<u>CAR's to CPS-based Funding Awards</u>

5 Year Transition Guidelines

How will current CAR projects be re-structured?

- Existing CAR projects in schematic design or beyond will be funded at <u>the approved TDC as of September 15, 2008.</u> After this date, increases in cost or scope must be funded out of your LHA's formula funding (FF) allocation. By the same token, any savings can be added to your formula funding allocation.
- CAR projects not yet in schematic design will not be funded under this CAR completion program. You will need to budget for this work using your LHA's formula funding allocation

Will current Emergency awards be restructured?

- No. Projects with current emergency awards <u>will be funded</u> at the approved TDC as of September 15, 2008. Going forward, as with CARs above, necessary increases to cost or scope must be funded out of your LHA's formula funding allocation. Similarly, any savings can be added to your formula funding allocation.
- New emergencies must be paid for using your formula funding allocation. Because formula funding and bond cap won't be available for distribution until 2010, DHCD will make short-term emergency advances to allow LHA's with dire emergencies to access some formula funding and bond cap prior to initiating the program. Emergency advances will be debited against your formula funding allocation.

During the transition, how much formula funding will my LHA receive?

- DHCD will provide each housing authority a multi-year FF allocation based on the condition of each of its developments as documented in the CPS and the total number and type of units within its portfolio. A development in better condition will get less formula funding per unit and a development in worse condition will get more. Clearly, the expectation is that the condition of those developments receiving more formula funding will improve and they will require less in the future.
- During the 5 year transition we estimate that the total amount of bond cap and the amount of formula funding each LHA will receive will be enough to address emergencies but likely not enough to begin major new capital projects. Therefore DHCD will ask LHAs to ensure that their initial 5-year capital plan focus on budgeting for potential emergencies and only the most critical capital needs while planning ahead for more substantial per unit amounts of formula funding in Fiscal Year 2014.
- Because each LHA's formula funding will be based on the number of units in their portfolio, LHAs with smaller portfolios will receive smaller total allocations which may not be sufficient to address emergency repairs which by their nature require larger amounts of capital (e.g. septic system replacements, elevator overhauls). DHCD will retain a small emergency fund restricted to LHAs with less than 200 units to ensure that life/safety emergencies that exceed the capacity of this cycle's formula funding can be addressed.

Won't some developments still need comprehensive modernization?

- DHCD believes that *comprehensive modernization* will be the most practical approach for severely distressed and outdated developments characterized by very high FCIs (Facility

Condition Indexes – see below). LHA's with these developments will be eligible to apply for one of several CPS-based comprehensive modernization programs as an alternative to formula funding for that development. During the 5-year CPS transition period DHCD has set-a-side funding for Mixed-Finance projects for Chapter 200 and 667 properties and a new 705/689 Distressed Initiative. Due to limited funding, these programs will remain competitive and will require a predevelopment study to determine the most cost effective and viable plan for the property. Once again, funding for these programs has been limited in favor of maximizing funds for FF.

- After the 5-year CPS transition period DHCD is prepared to consider funding new non-mixed-finance comprehensive modernization for Chapter 200 and 667 developments but only after funding for FF has reached a level sufficient to achieve and sustain good conditions in the bulk of our portfolio.

Capital Planning System

Program Summary

What is the Capital Planning System?

The underlying principle behind the CPS is to develop an information infrastructure to enable us to provide predictable funds to be used flexibly by housing authorities for making thoughtful capital improvements to extend the useful life of state-assisted public housing. To this end, CPS is a web-based capital inventory and planning tool that will allow LHA's to:

- catalogue every building system and component that has a life cycle and document its condition and current expected useful life, based on its condition;
- generate prioritized project lists according to a hierarchy of needs based on expected useful life;
- generate detailed project cost estimates and schedules used to help guide capital planning and funding decisions;
- create Capital Improvement Plans (CIPs) based on need and a multi-year formula funding allocation.

How will DHCD make CPS-based Funding Allocations?

The Department of Housing and Community Development will use the CPS to:

- calculate a measure called a Facilities Condition Index (FCI) for each development by measuring the cost of all expired components against the replacement cost of that development. .
- aggregate LHA level FCI into a single comprehensive state-wide needs assessment using statewide CPS data to determine and document overall funding need;
- apportion capital funds to each LHA based on the FCIs for each of its developments compared to the overall FCI for the Commonwealth and give LHAs flexibility to prioritize their most critical capital projects using this funding.

How will LHA's get approval to use CPS-based funding?

- Each LHA will submit to DHCD for review and approval a 10-year Capital Improvement Program (CIP) that describes its need for capital funds based on the expected useful lives of its portfolio's building systems and components.
- Each LHA will also submit a 5-year captial plan that details how and when it will implement proposed projects.
- Once the 10-year CIP and associated 5-year plan is approved, funding will be made available (subject to availability of annual spending cap) to each LHA based on their approved plan and schedule.

<u>CPS-based Formula Funding Program Description and Procedures</u>

Formula Funding (FF) is the system that DHCD will use going forward to distribute funds and spending authorization (bond cap or 'cap' for short) to each LHA. The basic formula to be used for this purpose is the number of units in a development times a percentage of the replacement cost of each unit per year. The percentage varies according to the condition of the development as characterized by it's Facilities Condition Index (FCI). DHCD believes that LHAs can address the capital needs of the majority of the portfolio systematically over time with a predictable *annual formula funding allocation*. Conservative industry standards suggest that developments with FCI at or below 7.5% are thought of as being in good condition and need annual formula funding roughly equal to 1.5% of the facility's replacement value. Developments with FCI above 7.5% need funds equivalent to a higher percentage of replacement value. DHCD assumes that any development with an FCI below 65% should be able to address its capital needs through component replacement and enough formula funding.

DHCD's goal is to get on a steady state where operating and capital work together to preserve our assets. Had we kept up with modernization and maintenance needs all along the way, formula funding of about $90M/year (equivalent to our current annual bond cap)would be enough to keep our portfolio up to date. Our goal, therefore, is to get every development to a good condition and then have enough formula funding to keep it that way—we estimate that amount to be enough to maintain a per unit per year average rate of 1.0% of the replacement value of the portfolio.

- **Comprehensive Modernization**: At some point, the ability of our formula funding to scale up with increasing FCI breaks down. Some form of *comprehensive modernization* is the most practical approach for severely distressed and outdated developments with FCI above 65%. We don't have enough bond cap to do justice to either formula funding or comp mod, and we are focusing as much as possible right now on formula funding. However, we have set aside some money to fund a small number of comprehensive modernization projects at the most needy developments. For now, the only vehicle to begin a comp mod is the mixed finance program, with the exception of a small fund for a 705/689 distressed initiative responding to the recently-completed CPS for all 689/705 developments. Once we get through the current pipeline and have formula funding fully established, we'll be able to launch modest programs to upgrade kitchens and baths in Chapter 200 and retool 667 properties to facilitate aging in place.

  While the comprehensive modernization programs must be competitive due to limited funding, DHCD's goal is to fund all eligible projects on as aggressive a schedule as funding allows.

- **<u>Sustainability Initiative:</u>** In addition to the goal of formula funding for capital funds, DHCD has the goal of reducing operating costs – especially those associated with energy and water use. Some investments to reduce these costs can be done with FF. Others, such as in photovoltaics, wind power and conversion from electric resistance heat to some other energy source, have long economic paybacks and cannot be done with FF. DHCD has also reserved a small pool of funds to support such investments. An LHA may apply to add sustainability funds to any formula funding project if such an additional investment has a high potential to significantly reduce operating costs – especially utility expense..

The following tables outline each CPS-based funding program in detail.

CPS-based Formula Funding	
What is Formula Funding "FF"?	Predictable multi-year capital allocation allowing each LHA to establish a locally determined critical path to restoration of its housing.
What can FF be used for?	LHA's will use FF to address all their emergencies and component level capital replacements.
How will FF be calculated?	Subject to appropriation, DHCD will provide each housing authority a multi-year FF allocation based on the condition of each of their developments as documented in the CPS and the total number and type of units within their portfolio. A development in better condition will get less formula funding per unit and a development in worse condition will get more. For the time being, when funds for formula funding are so limited, the differential between the $/unit for "good" versus "stressed" may be quite small to accommodate the need for every development to get some funding.
How does an LHA get approval to spend FF?	Based on their multi-year FF allocation, each LHA will prepare and submit to DHCD for approval a multi-year capital improvement plan (CIP) that will identify priority projects and an anticipated implementation timeline.
How many years will the FF allocation include?	The FF allocation will be for approximately 5-7 year periods. While the total multi-year formula funding allocation will not change, the number of years an LHA has to spend their allocation and the timing of that spending could fluctuate based on DHCD's annual spending cap. Spending cap dictates how much funding DHCD can actually disburse in any given year. If spending cap increases, DHCD can authorize more FF spending that year, effectively shortening the FF allocation period. If spending cap goes down, DHCD would be forced to reduce annual spending, effectively lengthening the FF allocation period.
How much FF can each LHA expect?	Based on current DHCD's modernization authorization and spending cap estimates, the projected FF amount is estimated at an average of approximately $460 *per unit-per year* for _7 years or $3220/unit total. Actual FF allocations will be made in 2009 after all development are entered into the CPS and the estimated amount will be adjusted based on FCI for each development. Our objective is to have a floor on FF of 1% of replacement value per year or an average in current dollars of $2,000 per family unit and $1,500 per elderly unit per year. During the transition period, any savings realized from an existing CAR project can be used by the LHA on CPS projects as approved in that LHA's capital plan.
How can emergencies and capital replacements be made with this small amount of FF?	DHCD estimates it will take approximately 5 years to complete the transition from CARs to CPS, during which time the amount of FF each LHA will receive will be limited by the need to allocate funds to the existing CAR and emergency pipeline. Therefore an LHA's capital improvement plan should prioritize likely emergencies and life-safety projects first and then other projects if funding allows. LHAs will also have to use FF to prepare future projects for implementation.

What is the special FF reserve fund for small and medium size LHA's?	Because LHAs with small to medium size portfolios will get a smaller total formula funding allocation, DHCD will fund an emergency reserve fund to aid small and medium sized LHAs address unavoidable emergencies that exceed their total formula funding allocation.
Will the amount of FF ever increase?	By 2013 the CAR/emergency pipeline will be completed. FF levels should increase significantly at this point, perhaps even double, enabling LHAs to start addressing deferred projects. Once again, our ultimate objective is to have a floor on FF of 1% of replacement value per year or an average in current dollars of $2,000 per family unit and $1,500 per elderly unit per year.
Can FF from one development be used to make repairs in another?	FF allocations are made to the LHA, not to specific developments or projects. An LHA can distribute their FF allocation across properties with the exception of the 689 developments which will receive a FF set aside.
What if one year's bond cap allocation is not enough to cover the cost of a project?	DHCD is working with A&F to allow LHAs to borrow against a portion of their future bond cap allocation. The LHA's project would be completed using loan proceeds and the loan paid back annually with a portion of that LHA's future bond cap allocation. DHCD will also allow LHAs to swap their bond cap allocations for future projects.
When will DHCD initiate formula funding?	By the summer 2009 after all developments are entered into the CPS, DHCD will calculate the total need and allocate funds according to condition. At that point, we will calculate the formula funding allocations across the board and lock in the amount due each LHA. However, we need some phase-in time to get our systems in place. Therefore, DHCD will accept, review and approve capital improvement plans from LHAs with capital planning experience at their federal units in the fall of 2009 and make FF bond cap available as of January 2010. For all other LHAs, capital improvement plans will be accepted in the fall of 2010 and bond cap will be made available as of January 2011. While DHCD understands that some LHAs without federal units are eager and will be ready by fall 2009, we believe that a phased approach will lead to a more manageable transition particularly given the significant changes required in DHCD's systems, procedures and processing. No LHA will receive less over the 7-year period due to this phase in.
What if an LHA has an emergency before their FF is available?	DHCD will make bond cap and formula funding advances for dire emergencies that arise prior to formula funding. Any amount drawn as an emergency advance will be credited against that LHA's formula funding.

Comprehensive Modernization

- Mixed-Finance
- 705/689 Distressed Initiative

During the 5-year transition period these are DHCD's only programs for new comprehensive modernization projects

Mixed Finance

What is mixed-finance?	Mixed-Finance leverages private tax-credit equity into state aided public housing, dramatically expanding resource opportunities for comprehensive modernization of Chapter 200 and 667 developments.
Is my project eligible?	To receive a mixed-finance funding allocation, your LHA must first apply for and receive a planning grant through our DHCD/MHP Planning Grant Program to assess the feasibility of the project according to a number of criteria. The development must also have an FCI above 65%.
How do I apply for the Planning Grant Program?	The Planning Grant Program is being managed by Leslie Bos. Please feel free to call her at 671-573-1160 for information. Applications are accepted on a rolling basis and an LHA can apply at any time. Please go to DHCD's website for program guidelines and to get a copy of the Planning Grant Application.
705/689 Distressed Initiative	
What is the 705/689 Distressed Initiative?	The program will provide capital funding for 705 and 689 developments with FCIs above 50%. The program will give LHAs flexibility to craft creative, locally targeted redevelopment solutions. These solutions must be financially feasible and result in a long-term, sustainable outcome for the development and the LHA. Solutions may include comprehensive modernization, demolition and new construction on site or disposition with 1 for 1 replacement at some other location.
How does my LHA receive 705/698 Distressed Initiative Funding?	In December 2008, DHCD will issue a competitive RFP through our MHP/DHCD Planning Grant program for the 705/689 Distressed Initiative. Prior to receiving a full capital award for redevelopment, your LHA must first receive a planning grant to assess the feasibility of the proposed project. The program will be competitive due to limited funding and DHCD anticipates funding 8-10 planning grants in the initial RFP round.
How does my LHA apply for a planning grant?	The 705/689 Distressed Initiative Planning Grant Program is being managed by Leslie Bos. Please feel free to call her at 671-573-1160 if you have questions prior to the formal release of the RFP. The RFP will also be available on DHCD's website
How much total funding will be available for the 705/689 program?	DHCD has set-a-side \$15 million in bond funds and \$3 million per year in bond cap during the 5-year transition period for the 705/689 Distressed Initiative. We anticipate funding the redevelopment of 60 to 100 units depending on the size and cost of each project.
- Kitchen and Baths for Chapter 200 - Aging-In Place Initiative for Chapter 667 *After the 5-year CPS transition period, DHCD plans to continue the mixed finance program and to initiate these 2 additional <u>non-mixed finance</u> comprehensive modernization programs*	
K&B for Chapter 200s *(non mixed-finance)*	Because not all Chapter 200 projects with high FCI's are eligible for mixed-finance (too small) nor are all LHA's interested in doing a mixed-finance project, DHCD will initiate a Kitchen and Bath comprehensive modernization program that does not require mixed-finance. DHCD anticipates that bond cap will be available for this program in 2015 and will therefore begin to develop a multi-year pipeline in 2013 including associated pre-development activities.
Aging in Place	Because not all Chapter 667 projects with high FCI's are eligible for mixed-

(non mixed-finance)	finance (too small) nor are all LHA's interested in doing a mixed-finance project, DHCD will also initiate a non-mixed finance comprehensive modernization program for Chapter 667s. In response to the shift toward an "aging in place" service delivery system, DHCD will work with LHAs to incorporate modifications that expand accessibility and make it possible to deliver services on site. DHCD anticipates that bond cap will be available for this program in 2015 and will therefore begin to develop a multi-year pipeline in 2013 including associated pre-development activities.

<u>Sustainability Initiative</u>	
What is the Sustainability Initiative?	The Sustainability Initiative includes 4 core components: 1. Supplemental funding for CAR & CPS projects to expand green components 2. Funding and technical assistance for Energy Performance Contracts to generate water and energy savings 3. Special initiatives that generate energy and water savings and projects such as DHCD's upcoming toilet initiative 4. Special projects that pilot innovative technology such as co-generation and photo voltaic installations
How do I participate in the Sustainability Initiative?	This program is being managed by Debra Hall. Please contact her at 617-573-1185.