

**LOUISIANA RECOVERY AUTHORITY (“LRA”) AND
LOUISIANA OFFICE OF COMMUNITY DEVELOPMENT (“OCD”)**

RESERVATION OF PIGGYBACK PROGRAM CDBG FUNDS

**APPLICATION GUIDELINES FOR PIGGYBACK ROUND TWO
(CDBG FUNDS COMBINED WITH TAX EXEMPT BONDS AND 4% LIHTCS)**

FINAL VERSION FOR PUBLICATION MAY 29, 2008

I. OVERVIEW

- A. **Program Objective.** The Program’s objective is to finance the development of additional workforce rental housing in the GO Zone. LRA/OCD envisions using a combination of \$80 million of Community Development Block Grant (“CDBG”) funds, commensurate tax-exempt bond authority through the LHFA, and 4% Low Income Housing Tax Credits (LIHTCs) also through the LHFA. LRA/OCD reserves the right to decrease the level of CDBG funding prior to the deadline for accepting applications in the event that the LRA/OCD finds it necessary to use these funds to address a housing crisis that presents an emergency for the State of Louisiana. The LRA/OCD may also increase the amount of funding if additional funds become available.
- B. **Two Forms of CDBG Funding.** CDBG funding is to be offered in two forms. Sponsors may request one or both forms of funding.
1. Gap Financing Loans (see Section V).
 2. Project Based Rental Assistance (“PBRA”; see Section VI).
- C. **Eligible Projects Must Receive Allocations of Tax Exempt Bonds and Low-Income Housing Credits.** The program is primarily intended for projects that will apply first to LRA/OCD for CDBG commitments and, after receiving conditional awards from LRA/OCD, will then apply to LHFA for tax-exempt bonds and 4% LIHTCs. However, projects that already have allocations of tax-exempt bonds and 4% LIHTCs, and that have not started construction or taken choice-limiting actions, are eligible. Projects that have allocations of 9% LIHTCs are not eligible.
- D. **Terminology.** Capitalized terms not defined herein have the meaning given to them in OCD’s template legal documents for the Piggyback Round Two program available on OCD’s web site at <http://www.doa.louisiana.gov/cdbg/drpiggy.htm>.

E. **Timeline.** LRA/OCD envisions the following timeline:

Date	Event
August 1, 2008	CDBG applications due to LRA/OCD
August 29, 2008	Deficiency letters and staff score released to applicants
September 26, 2008	CDBG Award Acceptance Agreements issued to awardees
October 31, 2008	Deadline for application to LHFA for bonds and credits

F. **CDBG Application Deadline.** Applications must be received by LRA/OCD not later than 4:30 pm Central time, at the following address:

Attn: Thomas LaTour
 Office of Community Development
 Disaster Recovery Unit
 One American Place
 301 Main Street, Suite 600
 Baton Rouge, LA 70801

II. CDBG POOL STRUCTURE

A. **Pool Structure.** \$80 million in CDBG funding will be allocated initially to the following pools. Funds not awarded in a pool will be transferred to the General Pool:

1. **\$16 Million.** Plaquemines / St. Bernard Parish Pool. Only projects in these Parishes will qualify for this pool.
2. **\$24 Million.** Local Financial Support Pool. Projects will qualify for this pool if the locality contributes the land and/or provides a significant amount in Local Financial Support. See Section X Selection Criteria.
3. **\$10 Million.** PSH Homeless Pool. Only PSH Homeless projects will qualify for this pool.
4. **\$30 Million.** General Pool.

B. **Reservation of Funds in Pools.**

1. Each project must apply in only one pool.
2. Within each funding pool, eligible applications will be reserved CDBG Funds in descending order of score (see Section X Selection Criteria) until all CDBG Funds available for reservation have been reserved.
3. Projects that apply in one of the first three pools, and that are not awarded in those pools, will compete in the General Pool.
4. In the event there are insufficient funds remaining in the Targeted Parish Pool or Local Support Pool to fund the project having the highest score among project not yet funded, the remaining funds will be transferred to the General pool.

5. Funds in the PSH Homeless pool not allocated for eligible projects will remain for future allocation to other PSH Homeless projects, or otherwise as LRA/OCD and the Department of Social Services may determine.
 6. In the event of a tie between applications for which there are insufficient CDBG Funds to reserve to each project, LRA/OCD will award the project that had the best score for Financial Efficiency (see IV E below).
- C. **Supplemental Funding.** LRA/OCD envisions possibly making additional funding available for this Program (for this funding round and/or for future funding rounds), for example if December 2006 Piggyback awarded projects lose their tax credit allocations or lose their CDBG funding or if additional recovery funds are received by the State. If future CDBG – 4% LIHTC funding rounds are held, CDBG – 4% LIHTC projects not funded in this round will form a waiting list. Accordingly, LRA/OCD encourages sponsors to consider negotiating for longer periods of site control.

III. CDBG FUNDING CRITERIA -- REQUIREMENTS AND OPTIONS

- A. **Compliance Requirements.** In addition to requirements discussed in this Section, all awardees must meet the CDBG regulatory compliance requirements contained in the Piggyback Round Two template legal documents available on OCD’s web site. Also see Section IX.
- B. **Duration of Requirements and Selected Options.** All requirements, and all options selected by an applicant, will be applicable for the duration of the CDBG Use Agreement.
- C. **GO Zone Requirement.**
1. **Eligible Parishes.** Projects must be located in the eight most-heavily-damaged Parishes within the GO Zone: Calcasieu, Cameron, Jefferson, Orleans, Plaquemines, St. Bernard, St. Tammany, Vermilion.
 2. **Priorities Among Eligible Parishes.** Projects in Plaquemines and St. Bernard Parishes (for which few or no awards were made in previous GO Zone funding rounds) will have a significant competitive advantage. Other Parishes whose share of hurricane damage exceeds their share of Piggyback awards to date will have a competitive advantage as well. See Section X Selection Criteria.
- D. **CDBG National Objective Requirement.** Projects must have at least 51% of units affordable to, and reserved for occupancy by, households with incomes at or below 80% AMI. This requirement must be satisfied over the entire term of the CDBG Use Agreement.
- E. **Permanent Supportive Housing Requirement.** Projects must have at least 5% of total units for Permanent Supportive Housing (“PSH”). PSH Units must satisfy all of the following requirements:

1. One-bedroom units. The Louisiana Department of Health and Hospitals, the Louisiana Department of Social Services, and the Local Lead Agencies have informed LRA-OCD that most PSH households are single persons.
 2. Affordable at 20% AMI.
 3. Reserved for PSH tenants referred by the Local Lead Agency. Developers will sign the State's standard PSH Set-Aside Agreement, a copy of which is available from OCD's web site. The PSH Set-Aside Agreement has a five year term and is automatically renewable so long as the State continues to provide supportive service funding to the Local Lead Agency.
 4. Comparable to other units in the project.
 5. Distributed throughout the project.
 6. Eligible households will have incomes at or below 30% AMI (if the waiting list is exhausted, households with incomes up to 40% AMI may be admitted but no additional rent may be charged).
- F. **Deep Affordability Limit.** Eligible projects may have up to 40% of total units restricted at or below 40% of AMI. However, properties that existed prior to the storms, were storm-damaged, and have not been re-occupied are eligible (including such properties that will be relocated to alternate sites while preserving their deep affordability subsidy contracts). PSH Homeless projects may have up to 50% of total units restricted at or below 40% of AMI.
- G. **Deep Affordability Option.** Other than the PSH requirement described above, there is no deep affordability requirement. However, projects having at least 20% of total units affordable at or below 30% of AMI (and income-restricted to households at or below 30% AMI) will have a competitive advantage. The 5% PSH requirement is included within the 20% Deep Affordability option (i.e., the Deep Affordability option could be met through 5% deeply affordable units for PSH, and an additional 15% of deeply affordable units affordable at 30% AMI).
- H. **Unit Mix and Affordability Option.** Projects that satisfy the PSH requirement and the CDBG National Objective requirement may have any mix of affordable and market-rate units otherwise consistent herewith. Projects meeting the Mixed Income Project definition (below), and projects meeting the Permanent Supportive Housing Project definition (below), will have a competitive advantage. Projects meeting the PSH Homeless Project definition (below) will qualify for the PSH Homeless funding pool.
- I. **Mixed Income Project Option.** Mixed Income Projects must reserve at least 30% of their units, but no more than 49% of their units, for market rate tenants. These market rate units are defined as units with no restrictions on rent or income. Sponsors should note that they may also propose units for tenants with incomes between 60% AMI and 80% AMI, and with rents restricted at 80% AMI. Sponsors will NOT be allowed to overlay any form of project based rental assistance on the market rate units (or on any 60% to 80% AMI units), because

that would have the effect of converting those units to units that would serve low and moderate income tenants. Mixed Income applications must include a Rent Comparability Study to establish comparable market rents, using the protocol from HUD's Section 8 Renewal Policy Guide Chapter 9 (Chapter 9, and HUD's Rent Comparability Grid, are available on the LRA-OCD web site).

- J. **Permanent Supportive Housing Project ("PSH Project") Option.** At least 15%, but not more than 50%, of total units must be PSH Units. PSH Projects can compete in the Targeted Parish Pool, Local Support Pool, or General Pool.
 - K. **PSH Homeless Project Option.** At least 30%, but not more than 50%, of total units must be PSH Units reserved for individuals (or households) who meet the PSH definition and are identified by DSS or the local Continuum of Care organization, at the time they apply for occupancy, as homeless or most-at-risk for homelessness.
 - L. **Local Support Option.** Projects which the local government has identified as a priority in its recovery plan, and for which the local government is willing to contribute land (and/or a financial investment of at least \$10,000 per unit), will have competitive advantages.
 - M. **Scattered Site Option.** Scattered site projects meeting LHFA and IRS requirements, and in which 100% of units are LIHTC units, will be eligible. Scattered site projects may not select the Mixed Income Project option unless all sites are contiguous (i.e., no physical separation) or adjacent (i.e., separated only by a street or easement).
 - N. **Tax Exempt Bond Allocation.** Notwithstanding anything to the contrary herein, developers may obtain a tax exempt bond allocation from any eligible issuer. Developers selecting this option must follow all of the application requirements described herein, even if the selected issuer's application requirements differ from those of LHFA.
 - O. **Louisiana Loan Fund.** Developers are advised to investigate the Louisiana Loan Fund, which offers funding for predevelopment activities and site acquisition. See <http://www.louisianaloanfund.org/>.
- IV. CDBG FUNDING CAPS.** For purposes of structuring the CDBG application, sponsors should assume that each project will receive an award of tax-exempt bond authority, and commensurate 4% LIHTCs, from LHFA (or other issuer as provided above), and that CDBG funds will close any remaining funding gap (subject to the funding caps discussed below).
- A. **Maximum CDBG Award per Project.** The maximum adjusted CDBG award (see IV.D below) is \$9 million per project.

- B. **CDBG Funds Reserved per Project.** The following amount of CDBG funds will be reserved for each awarded project:
1. 100% of any requested Gap Financing Loan amount subject to underwriting requirements (see below).
 2. Plus \$69,000 for each PBRA unit requested (affordable at 30% AMI).
 3. Plus \$92,000 for each PBRA unit requested (affordable at 20% AMI).
- C. **Maximum CDBG Award per Unit.** The adjusted CDBG award, calculated as set forth in IV.D below, must be at or below the following maximum amounts (measured against the total number of units in the project):
1. Mixed Income in Orleans Parish -- \$150,000 per unit.
 2. Mixed Income outside Orleans Parish -- \$125,000 per unit.
 3. Other Projects in Orleans Parish -- \$100,000 per unit.
 4. Other Projects outside Orleans Parish -- \$75,000 per unit.
- D. **Adjusted CDBG Award Amount For CDBG-Per-Unit Calculation.** For purposes of determining compliance with the maximum CDBG per unit requirement, the adjusted CDBG award will be calculated as follows:
1. The amount of CDBG funds to be reserved if the project is awarded, calculated as set forth in IV B above.
 2. Minus \$92,000 for each PSH unit in excess of the minimum requirement (5% of total units). For example, if a project has 7 PSH units and is required to have 4 PSH units, $3 \times \$92,000 = \$276,000$ would be subtracted. Sponsors should note that this adjustment is designed so as not to disadvantage projects that commit to more than the required minimum number of PSH units.
- E. **Financial Efficiency.** Projects with lower CDBG funding per unit (adjusted CDBG award \div total units) will have competitive advantages. See Section X Selection Criteria.
- F. **CDBG Award Subject to LHFA Feasibility and Viability Analysis.** If LHFA determines that the proposed project has excess sources of funds, the CDBG award will be reduced by the amount of the excess sources determined by LHFA. If LHFA determines that the proposed project does not have sufficient sources of funds, LRA/OCD will not increase the CDBG award, and it is possible that LHFA will reject the application.
- G. **Developer Limits.** No Developer, Related Persons thereof or agents thereof or any person having an Identity of Interest with any Developer, Related Persons thereof or agents thereof or any combination of the foregoing shall be reserved CDBG funds in excess of \$27,000,000, unless otherwise the General Pool would be under-subscribed. Capitalized terms in this paragraph are as defined in the LHFA 2007-2008 GO Zone QAP, which can be found on LHFA's web site at <http://www.lhfa.state.la.us/downloads/lihtc/htcApplicationListboxFiles/2007-QAP9-FinalDraft-15sept06.pdf>.

- H. **Restrictions on Development Costs.** Although LRA/OCD does not impose any limits on project development cost and does not impose any per-unit development cost limits, LRA/OCD expects that other funders will impose such limits. Sponsors should determine whether LHFA, or other funders if any, impose such limits.

V. GAP FINANCING LOANS

A. Loan Documents.

1. **In General.** Gap Financing Loans will be documented using OCD's template legal documents for the Piggyback Round Two program available on OCD's web site at <http://www.doa.louisiana.gov/cdbg/drpiggy.htm>
2. **CDBG Use Agreement.** The CDBG Use Agreement will be subject to only those liens and encumbrances specifically agreed to by LRA/OCD.
3. **Mortgage.** The Gap Financing Loan will have either (a) first lien position, or (b) second lien position behind the lien of permanent financing acceptable to LRA/OCD (in which case LRA/OCD agrees to execute OCD's standard form of Subordination Agreement available on OCD's web site).
4. **Loan Documents Control.** The summary below is provided for the convenience of developers. If the summary below differs from the Loan Documents, the Loan Documents will control.

- B. **Interest Rate.** Zero percent. Sponsors may, however, request interest at the Applicable Federal Rate.

C. Loan Term.

1. 35 year maturity date.
2. Loans will be due on sale, refinancing, or if accelerated pursuant to the terms of the legal documents.

D. Timing for Funding.

Sponsors may request funding either

1. At completion of construction (see CDBG Piggyback Round 2 Loan Agreement (at completion)); or
2. During construction (see CDBG Piggyback Round 2 Loan Agreement (*pari passu*)). *Pari passu* funding is subject to LRA/OCD reaching agreement with the other construction period funders on a mutually acceptable intercreditor agreement.
3. Projects requesting funding at completion will have competitive advantages. See CDBG Selection Criteria.

- E. **Required Payments.** Gap Financing Loans will be payable from sale / refinance proceeds and from a defined share of Surplus Cash.

- F. **Required Payments From Surplus Cash.**
1. LRA/OCD will receive (Tier A) 1/3 of the first \$1000 per unit of Surplus Cash.
 2. LRA/OCD will also receive (Tier B) 2/3 of all Surplus Cash in excess of \$1000 per unit.
 3. If the sponsor can demonstrate to LRA/OCD's reasonable satisfaction, in the CDBG application, that deferred developer fee would not be reasonably likely to be repaid (including interest at the Applicable Federal Rate), the sponsor may request that LRA/OCD defer the beginning point for Tier B for up to 15 years. This request must be made and documented at the submission date of the CDBG application.

VI. **PROJECT BASED RENTAL ASSISTANCE ("PBRA").** Sponsors may request PBRA funding in addition to requesting a Gap Financing Loan. Sponsors should note that PBRA funding is taken into account in determining the CDBG award amount and in determining financial efficiency. LRA/OCD's experience in the first Piggyback round is that using a Gap Financing Loan will usually require less CDBG funding than using PBRA; accordingly, sponsors are advised to analyze their projects carefully to determine the best mix of funding. Note: Developers requesting PBRA that will be tied to units that serve as PSH (beyond the 5% minimum) will not be disadvantaged – i.e. see Section 4 (D) above regarding the role of PBRA for PSH in the calculation of the Financial Efficiency factor.

- A. **Optional.** Sponsors must request PBRA in order to be awarded PBRA, but sponsors are not required to request PBRA.
- B. **Legal Documents.** Funding will be in the form of a 15-year subsidy contract through LRA/OCD. See the Piggyback Round Two PBRA Contract, available on LRA/OCD's web site at <http://www.doa.louisiana.gov/cdbg/drpiggy.htm>. The summary below is provided for the convenience of developers. In the event the summary below differs from the terms of the Piggyback Round Two PBRA Contract, the Piggyback Round Two PBRA Contract will control.
- C. **Nature of Subsidy.** The PBRA subsidy contracts will pay the difference between the Affordable Rent (the 20% AMI rent for PSH Units, and the 30% AMI rent with respect to other Deep Affordability units) and the 60% AMI rent. The monthly amount to be paid will be adjusted annually for inflation but will not be adjusted to reflect the actual level of occupancy except as provided below. LRA/OCD reserves the right to reduce the number of PBRA units, in accordance with the PBRA Contract, if actual occupancy is persistently below 90%.
- D. **Requirement to Accept Equivalent Subsidy(ies).** The PBRA Contract requires the owner to exchange PBRA subsidy for a deeper, longer lasting rent subsidy such as Section 8 Project Based assistance if it becomes available and is offered. LRA/OCD encourage sponsors to apply for and obtain available alternative

subsidies (such as Section 8) in lieu of requesting Project Based Rental Assistance.

- E. **Units Eligible for PBRA.** PBRA funding will be available for all PSH units, and for non-PSH units provided under the Deep Affordability Option. LRA/OCD recognizes that Gap Financing Loans and PBRA can be alternative methods of providing the necessary rent reductions. Accordingly, sponsors may request less than the maximum number of PBRA units. For example, if a project has 5 PSH units and 4 additional Deep Affordability units, the sponsor may request up to 5 units of PBRA at 20% AMI and up to 4 units of PBRA at 30% AMI, and it is acceptable for the sponsor not to request any PBRA (in which case no PBRA will be awarded).
- F. **Households Eligible for PBRA Units.** Eligible households will have incomes at or below 30% AMI (if the waiting list is exhausted, households with incomes up to 40% AMI may be admitted but no additional rent may be charged). These eligibility criteria apply without regard to whether the Affordable Rent is at 20% AMI or 30% AMI.

VII. CDBG AWARD PROCESS

- A. **Questions Regarding CDBG Program Summary.** Stakeholders may submit questions by email to thomas.latour@la.gov (regarding the CDBG program summary). Questions regarding the tax-exempt bond and LIHTC programs should be directed to LHFA. At least 10 days prior to the application due date, OCD will post answers to questions on OCD's web site and on LHFA's web site.
- B. **Potential LRA/OCD Requests for Clarification.** LRA/OCD may, but shall not be obligated to, follow-up with one or more applicants during the application review process in a telephone conversation in order to obtain clarification should LRA/OCD determine it to be advisable or necessary. Applicants should endeavor, however, to provide thorough and complete applications as they may not have an opportunity for subsequent communications either oral or written other than the response to the deficiency letter.
- C. **Deficiency Letter / Challenge Period.** Applicants will receive a deficiency letter including a preliminary score based on LRA/OCD staff review of the application. Applicants will have ten business days to respond to the deficiency letter.
- D. **Final Score.** After receiving the applicant's response to the deficiency letter, LRA/OCD staff will assign a final score.
- E. **Award Acceptance Agreement.** After the challenge period, LRA/OCD will issue Award Acceptance Agreements in substantially the form of the CDBG Piggyback Round Two Award Acceptance Agreement that can be found on the LRA/OCD web site.

- F. **Application to LHFA (or other issuer) for Bonds and Credits.** A copy of the Award Acceptance Agreement (executed by the sponsor) will be included in the sponsor's application to LHFA for tax-exempt bonds and 4% LIHTCs.
- G. **Communication with Contact Person.** LRA/OCD will communicate only with the contact person listed in the Application. Information received from persons other than the contact person will be disregarded by LRA/OCD.
- H. **Noncompliance in Federal or Other Agency Programs.** Developers cited for non-compliance in federal housing programs or in a project/program administered by LRA/OCD shall not receive a reservation of CDBG funds unless or until such non-compliance is cleared.
- I. **Reservation Pursuant to Federal Regulations.** LRA/OCD reserves the right to make and revise reservations in accordance with published federal regulations, rulings, guidelines and notices.

VIII. CDBG APPLICATION PACKAGE

- A. **LHFA Electronic Application**
 - 1. Diskette.
 - 2. Two hard copies, with original signatures.
 - a. All required certifications must be included and must be signed.
 - b. All required appendices must be included.
- B. **Market Study.**
 - 1. Applications must include a market study meeting LHFA requirements
 - 2. The market study must include an estimate of comparable market rents (i.e., the rents that the proposed project could command in the absence of rent and income restrictions). For Mixed Income projects, this estimate of comparable market rents must be a Rent Comparability Study meeting the requirements of HUD's Section 8 Renewal Policy Guide Chapter 9.
- C. **Exhibits and Addenda.**
 - 1. All exhibits and addenda that would be required for an application to LHFA for tax-exempt bonds. These must meet applicable LHFA requirements.
 - 2. All exhibits and addenda required by the Underwriting Criteria in Section XI.
 - 3. For projects claiming a preference because the locality has identified the project as a priority, or because the project is located in a locally designated redevelopment area, a letter so stating from the head of local government (or other evidence constituting official designation and acceptable to LRA/OCD).

4. For projects claiming a preference because of land donated by the local government, a letter so stating from the head of local government (or other evidence constituting official commitment to the donation and acceptable to LRA/OCD).
 5. For projects claiming a preference because of Local Financial Support, adequate support for the amount claimed (including a copy of the required appraisal, for in-kind contributions).
 6. For mixed income projects, an exhibit establishing that the LIHTC units are comparable to the market units and are distributed throughout the project. In mixed income projects, LIHTC units may not differ (for example, in size, number of bathrooms, or quality of finishes) from other units within the property having the same number of bedrooms. If no other units within the property have the same number of bedrooms, the exhibit must demonstrate to LRA/OCD (in LRA/OCD's sole discretion) that the proposed unit sizes, numbers of bathrooms, and finish quality for the LIHTC units are comparable to the remaining units, taking into account differences in number of bedrooms.
 7. Any other exhibits and addenda required pursuant to this document.
- D. **CDBG Selection Criteria.** Diskette, in LRA/OCD-approved format, containing the Selection Criteria discussed in Section X. LRA-OCD will post the required electronic format (in Microsoft Excel) on the LRA-OCD web site not later than June 30, 2008.
- E. **CDBG Application Letter.** An application letter in LRA/OCD-approved format.

IX. CDBG COMPLIANCE REQUIREMENTS

- A. **Environmental Clearance.** Developers are required to obtain environmental clearance pursuant to 24 CFR Part 58 from LRA/OCD before taking choice-limiting actions such as purchasing land or beginning construction.
- B. **Accessibility.** Projects will be subject to accessibility requirements under Section 504 of the Rehabilitation Act of 1973.
- C. **Davis-Bacon.** Construction will be subject to Davis-Bacon wage and record-keeping requirements.
- D. **Formerly Occupied Properties.** For properties that were occupied at the time of the Storms but have not become re-occupied, sponsors must provide reasonable efforts to enable former tenants to return if they are otherwise eligible for a unit within the property. Unless waived by HUD, this is a Federal requirement pursuant to Section 414 of the Stafford Act.
- E. **Uniform Relocation Act ("URA").** If the project site is not owned by the sponsor at the time the CDBG application is made, the seller must receive the

URA voluntary sale notice. If the project site is occupied at the time the CDBG application is made, the application must include an exhibit explaining either that no relocation of tenants will result, or that such relocation will be temporary (and including an adequately supported estimate of relocation costs). Projects that would result in permanent relocation of tenants (as such term is defined in the URA) are not eligible.

- F. **Lead Based Paint.** HUD’s lead based paint regulations at 24 CFR Part 35 will apply. These regulations require, among other things, that lead hazard evaluation and reduction activities be carried out for projects originally constructed before 1978 and receiving CDBG assistance. Capitalized terms in this paragraph are as defined in 24 CFR Part 35.
1. For any project that includes an existing building that was completed prior to January 1, 1978, the application must include an exhibit discussing whether the building is Target Housing.
 2. For any proposed project that includes Target Housing:
 - a. Prior to commencement of construction, a Risk Assessment (to determine the existence of lead paint hazards, and to design a lead hazard control plan) must be completed by certified inspection personnel.
 - b. An Inspection (to determine the location of any lead-based paint) is strongly recommended.
 - c. A lead hazard clearance report, based on dust testing by a certified inspector, is required after completion of construction.
 - d. The application must include a Use of Funds item for lead paint hazard reduction of at least \$1,500 for each unit that is Target Housing, or a smaller amount that is supported by a Risk Assessment and Inspection. A copy of the Risk Assessment and Inspection must be included in the application.
- G. **Other.** Other applicable CDBG requirements will apply; see the template Piggyback Round Two template legal documents, available on OCD’s web site.

X. SELECTION CRITERIA

- A. **Categories; Maximum Point Score.** See the Addendum for details of the following categories. The maximum point score is 400:
- | | | |
|----|-------------------------|--------------------|
| 1. | Parish location | 50 points maximum |
| 2. | Project type (e.g. PSH) | 100 points maximum |
| 3. | Local Financial Support | 50 points maximum |
| 4. | CDBG Funding Per Unit | 100 points maximum |
| 5. | Other | 100 points maximum |
- B. **Minimum Score.** There is no minimum point score for award of CDBG funds. Developers should note that LHFA requires a minimum point score (against LHFA’s selection criteria) for award of tax-exempt bonds and 4% LIHTCs.

XI. UNDERWRITING CRITERIA FOR PURPOSES OF SIZING THE CDBG REQUEST. LRA/OCD will employ the following criteria when evaluating applications and requires applicants to employ the following criteria in the electronic application.

A. In General.

1. LRA/OCD generally adopts the underwriting criteria used by LHFA.
2. To the extent the criteria below differ from those of LHFA, LRA/OCD understands that the sponsor’s application to LHFA will comply with LHFA standards and therefore may differ from the CDBG application.

B. Project Size. There is no minimum or maximum number of units.

C. Rents.

1. **Rents for Market Rate Units.** Not less than 95% and not more than 100% of the comparable market rents identified in the market study.
2. **Rents for PSH Units.** The rent paid by the tenant is the 20% AMI rent. Rental assistance such as PBRA (if any) must be included in the rental income projections.
3. **Rents for Other LIHTC Units.** Not less than 95% and not more than 100% of the maximum LIHTC rent, but not to exceed 95% of the comparable market rent identified in the market study.

D. Rent Loss. 7.0% of gross potential rents (for vacancy loss, bad debt loss, and concession loss). If the project involves acquisition of an existing project that has experienced rent loss in excess of 7.0%, the application must include an exhibit discussing how the proposed project will overcome the factors that led to the higher historical rent loss.

E. Operating Expenses. Below are the 25th and 75th percentile operating expenses per unit per year, from awarded applications in the first Piggyback funding round. If any category of proposed operating expenses is less than the 25th percentile shown below, or more than the 75th percentile shown below, the application must include an exhibit providing adequate support for the amount proposed for that expense category.

Operating Expense Category	25 th Percentile	75 th Percentile
Real estate taxes	\$450	\$800
Property insurance	\$775	\$1375
Project Paid Utilities	\$275	\$550
Management Fee	\$350	\$425
Other Operating Expenses	\$1,500	\$2,000

F. Replacement Reserve Deposit. Not less than \$300 per unit per year or more than \$500 per unit per year.

G. **Inflation.** 3% annually for expenses and 2% annually for revenue.

H. **First Mortgage Terms.**

1. **In General.** The application must include an exhibit, such as a conditional commitment from a lender, providing adequate support for the proposed first mortgage terms. For purposes of sizing the CDBG award, it is acceptable to LRA/OCD for sponsors to estimate an interest rate that is not more than 50 basis points above the prevailing market rate at the time of application.
2. **Debt Service Coverage (on 1st Mortgage).** Not less than 1.15:1 and not more than 1.40:1. If a sponsor determines that an initial debt service coverage ratio above 1.40:1 is necessary, the application must include an exhibit that supports the need for the higher initial DSCR (for example, a long term cash flow projection showing that the higher initial DSCR is needed in order to maintain an acceptable minimum DSCR over the 15 year compliance period).

I. **Developer Fee.**

1. Limited to the maximum fee allowed by LHFA.
2. In accordance with LHFA policy, certain proposed soft costs such as consultant fees and contingency fees will be treated as part of the proposed developer fee.
3. If more than 20% of the proposed developer fee is proposed to be deferred, the application must include an exhibit demonstrating that the proposed deferred portion is reasonably likely to be repaid during the LIHTC compliance period, from the portion of Surplus Cash that is distributable to the owner (i.e., after deducting the Tier A and Tier B payments).
4. If the *pari passu* funding option is selected for a Gap Financing Loan, no more than 17.5% of the cash portion of the developer fee may be drawn at initial closing and no more than 35% (cumulative) may be drawn through completion of construction.

XII. COORDINATION WITH BOND ISSUERS

- A. **LHFA As Issuer.** LRA/OCD assumes that most sponsors will ask LHFA to issue the necessary tax-exempt bonds. LRA/OCD expects that LHFA will issue a Master Term Sheet in the near future, describing any LHFA requirements that will be applicable.
- B. **Alternative Issuers.** Sponsors who anticipate involving another issuer (or asking LHFA to issue some of the necessary bonds and asking another issuer to issue the remaining bonds) should check with such issuer to determine any issuer-specific requirements that will be applicable.

XIII. LHFA APPLICATION PACKAGE REQUIRED. Sponsors are reminded that LRA/OCD requires all applications to submit to LRA/OCD a complete LHFA application, including diskette. This requirement applies without regard to the sponsor's choice of bond issuing agency.

XIV. BOND AND LIHTC RELATED REQUIREMENTS. LRA/OCD provides the following based on its understanding of bond-related requirements that may be applicable and that sponsors should take into consideration.

- A. **Fees.** Sponsors should determine any fees that the issuing agency may charge. No application fees or analysis fees are payable to LRA/OCD in connection with this program.
- B. **Construction Timing Considerations.** Sponsors are reminded that the CDBG program's environmental review requirements prohibit sponsors from taking any 'choice limiting actions' such as purchasing land or commencing construction, prior to receiving environmental approval from LRA/OCD. Sponsors are reminded that the issuer and/or the IRS may have additional requirements (such as the IRS limitations on 'original expenditures') that may affect the sponsor's timing for commencing construction.
- C. **Type of Project.** LRA/OCD understands that the IRS regulations for tax-exempt bonds differ from normal LIHTC requirements in ways that may affect scattered site projects, transitional housing projects, and projects that may serve student populations.
- D. **Public Notice Requirement.** Sponsors are reminded that bond financing includes a public notice requirement.

ADDENDUM: NOTES AND DEFINITIONS FOR CDBG SELECTION CRITERIA

- I. (50 points maximum) Parish Location
 - A. Calcasieu 0
 - B. Cameron 0
 - C. Jefferson 25
 - D. Orleans 25
 - E. Plaquemines 50
 - F. St. Bernard 50
 - G. St. Tammany 0
 - H. Vermilion 0

- II. (100 points maximum) Project Type:
 - A. (75 points) Mixed Income Project – at least 30% of units and not more than 49% of units at market rents (without LIHTC subsidy, without any rental subsidies, and without income or rent restrictions of any sort). The LIHTC units must be comparable to the market-rate units.
 - B. (100 points) Permanent Supportive Housing Project – at least 15% of total units and no more than 50% of units must be for Permanent Supportive Housing (Requirements for PSH Units above).

- III. (50 points maximum) Local Financial Support – either (a) locally contributed land, or (b) Local Cash Contribution and/or Local In-Kind Contribution of \$10,000 per unit or more.
 - A. (50 points) Projects with locally contributed land.
 - B. Other locally supported projects:
 - 1. (50 points) Projects with at least \$20,000 per unit of local contribution.
 - 2. (40 points) Projects with \$15,000 to \$19,999 per unit of local contribution.
 - 3. (30 points) Projects with \$10,000 to \$14,999 per unit of local contribution.
 - 4. (20 points) Projects with \$5,000 to \$9,999 per unit of local contribution (these projects are not eligible for the Local Financial Support pool).
 - C. Definition of Local Cash Contribution – must be in the form of either
 - 1. a grant; or
 - 2. a loan meeting each of the following criteria (the local award letter must be submitted in the application to LRA/OCD):
 - a. Subject to the CDBG Use Agreement.
 - b. Either (a) unsecured, or (b) secured by a lien junior to the lien of the Gap Financing Loan and otherwise acceptable to LRA/OCD.
 - c. Payable solely from (a) the sponsor’s share of cash flow and (b) sale or refinancing proceeds after repayment of the Gap Financing Loan.
 - D. Definition of Local In-Kind Contribution – developers must submit an appraisal report by a qualified third party appraiser, documenting the value of any local non-cash contribution (other than contributed land, for which LRA/OCD requires no appraisal).

- IV. (100 points maximum) CDBG Funding Per Unit
- A. Each project's CDBG request will be computed using the method in IV.B above.
 - B. Each project's point score will be computed as follows:
 1. Applicable funding cap (number of units, multiplied by the applicable per-unit cap), minus CDBG funding reservation requested (see IV.B).
 2. Divided by the product of the applicable per-unit cap, times the total number of units in the project.
 3. Times 100.
 - C. Example: 40 unit mixed income project, Orleans Parish, \$3.5 million CDBG reservation request (\$3,040,000 Gap Financing Loan plus 5 units of PBRA at 20% AMI):
 1. $(\$150,000 \times 40 = \$6,000,000) - \$3,500,000 = \$2,500,000$
 2. $\$2,500,000 \div \$6,000,000 = .417$
 3. $.417 \times 100 = 41.7 = 42$ points (rounded)
 - D. Example: 40 unit non-mixed-income project, Orleans Parish, \$1.5 million CDBG reservation request:
 1. $(\$100,000 \times 40 = \$4,000,000) - \$1,500,000 = \$2,500,000$
 2. $\$2,500,000 \div \$4,000,000 = .625$
 3. $.625 \times 100 = 63$ points (rounded)
- V. (100 points maximum) Other Criteria.
- A. (50 points) Projects in redevelopment areas officially designated by the local governing body prior to May 1, 2008.
 - B. Permanent Supportive Housing above the 5% minimum requirement:
 1. (15 points) Projects with 10% to 15% PSH units, with PBRA.
 2. (25 points) Projects with 10% to 15% PSH units, without PBRA.
 - C. Deep Affordability.
 1. (15 points) Projects meeting the Deep Affordability option, with PBRA.
 2. (25 points) Projects meeting the Deep Affordability option, without PBRA.
 - D. (25 points) Projects requesting Gap Financing Loans with funding at completion.
 - E. (5 points) Developer was awarded a CDBG Gap Financing Loan in Piggyback Round One but returned the Gap Financing Loan funding [due to local government refusal to issue the needed approvals](#).