

DOH DEVELOPER SUBSIDY INITIATIVE FOR HOMEOWNERSHIP PROJECTS

March 21, 2024

FAST FACTS

Purpose

For the Department of Housing to stimulate development of new homeownership units that are affordable to middle income households.

Source of Funds

State Bond Funds authorized for the Housing Trust Fund program, Section 8-336m-q of the Connecticut General Statutes.

Eligible for Assistance

Development organizations eligible under Section 8-336m of the Connecticut General Statutes.

Applicants

Housing Developers with experience developing affordable homes and who demonstrate they are qualified and willing to work within these program parameters and sell to the intended market.

Intended Market

Home Buyers with household income between 80% and 120% of the Area Median Income. Households that qualify as First Time Homebuyers under the Connecticut Housing Finance Authority (CHFA) standards. Also, select proposals that serve households above 60% of AMI up to 80% AMI will be considered, based on the experience of the developer succeeding in this market.

Location

Initiative will be available statewide with no restriction.

Pace and Term

Projects proposed by Developers are expected to produce at least six homes with no fewer than four homes sold per year. The financial assistance agreement may have a duration of up to three years.

Financial Assistance

DOH Developer Subsidy Initiative for Homeownership (the "Initiative") will assist developers with financing to bridge the gap between the cost to develop and bring a project home to market, and the sale price that typical buyer household can afford at 100% of the Area Median. Developer financing from the Initiative will be a forgivable loan. Upon each closing of a sale to an eligible household, no repayment will be required from the Buyer to the Developer or the Developer to DOH.

Deed Restriction

A deed restriction will require the Buyer to maintain the home as owner-occupied for 20 years or sell to an eligible household. There is no requirement for repayment from a Buyer who maintains compliance with the deed restriction.

Program Parameters and Selection

Please continue reading the full Outline of the Initiative.

This is a draft Outline until the program is approved by the Commissioner of the Department of Housing.

- **The Initiative will become active upon DOH release of the Notice for Spring 2024 Development Engagement Process.**
- **DOH relies on the Development Engagement Process for project intake, and the dedicated Homeownership version of the Consolidated Application to collect financial projections. In 2024, DEP is anticipated to be open for several weeks in April/May and again in September/October. For more information, see www.DOH.gov > Funding Opportunities > Development Engagement**
- **Though there is no specific funding is tied to this Initiative, DOH has authorizations of funding available for which projects applying through this Initiative could be eligible.**
- **DOH will accept proposals for Condominium developments through this initiative on a case by case basis. Contact Nathan Karnes or Miguel Rivera at DOH to discuss.**
- **The terms in this Initiative outline shall not preclude DOH from considering sweat-equity based homeownership models such as Habitat for Humanity. Contact Nathan Karnes or Miguel Rivera at DOH to discuss.**
- **Nathan Karnes, Community Development Specialist at DOH, is available for consultation at nathan.karnes@ct.gov**
- **Miguel Rivera, Community and Housing Development Manager, is available at rivera.miguel@ct.gov**

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OUTLINE

FUNDING:

The Department of Housing (DOH) will use State Bond Funds. Financial assistance to Developers will be in the form of a secured loan subordinate to construction financing. Upon each home sale closing to an eligible Buyer, an increment of the Developer mortgage will be released.

DEVELOPER SELECTION:

Developers will be evaluated for financial capacity and their demonstrated ability to complete the project proposed. DOH will review current balance sheet and past financial performance of the organization as well as the project financial projections.

DOH evaluation of proposals will emphasize the Developer's demonstrated experience with:

- a) successfully bringing homes for sale to market;
- b) controlling costs;
- c) managing complex development cash flow; and
- d) attracting, qualifying and closing on sales to low and moderate income buyer households.

PROJECT SCOPE:

- Size – The minimum number of affordable homeownership units in a project is six (6). There is no maximum for the project although DOH assistance may be limited. Projects may mix affordable and market rate homeownership (minimum ratio is 60% affordable).
- New Construction – Activities developing new housing stock through new construction are preferred and the Initiative is designed to primarily support new construction.
- Renovation – Returning properties to active housing stock that are vacant and have been uninhabited and need significant rehabilitation may qualify. See Qualifying Rehabilitation, below.
- Term of Project – Project term will be unique for each project. In designing their project, the Developer should plan to complete construction and all sales within 36 months of DOH contract closing.

LOCATION:

- Eligibility is statewide with no specific preference or emphasis.
- DOH will give selection consideration to homeownership projects in areas that lack available stock for sale affordable to Buyer Households between 80% and 120% of Area Median Income.
- Projects in areas of very high opportunity are encouraged.
- Projects in areas that are traditionally bypassed for any homeownership investment or areas where the housing market is overwhelmingly expensive with few affordable options.
- The Developer's application must identify all parcels to be included in the project. DOH application review will include approval of parcels into the project and may require additional property information.
- See Property Exclusion below.

COMPATIBILITY and OTHER ASSISTANCE:

- Proposals are expected to rely on a construction loan or significant developer resources to support the cycle of predevelopment, construction and sale, assisted by the Initiative.

- Leveraging of state funds will be a consideration in project selection. Developers are encouraged to seek out and include other developer, buyer, foundation, or local community assistance funding and to include these in their proposal to DOH.
- Developers should demonstrate in their application that they have researched the Buyer Assistance programs available to their target market, including those from the CHFA, from CDFI organizations and from municipalities and banks. Applications should include precertification of project location, target market and preliminary design from such funders of one or more programs, or a plan and timeframe to secure those approvals.
- With regard to both construction lending and homebuyer assistance, DOH intends to provide flexibility and work with the Developer and other potential funders to ensure project success.
- Generally, under this Initiative, both homes and proposed buyers should be eligible for CHFA-backed first mortgages and the Time To Own buyer assistance program. Participating banks can be researched on the CHFA website. Alternatively, proposals that do not meet CHFA eligibility should include letters of interest from another program that has vetted the project/proposed buyer market and is offering similar homebuyer lending and downpayment financing assistance.
- Projects may be fully affordable activities (100%) or may be part of a larger activity that includes both affordable and market-rate homes for sale.
 - Market-Rate units in a mixed-income project will not be subsidized by DOH assistance.
 - In any project regardless of size, a minimum of six (6) units are affordable, and
 - At least 60% of the project homeownership units are deed restricted as affordable.

DESIGN STANDARDS:

- DOH will rely on State Building Code and applicable incorporated references including HUD Minimum Property Standards (MPS).
- Stick built, panel, modular and mass timber forms of construction are eligible technologies, subject to local approval.
- DOH may adopt additional requirements or guidelines such as to ensure homes satisfy the Agency's obligations in administering public funds. See Design below.

PERMITTING:

- All projects are subject to review under the CEPA Intake protocols for determination of scoping.
- DOH has an expectation that Developers are of a financial capacity that they can invest in the predevelopment needs of their project. Upon submission of a full Consolidated Application, the developer must demonstrate all local approval, full zoning, including wetland and traffic if applicable.
- A Building Permit valid for the full project scope and expected term of construction, or an acceptable will-issue-letter for the full project scope is required prior to closing on DOH developer assistance.
- At home sale, well and septic system must be confirmed by professional certification as Functional.

EXCLUDED HOUSING TYPES:

- All structures of three or more units.
- All forms of co-op share ownership.
- Manufactured homes where the trailer will not be permanently secured to a foundation.
- Extreme conversions to housing units, such as shipping containers.

DUPLEX:

- Two owner units side by side relying on a zero lot line and with a maximum two units per home.
- Possibility of one owner / one rental unit; scenario must be disclosed at application to DOH and cannot be changed once proposal is approved by DOH. See Rental Income, below.

MULTIFAMILY CONDOMINIUMS:

- Multifamily Condominium proposals will be considered, based on the successful experience of the developer with similar scope projects and in a similar role. The Developer is required to contact DOH before DEP submission to discuss a condominium. Multifamily design and construction requirements will apply. If asked, DOH will consider flexibility with some Initiative requirements and restrictions that may be incompatible with an otherwise acceptable multifamily Condominium proposal.

DESIGN, COST EFFICIENCY, CONTRACTING AND CONSTRUCTION

Design Detail (See also Design Standards above)

- DOH will review Plans and Specifications, the architect contract and the proposed construction contract and development schedule.
- Construction contracts must incorporate the DOH Supplemental General Conditions.
- Project Architect of Record is required to have a valid Connecticut license.
- Proposals are subject to DOH feasibility and cost reasonableness review and value engineering comments.
- Cost control in design and specifications, efficiency, will be a factor in project selection.
- The Architect will certify compliance of design with applicable code and standards including quality, safety, accessibility and energy efficiency.
- Standard plans, such as those purchased commercially, are an effective way to conserve costs, although a strong project Architect will be needed to secure local approval and is expected to oversee the use of the drawings during contract administration.
- Projects where the Developer has or will purchase land along with existing plans and specifications, which sometimes include in-place zoning approval, should be disclosed to and discussed with DOH.

Economic Efficiency

- All design decisions should favor choices that conserve public subsidy funds, while maintaining market viability.
- When energy efficiency and renewable energy features add to the project cost, the Developer should endeavor to secure offsetting financial assistance tied to such features. DOH can provide advice.
- As necessary, project design should take into consideration Buyers accessing assistance through CHFA's Time To Own, CHFA Downpayment Assistance, or other programs such as through a municipality, an employer or a CDFI.

Energy Efficiency and Carbon Emission Consideration

- Through Energize CT, as of July 1, 2023, the Residential New Construction incentive programs for energy efficiency have transitioned to all-electric home design. This seeks to ensure that new single family homes will be designed and built efficiently (i.e. better than current 2021 IECC code), such as with heat pumps for space heating and water heating and ensuring that cooking is electrified as well. There are some special conditions for back-up fossil fuel generation and auxiliary uses such as fireplaces, but the goal is to ensure that homes are built with efficiency and to reduce carbon emissions.
- DOH endorses this effort and so our expectation is that for architectural designs for homeownership dated after July 1, 2023 and also whenever possible through modification of earlier designs, homes developed regardless of where they are located in Connecticut or which electric utility serves them, will meet the standards of the Energize CT Residential New Construction incentive program.

Procurement and Contracting

- Contracting for architect, engineer and construction will meet minimum DOH standards of procurement, documentation and insurance and will be reviewed for credentials and professional history.
- Architect must be Connecticut licensed and their role in the project will include contract administration regardless of the construction technology the project is using.
- Contractors shall be registered as a Connecticut New Home Builder, regardless of whether the scope of work is new construction or renovation.

Construction

- Construction other than stick-built, such as modular, panel, mass timber or other technologies, may be effective options subject to DOH approval.
- Sequence of construction and phasing of shall be reviewed by DOH and subject to final approval by DOH prior to closing. Changes to schedule shall be subject to prior DOH approval.
- DOH will conduct construction observation and site visits at critical construction stages. Developer and project architect shall ensure delivery to DOH of progress reports with photos to be prepared by either the architect, lender representative, or professional owner representative; or, if prepared by the contractor, endorsed by one of the preceding. Frequency should be no less than monthly.
- AIA forms shall be used for contractor requisitions, change order documentation, lien waivers, etc.

Renovation

- The DOH Homeownership Initiative is intended to stimulate new homes being brought to market.
- Conversion of non-residential building to homeownership is unlikely to meet our property criteria listed herein unless its conversion is to only one or two units.
- A project where the activity involves renovation of existing homes to new ownership could be considered if either one of these conditions is met:
 - a) the structure has not been legally occupied for a residential purpose for two years (24 months) before application to DOH and is in need of qualifying renovations; or
 - b) without qualifying renovations, the property cannot be legally occupied or continue to be occupied for residential use (condemned).

A property meeting either of these conditions could be eligible under this program.

Qualifying Rehabilitation

- This program is intended to support Rehabilitation only when it is addressing dwelling units that are substantially unlivable. Designation by a municipal authority would be acceptable confirmation; such as the building, health or fire departments.
- Qualifying Rehabilitation of each residential property in this program will cost not less than \$60,000 and should be at least 40% of the value of the dwelling unit (municipal assessment main building).
- The need for Rehabilitation is to restore the dwelling unit to a decent, safe, and sanitary condition, and to repair or replace multiple major building systems or components in danger of failure.
- The rehabilitation may include the reconfiguration of space, the addition or elimination of any door or window, the reconfiguration or extension of any system, the replacement of two or more major systems, or the installation of additional equipment.
- All financially feasible code compliance work should be included and if there are elements of compliance that cannot be satisfied, waivers must be obtained from relevant jurisdictions.

PROJECT APPRAISAL:

- In order for DOH to properly underwrite its subsidy assistance to a developer's project, the developer must present a qualified independent estimate of the home's projected sale market value. The valuation can be by type/size/style within the project rather than for each individual home. At initial application to DOH a market assessment would be acceptable with a construction lender's appraisal to follow prior to DOH formal commitment of financial assistance.

COST ESTIMATE, EFFICIENCY AND VALUE ENGINEERING:

- DOH, the gap funder, is keenly interested in cost-effective and efficiently administered projects.
- DOH may require value engineering to reduce construction cost and recommend changes in the project's administration, the cost to bring homes to sale.
- Project selection will rely in part on DOH review of a cost estimate for development. Actual costs and updates to estimates will be reviewed as applicable throughout the development cycle.
- The total cost to develop the home may not exceed the most recent CHFA Bond Sales Price Limit.
- Upon consultation with the developer, DOH may enter into discussion with other parties with the intention of minimizing the amount of per-home-subsidy necessary from DOH.
- The net cash proceeds of the completed project will remain with the Developer.
- The Developers anticipated profit from the project will be disclosed in projections and the actual revenue will be reviewed by DOH.
- Therefore, a developer fee or administrative fee does not need to be listed as a budgeted cost. All such fees would be at-risk to balance the budget if there are unexpected increases in the completion costs.

THE HOME SALE AND THE ELIGIBLE BUYER HOUSEHOLD

HOUSE APPRAISAL: DOH will not require appraisal of a specific house in advance. The first mortgage lender's appraisal, no older than 180 days old at home sale closing, will be part of the Buyer File for DOH.

MAXIMUM SALE PRICE: The market price of the home may not exceed the applicable CHFA Bond Sale Price Limit published by the Connecticut Housing Finance Authority.

BUYER/HOMEOWNER INCOME LEVEL: DOH Homeowner Initiative will support homes in eligible projects sold to qualified Buyers with confirmed household income from 80% to 120% AMI. DOH prefers the development have a mix of household income tiers. Developer proposed Income Tier and Mix is supported by a demonstration of local market need for homes at those levels, such as the Municipal Affordable Housing Plan. Proposals that serve households above 60% of AMI will be considered, based on the experience of the developer.

HOME SALE UNDERWRITING: Mortgage underwriting is the responsibility and prerogative of the homebuyer mortgage lender.

BUYER HOUSEHOLD QUALIFICATION: DOH relies on CHFA standards for qualification of buyer household as First Time Homebuyer, including review of income and assets. Developer or their partner will qualify buyers and maintain records for DOH access. DOH will provide a list of documents required to be maintained for review in the eligible Buyer File by the developer or partner.

FIRST TIME HOMEBUYER TRAINING:

- Required - Each project will include a standard HUD-approved course for homebuyers which will include sections on: financial responsibility, foreclosure avoidance, maintenance, long-term repair or replacement of components, landlord basics, etc. *DOH will review available courses in consultation with CHFA and determine the minimum required hours.*
- Then, each buyer will have the opportunity to participate in one group follow-up session between months six and twelve after purchase.
- Regardless of their experience, all Buyers will be required to attend the First Time Homebuyer training.
- Training Provider: The Developer can demonstrate its own qualification and capacity to offer the course, or contract with a Partner from the list of CHFA Participating - HUD Approved housing counselors.
- The Developer or Partner will offer 3 years limited post-purchase technical support on an as-needed basis.
- The cost of training and follow up are eligible project costs.

BUYER ASSISTANCE: Developers will identify one or more buyer assistance programs with which they have established contact and confirmed that their property would be eligible, should a qualified purchaser apply for assistance. The CHFA Time to Own Program is the ideal program, however, due to eligibility requirements, other CHFA downpayment assistance, or programs from local jurisdictions or community development financial institutions may be the most appropriate in certain cases. The Developer is expected to research program offerings, determine which are ideal for their buyers, and promote program information to the buyers and their first mortgage lender. Assistance can be stacked, subject to the rules of each program. The Developer's proposed Buyer Assistance plan will be included by the Developer in their project description.

OWNER OCCUPANCY COMPLIANCE: DOH will deed-restrict each home as the primary residence of the buyer head-of-household for twenty (20) years from the purchase date.

RESALE: Developers will ensure that Buyers are well-informed of the owner occupancy and resale requirements in plain language. A sale within 20 years must be to an eligible buyer household with such transactions conducted under review and approval of the DOH Asset Management unit.

RESTRICTIVE COVENANT: To enforce Owner Occupancy and Resale provisions, the State will rely on a Declaration of Land Use Restrictive Covenant recorded on the land records of the property's municipality. There will already be a blanket restrictive covenant on project properties that DOH recorded with the Developer, and at closing the Buyer will accept and record an Acknowledgement of the Declaration for their parcel. DOH may in some cases also rely on a contingent liability mortgage on the Developer to secure the restrictive covenant until home sale.

DOH FINANCIAL SUPPORT

FINANCIAL ASSISTANCE / MARKET GAP SUBSIDY:

Through a forgivable loan to the Developer, DOH Developer Subsidy will write down each home to the income tier based sale price. DOH will underwrite for the total projected cost to develop and sell the homes and the projected cumulative revenue at a sale price affordable to a hypothetical buyer at 100% AMI income tier. Buyers below 100% of AMI could be eligible for Buyer assistance programs.

- The Cost to Develop includes land, design, permitting, carrying costs, construction, financing, marketing, developer overhead and legal.
- The total Cost to Develop the home may not exceed the most recent CHFA Bond Sales Price Limit.
- Soft costs should be allocated across the project properties in an equitable manner.

- For net proceeds, DOH will accept a justified and reasonable Developer profit above and beyond these expenses, not to exceed twenty-two (22) percent of non-acquisition cost.
- Cost overruns due to material cost increases outside of the control of the developer are the responsibility of the Developer and may reduce the ultimate net proceeds.
- Developer team shall exercise fiscally prudent project administration to conserve the public subsidy.

OTHER CONSIDERATIONS

RENTAL INCOME:

- In this initiative, Single Unit houses are preferred. There would be no rental income from a single family home, as owner occupancy is required.
- With approval, this DOH Homeownership Initiative may allow two-family structures with a maximum of one rental unit.
- DOH will not restrict the rental unit or regulate the income of the tenant household.
- The income of the Buyer will be qualified using an assumption of 75% of future gross Rent revenue based on the rental unit's rent at the 60% AMI household income affordability tier.
- Further rent income projection reductions, such as for rental unit vacancy, will not be taken.
- DOH reserves the right to reject any or all two-unit properties.
- Multifamily condominium developments, where all units are to be sold, will need an approved plan to avoid an unanticipated transition to rental property.

DISBURSEMENT:

The portion of DOH assistance released for development and construction purposes will vary based on the Developer's financing plan, construction timeline, sale schedule and cash flow acceptable to DOH. Typically:

- A portion of the DOH assistance will be available at DOH Closing and released to support developer predevelopment expenses and the initial construction start. This may be up to thirty five percent (35%).
- The middle payment would be released once the Developer has:
 - confirmed approved buyers for about 30% of the homes, and
 - first sale closings are in progress, and
 - the Developer has a date to start construction that will complete 50% or more of the Project, then
 - DOH would consider releasing up to an additional fifty percent (50%) of the financial assistance
- Fifteen percent (15%) of the financial assistance shall be retained by DOH for release to Developer upon completion of the entire project, to include: completion of final sale, construction cost certification, and satisfactory documentation qualified buyer occupancy of all homes under the DOH Declaration.

MUNICIPAL SUPPORT:

- If local priorities are being met, project proponents should be prepared to describe specifically how their proposal helps satisfy goals from the town Affordable Housing Plan, or a local Redevelopment Plan, Neighborhood Revitalization Plan, etc..
- Developers pursuing, or expecting to pursue, local approval under CGS 8-30g, the Affordable Housing Land Use Appeals statute, may participate in the Development Engagement to inform DOH of their project, but will need to complete all necessary steps for zoning approval before applying for DOH financial assistance.
- Projects demonstrating a local commitment of financial or in-kind assistance from the Municipality can expect that effort to be acknowledged and taken into consideration during DOH evaluation of the proposal.

END OF OUTLINE

DOH DEVELOPER SUBSIDY INITIATIVE FOR HOMEOWNERSHIP PROJECTS

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PROCESS AND ESTIMATED TIMELINE

Start

- Developer applies through the twice-yearly DOH Development Engagement Process (DEP)
- DEP consultation call provides initial introduction by Developer of project to DOH team
- DOH may request additional information, including four Homeownership tabs of the ConApp
- DOH review of project information and funding request, continued discussion with Developer

Month Three (decision to proceed within 90 days from DEP submission)

- Invitation to Apply (ITA) from DOH would specify a timeframe for the Developer to deliver a complete and viable full Consolidated Application and all applicable application requirements

Month Seven (if ConApp arrives within 90 days from ITA)

- DOH financial assistance underwriting and architectural and technical review of the complete application, further discussion with the Developer, local authorities, other lenders and partners
- Completion of CEPA process and resolution of any architectural or technical matters
- Recommendation, internal to DOH, on whether to provide financial assistance, and terms

Month Eight

- Negotiation of proposed terms and financial assistance particulars between DOH and the Developer
- DOH Letter of Selection and Term Sheet to Developer specifying proposed financial assistance
- DOH engages Outside Counsel to initiate the financial closing

up to Month Ten (240 to 300 days from DEP submission)

- Financial Closing for DOH and Construction Lender closing
- Property Transfer, Construction Contract Executed, and Developer may Start Construction

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APPLICATION REQUIREMENTS:

DOH application review will include our consideration of the following:

- DOH ConApp, Homeownership Version with particular focus on four Homeownership tabs
- Evidence of Site Control for all parcels
- Zoning Approval and project architect acknowledgement addressing each condition
- File documenting procurement of Architect to DOH standards, Connecticut license
- File documenting procurement or planned procurement of Construction Contractor to DOH standards
- Three years Financial Statements of the Developer, or parent, demonstrating capacity
- Contractor's Qualifications Statement AIA A305
- 80% or better Drawings and Specifications
- Phase I Environmental Site Assessment, Hazardous Materials Study if applicable
- Evidence of submitting CEPA Intake to DOH, the Connecticut Environmental Policy Act
- Proposed Construction Contract
- Realtor Agreement, fee schedule, and Buyer Selection Plan
- Plan for Buyer financial assistance and/or downpayment assistance for Homebuyers
- Plan for pre-purchase, post-purchase training and three years support for project Homebuyers
- Construction lender letter of interest (two) with terms, or one lender executed commitment
- LOI from one or more buyer first-mortgage lenders
- Construction pricing less than 6 months old or new pricing to be submitted within 30 days
- AIA Qualifications and description of architect single family home experience including with any unique features of this project
- AIA Qualifications and description of contractor single family home experience including with any unique features of this project
- Financial report of the developer, three years, to include statement of financial resources available to ensure completion of the project
- Project timeline (sequential months not specific dates), through to final sale and close out

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DUE AT THE COMPLETION OF A DOH HOMEOWNERSHIP PROJECT:

- Compilation of all Certificates of Occupancy or equivalent from the municipality,
- Acknowledgement of Declaration of Restrictive Covenant by each Homebuyer.
- Construction File copied to DOH according to a content checklist DOH will provide,
- Buyer Files copied to DOH at each sale, to include homebuyer selection, income certification and other proof of qualification. The assumption of Declaration will be enforced by the Asset Management unit.
- Buyer-signed receipt of a manual for the house (warranties, appliances, key contacts, etc.)
- Completion certifications may include those from Developer, local government, contractor and architect.
- Project Cost-Certification and reconciliation to final appropriate affordability gap subsidy.
- Certificate of Homebuyer Training completion for each buyer.
- Only upon project close-out, the Developer will be relieved of financial and construction compliance obligations to DOH (any warranty to homebuyer notwithstanding). At this point, any remaining DOH Mortgage would be released.
- The Developer or their Partner agreement to provide after-purchase support to Buyers for three years in the manner agreed to in the individual project's assistance agreement.