and I think that's also been very helpful. And so when it comes to the monitoring of the current units that we've been able to produce we have a construction monitor that's out there every day and that's monitoring both things that have already been completed as well as things that are ongoing and we're looking to complete hopefully soon. And then we also have one point person on our staff that's working with the certification in terms of the income. So when somebody's interested in buying and we want to make sure that they meet all the income tests, they come in and they speak to that person. And then they can have a conversation as well as about what are the requirements for their tenant if they're looking to rent the additional space. Again it's another way of having one single point person that can be that person on site and on staff.

All of our partners, for the most part they also provide housing counseling or financial literacy or landlord training or some other aspect to really help to drive the point home of what their responsibilities are as a new owner and/or what the responsibilities are as a tenant, and/or landlord.

Really it's been a wonderful opportunity for us here in the city in order to really have a variety of different projects both large scale as well as smaller scale, to be able to really meet our need. And again, it really hasn't been a challenge for us to find the tenants or local non-profits or local for-profit developers that are focused on affordable housing, and then our local HUD office has been phenomenal in terms of bridging the relationships as well as providing us with referrals or resources, whatever we need, in order to make sure that we're not only meeting but exceeding.

And then because we were able to exceed, it allowed us some flexibility. Because if there was a family that purchased a home and they finally found a tenant, and let's say that that tenant did exceed the 50% income, we could look at it on a case-by-case basis. We've had a case or two where let's say it was the mother or father who had purchased a home and they wanted to rent the unit to their child, and their child did exceed the unit. Then we can make the necessary concessions if we needed to. Again it allowed us to look at things on a case-by-case basis. But also we're dealing with real people who have some real concerns and/or real opportunities, and we don't want to diminish their opportunities just because of a requirement. So that's why having this requirement and having the ability to have exceeded the requirement provided us with a good basis to make some other decisions.

Again, through our partnerships, through our internal organization in terms of having a dedicated team, and through our relationships with all the different entities around the table throughout this region, these are the reasons why we've been able to not only meet but exceed our goals that we presented initially.

And I'd be happy to answer any questions or I can move it back to Jane.

Jane: Thank you, Greg, and thank you Ursula…*[inaudible]*

David: Could you guys speak up a little bit?

Jane: Sure, sorry, I had moved the mouthpiece here. Okay, thank you Ursula and Greg for your presentations and highlighting on what's worked in your communities. We do want to open it up for questions. I wanted to check also, David, is there anything you wanted to add before we open up for questions?

David: No, no, I'm enjoying it.

Jane: Okay, great. So I want to encourage folks to ask questions either in writing, you can do that by typing your question in the box on the lower right-hand side of your screen marked Q&A, and we can read it off. But we also encourage you to ask questions over the phone, and you do that by clicking on the hand icon in the participant box in the upper right-hand side of the screen, and then we will unmute your phone when it's your time to ask a question. One thing with the telephone questions, you need to have signed in on the telephone with your ID in order for us to be able to identify you. Let's give a moment, so if anybody has any questions for the telephone go ahead, and in the meantime I will read a couple of the written questions that have come in.

Maria had asked the question, going back to the mixed income example: "If the project sold at a profit of $15 million, reminding that the total development costs were $10 million, how much of that is attributable to program income?" Well, that's a pretty significant profit. I don't know, there are a lot of different factors, and let me just flip back to the example here. There are a lot of different factors that go into determining program income. Some of it would have to do with whether it is a developer agreement or a sub-recipient, and the amount that it sold for would certainly, if it's set up in your agreement that the developer is required to return the profit, and you probably had requirements that they are not unduly earning additional profit, then I would say the $5 million, the difference, would very much be program income. David, do you want to take a stab at that one too?

David: Sure. Again I would just stress what you're saying, Jane, which is that to the extent that NSP dollars were playing a role in the initial development, when the property sells, you track that percentage, and that is what you'd classify as your program income. I thought your example did it pretty well.

Jane: Okay, good. And, Maria, if you have additional questions, you can certainly write it in there. There was an additional question. Linette asked the question: "For eligible costs applied to the LH25 set aside, can the operating reserve cost be applied as well?" She indicated that she had requested a waiver from HUD for the operating reserve until the multifamily [leaseup] stabilizes. And the reserve is approximately $125,000, and the unit set aside is 65%.

David: Want me to answer that one?

Jane: Sure, go ahead.

David: So there's a couple of things going on here. On one side there's the issue of calculating what your total development costs are in the project up front. If you have established an operating reserve – maybe a lender has required that – then any funds that you put into this operating reserve up front can count towards that set aside.

That's doable. However, if you do not have an established operating reserve and you're looking to use NSP funds on an ongoing basis, that would not be permissible. That would be a violation of 572.07 which speaks to operating expenses. (B)4, which speaks to income payments. So you wouldn't have that flexibility. Again, CDBG is not used to operate properties on an ongoing basis, but if you're able to structure it in the upfront costs, then it's certainly doable.

Jane: And then just taking that a step further you would then look at the total proportion going back to those percentages.

David: Yes.

Jane: Okay, Linette, if you have a follow up question you can certainly dial in by raising your hand, or you can rewrite the question with the follow up.

We do have a written question from Tom, and he is asking about the follow up to the annual threshold of program income. "You mentioned that the annual threshold is $250,000 of program income triggers the low income housing set aside," and he wants to know if that is based on calendar year or federal fiscal year.

David: We haven't exactly determined that yet. The thought is that if you're a state or an entitlement community, we don't want you to have to take on a separate reporting activity for NSP program income funds, than you would for your CDBG program. So the fiscal year that you use applies to your CDBG program is the basis by which you'd be tracking your NSP PI is the thought. If you are not a state or entitlement community, then we'll probably give you the flexibility to determine when is an appropriate time for you to do it. That's sort of where we're heading.

Jane: And as we mentioned, I imagine there'll be a lot more information about closeout as it relates to program income and LH25 coming out from HUD in the next couple of months.

David: Yes.

Jane: Do we have any questions? Folks, you can raise your hand. I'm not seeing any posted yet but we do have another written in question.

WebEx Host: We have a question from Chris.

Jane: Chris, do you want to ask your question?

WebEx Host: Judith, would you like to ask your question?

Jane: I see both Chris and Judith have typed in their questions, so if they don't want to ask it over the phone I can read it off.

So first Chris. "Currently program income requirements for CDBG and HOME state that program income under $25,000 across all block grant programs is not considered program income. Is NSP included in this definition or is there a separate 25% threshold for NSP?"

David: Well, I think what we've been saying up until now is that the program income that's generated post-closeout, if the total for a year – however you start and end that year – is under $25,000, then those funds could either be used for NSP program admin or they could be applied to your CDBG activities. And if you're applying it to your CDBG activities then it would be consolidated. Initially you're looking at it as just your NSP grant, but if you choose to comingle it with your CDBG funds, then you would have to add it into the other program funds that you have accumulated.

Jane: Thanks, Chris, for your question. Judith, we do have a question from Judith and it's related to long-term affordability. "For a rental unit that is included in the 25% set aside the tenant income is under 50% at the time of the lease, but over the years the same tenant income increases and is at 60% limit. Is there a problem for NSP?"

David: No. What we're doing is looking at… I know under the HOME program they have an annual review of the tenant's income. We do not do that in NSP. We look at the tenant's income at the time of occupancy, and if the tenant changes, then we'll look at the next tenant's income at occupancy, but we don't revisit. So we wouldn't be tracking what their income is growing to.

Jane: Okay, very good. Do we have other questions? Are there folks who want to raise their hand by clicking on the hand icon, we can ask some questions. We have a lot of information provided on

LH25, some of the new closeout as we're moving towards that, and certainly this reporting. So we welcome the questions now and we would look to see if there are others that you have. A lot of information that was provided and hopefully it's triggered some thoughts for you. Or maybe folks are looking about strategies of changing how you're going to address LH25. We can certainly try to tackle those questions as well.

David: We could give it a couple minutes just to see if anybody else may chime in. One of the things that I'd like to mention is that as we are winding down with the NSP program [our hope] is to capture the legacy of the program. So we'll be looking for some of these examples like what we saw in Maricopa County and Newark to see just what successes we've have with NSP. And not just the project itself and the sources of funds that went into it, but also the process. What were the challenges that had to be overcome to make that project possible? What are the maybe political obstacles that you had to get around in order to get the deals done? The hope is that whether it's NSP, HOME, CDBG, Tax Credit, whatever the program is, that we're able to learn from this experience with our NSP grants and apply them to whatever the next program is that you end up running to support your low-income housing or economic development efforts. So we'll be reaching out to you guys looking for some of those examples for you to share. I really appreciate hearing from the speakers today. It's just remarkable to see how much has been accomplished in really such a short period of time.

I thank you, Jane, for displaying this webinar. It looks like we had quite a few callers on hand relative to what we've had for the last few webinars. So I think everyone really got a lot out of it. And if there's no other questions, then that's all I have.

Jane: Well, thank you, all, I agree with what David said, there was a lot of information. Certainly if there are questions and you have follow up you can certainly go on to the OneCPD and the NSP question and answer and see if you can ask your question there. And on the next slide we have a lot of resource information that you can access about the NSP program and keep your eyes open and ears open for future webinars that will be coming up on topics as everybody is in the final throes of the NSP program.

We welcome your feedback also on the webinar, so when you exit today it will take you to a short survey and we welcome your feedback on the material that was covered, any additional material that you would like to see covered in the webinars. We always look at the results of these surveys and develop the curriculum for the webinars going forward.

If there are no more questions, thank you. Big thank you to Ursula Strephans in Maricopa County and to Greg Fitzgerald for putting forward the activities, and everybody continue the good work. Those percentages that we saw in the earlier slides, we've exceeded the 25% by a significant amount, and I expect we're going to continue to do that as more program income is earned. So thank you and it's really a tremendous benefit for all our communities. Thank you all.

[End of Audio]