



Commonwealth of Massachusetts
**DEPARTMENT OF HOUSING &
COMMUNITY DEVELOPMENT**

Charles D. Baker, Governor ♦ Karyn E. Polito, Lt. Governor ♦ Janelle Chan, Undersecretary

ADDENDUM #5 to Public Housing Notice 2019-14

To: All Local Housing Authority Executive Directors
From: Amy Stitely, Associate Director, Division of Public Housing
Subject: **PEHO ROUND II DEADLINE EXTENSION and Q&A Update – Public Housing Innovations Notice of Funding Availability**
Date: November 25, 2019

Notice of Funding Availability - Public Housing Innovations (PHI)

**Partnership to Expand Housing Opportunities (PEHO) Round II
& Gateway Cities Revitalization Programs**

1. **EXTENSION OF DEADLINE FOR RESPONSES TO PEHO ROUND II NOFA TO April 15, 2020:** DHCD has extended the deadline for responses to the Notice of Funding Availability (NOFA) for Public Housing Innovations. **The deadline for responses to the Partnership to Expand Housing Opportunities (PEHO) Round II – has been extended from February 12, 2020, to April 15, 2020.** This is to allow Local Housing Authorities (LHAs) considering applying the time they need to draft, issue, and review the responses to an LHA-issued Request for Proposals (RFP). **There will be no further extensions.**

The deadline for the Gateway Cities Neighborhood Revitalization program within the NOFA **HAS NOT** been extended, and remains **February 12, 2020.**

Applications maybe be submitted prior to the new deadline, but no awards will be made in either program until after February 12, 2020 and no awards pursuant to PEHO will be made until after April 15.

2. **UPDATE TO Q&A:** DHCD has issued the following answers to questions received regarding the PEHO II program.

1. **May I include multiple developments/properties in a single RFP?**

Yes, with the qualification that your decision making an award must be clear and transparent. Your scoring will need to be carefully structured to compare proposals that have differing costs, site plans, and bedroom and unit mix by property. We strongly encourage LHAs with procurement questions to reach out to the Inspector General's chapter 30B hotline: <https://www.mass.gov/how-to/get-procurement-assistance>

2. May I secure a developer through a Request for Qualifications before applying?

No. The PEHO II NOFA requires that you select and enter into a memorandum of understanding with a developer partner through the issuance of a Request for Proposals, and then jointly submit a response to the NOFA. We designed the form RFP to serve two purposes – procurement of the developer partner by the LHA, and disposition of the LHA’s real property to the developer (required by MGL c.30B, sec. 16).

3. My city has indicated they may transfer municipally-owned land to the Housing Authority in conjunction with a mixed-income redevelopment – may I include disposition of this land in the RFP for a PEHO project developer partner?

Our understanding of procurement law is that a LHA can only dispose of land that it currently owns. Any real-estate transactions with the municipality should be done in advance of issuing an RFP looking for proposals to develop that land.

Previous Questions and Answers can be found below – putting all questions and answers from Addendums #2-4 in one place:

4. The NOFA says (p.8) the “Public housing and market-rate units must be integrated with the development.” We are considering redeveloping our c. 667 elderly sites, and would like to add a substantial number of units that are NOT age-restricted to the sites. We are concerned that this could run afoul of fair housing laws that require a high percentage of the units in a development to be age-restricted if ANY of the units are age-restricted. If we subdivide a site and develop part of it for replacement c. 667 housing and the rest as non-age-restricted market rate housing, would that be acceptable to DHCD, given your priority for integration of the public housing and market rate units?

While all applicants must consult their legal counsel to ensure compliance with all federal and state Fair Housing laws pertaining to permissible age-restricted housing, for the purposes of the NOFA, DHCD will consider proposals that subdivide a lot to create separate sites for c. 667 replacement units and non-age restricted market rate units.

5. What is the scope for the technical assistance on offer from DHCD and MHP to prospective PEHO applicants?

The technical assistance is principally to assess feasibility of the development in question for redevelopment as a denser, mixed-income project, based on site characteristics and local market conditions. DHCD and/or MHP may also provide some limited assistance for the LHA in drafting a Request for Proposals, but we suggest the LHA start with the template RFP as set out in PHN 2019-14.

6. Can PEHO be used at c. 667 elderly developments?

The PEHO program is open to all state-funded public housing developments, but DHCD has not figured out how meet the programmatic goals of using market rate development to subsidize the replacement costs of public housing without an increase to the operating subsidy. The extremely low current c. 667 operating budgets (\$3,134/unit plus the actual cost of utilities) are far below what affordable housing underwriters require to finance a deal, which is likely at least in the \$7-8,000/unit range. Other than project-basing Sec.

8 or MRVP subsidies, we have not identified a feasible way to bridge that substantial gap. Additionally, high market rent conventional housing developments restricted to seniors is generally much harder to market than housing that is not age-restricted, so the feasibility is challenging. Caveats aside, if an LHA has a feasible proposal from a developer through an RFP DHCD is very happy to review.

7. Can the PEHO project include additional subsidized family or workforce units, beyond the public housing replacement units?

Generally these units either require additional resources (always in the case of subsidized units) or at best the rents are only able to support their own development costs (in the case of the workforce units). The total subsidy per public housing replacement unit for this program is capped at \$250,000/unit. Since the purpose of this program is to generate the maximum dollars to help fund the replacement of the state public housing units, which usually requires the development of at least 2 market rate units for each public housing unit, we generally don't encourage the creation of additional affordable or workforce units. However, in very strong rental markets, a workforce component might be feasible and perhaps politically helpful in getting project approval. In any case, the most financially feasible projects will have the best chance of getting funding.

8. Can I issue an RFP that lets the developer choose from a list of my possible developments, rather than asking them to focus only on one particular site?

This proposal presents several challenges. A request for qualifications (RFQ) could be structured this way. However, since this NOFA requires an application to have procured a developer as well as provided for property disposition, applying authorities must go through the Request for Proposals (RFP) process and make a preliminary disposition of property. See MGL c. 30B, sec. 16 - <https://malegislature.gov/Laws/GeneralLaws/PartI/TitleIII/Chapter30B/Section16>. Additionally, it will be difficult to competitively evaluate different proposals for various sites. DHCD may consider a two-step RFQ and RFP process in the future, but for this funding round we encourage housing authorities to issue RFPs on a site-by-site basis, using the template provided.

9. Does DHCD have a particular geographic area of focus?

No, with the caveat that the project must be financially feasible. In order to cover the cost of prevailing wage, both for the replacement public housing and market rate units, as well as provide cross-subsidy to fund a portion of the replacement public housing, a successful project will need to rely on relatively high market rate rents. Only certain housing markets will be able to support the levels of rent that make mixed-income redevelopment projects with cross-subsidy for public housing replacement feasible.

10. How does DHCD view zoning feasibility when evaluating projects?

Applicants do not need to have all zoning in place in order to apply, though being zoned for the proposed density is a bonus. Applicants should include zoning approvals in their project timeline. Projects that have letters of support from the municipality's chief elected official will be more competitive.

11. How did DHCD come up with the financial conditions in the NOFA (max \$250K/unit public subsidy, at least 2:1 market rate: replacement units, lower points if using Section 8 or LIHTC, etc)?

DHCD recalibrated program conditions based on the experience with the projects awarded through the 2016 NOFA and the objectives of the program. Both of the funded projects required approximately \$250K/unit of public subsidy and included \$100-150K/unit of “cross subsidy” from the market rate component of the project to the replacement public housing. DHCD is looking for projects where the primary funding sources are non-LIHTC private equity, debt, and the state PEHO grant; the department wants to avoid cannibalizing other limited sources of affordable housing public subsidy for public housing. With regards to density, one of the first two projects had a 2.4 to 1 ratio of market to public housing, while the other had a ratio of 1.7 to 1 but required significant public subsidy in addition to the DHCD capital grant.

12. What is the scale of projects from the first round of funding?

Is DHCD looking for a particular scale for projects in this round? The Chelsea project will replace 96 units of public housing and add 234 market rate and middle income units. The Somerville projects will replace 216 units of public housing and add 375 market rate and middle-income units. DHCD does not have a particular project scale in mind for this round, and understands that many communities cannot support the level of density of the Chelsea and Somerville projects. However, projects will need to have sufficient scale to be financially feasible while achieving the target ratio of market rate: replacement units.

13. Are projects eligible where the Housing Authority has vacant land, sells the land and uses the sale proceeds to fund investment in the authority’s off-site public housing?

DHCD encourages this type of activity by LHAs, but it is not a fit for the PEHO program, which involves the redevelopment of existing public housing. However, please note that proceeds from land disposition cannot be retained by the LHA under current law, but rather are deposited into the Commonwealth’s General Fund. Legislation has been filed to allow LHAs to retain proceeds from sales, but until it is enacted into law, LHAs that wish to retain proceeds from land dispositions will need to go through the home rule legislation process. DCHD has contracted with Mass Housing Partnership (MHP) to provide technical assistance to LHAs interested in developing their vacant land, including feasibility study, title research, and RFP drafting. DHCD counsels LHAs to avoid extensive conversations with developers before issuing an RFP, as this can invite challenges to invalidate the award. Information on the technical assistance program for vacant land can be found here:

<https://www.mass.gov/files/documents/2019/05/16/2019-13.pdf> . We encourage interested LHAs to apply.

14. Is there a deadline for procurement of a developer?

Applicants need to have a developer procured by the application deadline of December 11 (revised to April 15). Interested LHAs should be working to draft and issue an RFP in July and August (revised to November and December). When writing the RFP, LHAs need to be mindful of the requirements of MGL Chapter 30B regarding land disposition. The RFP should note the LHA is disposing of land as well as procuring developer services through the same document, and should note that the value of land is in excess of \$35,000.

Following Regard Gateway Cities Initiative:

15. Is a certain amount of dollar contribution from the municipality to the public housing project required to apply?

No. This program does not require direct leveraged funding for the proposed project, though additional funding alongside the DHCD capital grant is welcomed and may make the proposal more competitive. DHCD is looking for projects that complement municipal or other public and private investments in the surrounding neighborhood, with the goal of supporting a broader economic development plan while modernizing the state-funded public housing.

16. Would construction of new, accessible office or community space be an allowable use of funds?

Yes. This program allows for a variety of scope items that preserve and modernize public housing. The application, however, should have at least one major component that will either make the development more attractive and increase connections to the neighborhood or allow for the provision of economic mobility services on site. The applicant should articulate how the project will improve the economic development of the community and economic mobility for residents.

17. Does one need to include specific targets/projections of income growth or jobs created?

We understand that it will be very hard to link the proposed modernization project with any economic development metrics. Applicants should reference a city or neighborhood economic development or housing production plan and how the DHCD investment will complement it. Additionally, service commitments for economic mobility programs will make proposals more competitive.

18. Are scattered site 705s eligible for Gateway Cities Revitalization funding?

Yes. While the NOFA limited eligibility to family developments with more than 50 units, DHCD will consider, on a case-by-case basis, applications for scattered sites family developments that include a clear articulation of how investment in these scattered sites will fit program objectives of contributing to community economic development.

19. Is technical assistance available for applicants to the Gateway Cities program?

The technical assistance available for the PEHO program is not available for the Gateway Cities Revitalization Program— because the “typical” capital grant would be for a modestly sized project that could be carried out without the involvement of a private developer, DHCD’s position is that housing authorities should be able to create a proposal without funding for assistance from consultants. DHCD staff, however, are always available to answer questions. If the proposal includes creation of new units or mixed-finance development alongside DHCD-funded investment into existing public housing, DHCD may refer the applicant to MHP for assistance.

GENERAL NOTICE: Prospective applicants should review the original NOFA, all addenda and all related attachments to the NOFA before drafting their applications for funding. **All documents can be found at: <https://www.mass.gov/service-details/public-housing-admin-notices> under the heading “2019-14 Public Housing Innovations (PHI).**

If you have additional questions about the NOFA, please submit them via email to ben.stone@mass.gov and paul.mcpartland@mass.gov.