I. INTRODUCTION

The Housing Trust Fund (HTF) program was created by Title I of the Housing and Economic Recovery Act of 2008, Section 1131 (Public Law 110-289) and is administered by the U.S. Department of Housing and Urban Development. The regulations which govern the HTF are contained in 24 CFR Part 93, Housing Trust Fund. The purpose of the HTF is to provide grants to State governments to increase and preserve the supply of decent, safe, and sanitary affordable housing for primarily extremely low-income (30% AMI) households, including homeless families. The Hawaii Housing Finance and Development Corporation (HHFDC) is designated as the HTF Grantee for the State of Hawaii.

II. DISTRIBUTION OF FUNDS

The Consolidated Plan identifies a substantial need for affordable housing throughout the State of Hawaii. Consequently, the HHFDC will make its allocation of HTF funds available on a statewide basis. HHFDC will fund projects through subgrantees (a unit of general local government that is selected to administer all or a portion of the state HTF program). The annual distribution is described below:

a. HHFDC will retain 5% of the HTF annual allocation for allowable administrative and planning expenses.

b. The balance of the HTF annual allocation will be split (50/50) between the City and County of Honolulu and the designated neighbor island county that receives HHFDC’s rotated HOME allocation, (Subgrantees); for PY2016, the City and County of Honolulu and the County of Kauai are anticipated to receive the HTF allocation; the next neighbor island allocations would be received by the County of Maui in PY2017, followed by the County of Hawaii in PY2018.

c. The HTF program requires HHFDC to commit funds within 24 months of HUD’s execution of the HTF grant agreement. Should a Subgrantee be unable to identify an eligible HTF project(s) within a specified timeframe, HHFDC, in its sole discretion, may seek alternate activities from the remaining Subgrantees.

d. The HHFDC anticipates receiving $3,000,000 in HTF funds for the Program Year 2016 – 2017, to be distributed as follows:
### Program Year 2016 – 2017

<table>
<thead>
<tr>
<th>Fund Type</th>
<th>City of Honolulu</th>
<th>County of Kauai</th>
<th>HHFDC</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>HTF Project Funds</td>
<td>$1,350,000</td>
<td>$1,350,000</td>
<td>$0</td>
<td>$2,700,000</td>
</tr>
<tr>
<td>Administration</td>
<td>$75,000</td>
<td>$75,000</td>
<td>$150,000</td>
<td>$300,000</td>
</tr>
<tr>
<td><strong>Total HTF Funds</strong></td>
<td><strong>$1,425,000</strong></td>
<td><strong>$1,425,000</strong></td>
<td><strong>$150,000</strong></td>
<td><strong>$3,000,000</strong></td>
</tr>
</tbody>
</table>

### III. ELIGIBLE ACTIVITIES AND EXPENSES

Rental Housing - HHFDC will focus its HTF funds on providing affordable rental housing to 30% AMI households. HTF funds may be used for the production, preservation, and rehabilitation of affordable rental housing through the acquisition, new construction, reconstruction, or rehabilitation of nonluxury housing with suitable amenities.

Eligible activities and expenses include: real property acquisition, site improvements and development hard costs, related soft costs, conversion, demolition, financing costs, relocation assistance, operating cost assistance and reasonable administrative and planning costs for HTF program administration.

HHFDC does not intend to use HTF funds for refinancing of existing debt.

### IV. ELIGIBLE RECIPIENTS

An organization, agency or other entity (including a public housing agency, or a for-profit entity or a nonprofit entity) is eligible to apply for HTF assistance as an owner or developer to carry out an HTF-assisted project. A recipient must:

- a. Make acceptable assurances to the Subgrantee that it will comply with the requirements of the HTF program during the entire period that begins upon selection of the recipient to receive HTF funds, and ending upon the conclusion of all HTF-funded activities;
- b. Demonstrate the ability and financial capacity to undertake, comply, and manage the eligible activity;
- c. Demonstrate its familiarity with the requirements of other Federal, State, or local housing programs that may be used in conjunction with HTF funds to ensure compliance with all applicable requirements and regulations of such programs; and
- d. Have demonstrated experience and capacity to conduct an eligible HTF activity as evidenced by its ability to own, construct, or rehabilitate, and manage and operate an affordable multifamily rental housing development.
V. APPLICATION AND AWARD PROCESS

Applications for the HTF are issued, accepted and selected by the applicable county housing agencies (Subgrantees) annually for funding consideration, subject to availability of funds. Applications are reviewed for eligibility and rated using the selection criteria. Each application must describe the eligible activity, in accordance with 24 CFR 93.200, to be conducted with HTF funds and contain a certification by each eligible recipient that housing units assisted with HTF will comply with the HTF requirements.

In addition, applications will include performance goals and benchmarks that the Subgrantees will use to monitor efforts to accomplish the rental housing objectives.

STATE OF HAWAII SUBGRANTEES

<table>
<thead>
<tr>
<th>City and County of Honolulu</th>
<th>County of Kauai</th>
</tr>
</thead>
<tbody>
<tr>
<td>Department of Community Services</td>
<td>Kauai County Housing Agency</td>
</tr>
<tr>
<td>715 South King Street, Suite 311</td>
<td>Pi<code>i</code>ko Building</td>
</tr>
<tr>
<td>Honolulu, Hawaii 96813</td>
<td>4444 Rice Street, Suite 330</td>
</tr>
<tr>
<td></td>
<td>Lihue, Hawaii 96766</td>
</tr>
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</table>

<table>
<thead>
<tr>
<th>County of Hawai`i</th>
<th>County of Maui</th>
</tr>
</thead>
<tbody>
<tr>
<td>Office of Housing and Community Development</td>
<td>Department of Housing and Human Concerns</td>
</tr>
<tr>
<td>50 Wailuku Drive</td>
<td>35 Lunalilo Street, Suite 102</td>
</tr>
<tr>
<td>Hilo, Hawaii 96720</td>
<td>Wailuku, Hawaii 96793</td>
</tr>
</tbody>
</table>

For PY 2016, the applicable Subgrantees to issue the HTF applications are the City and County of Honolulu and the Kauai County Housing Agency.

Minimum Thresholds:

Applicants must meet all of the following Minimum Threshold requirements to receive consideration for an allocation or award of HTF.

Failure to meet any Minimum Threshold shall result in the immediate rejection of the application.

1. Market Assessment
   A market assessment of the housing needs of extremely low income individuals to be served by the project must be submitted as a part of the application. The assessment should review the neighborhood and other relevant market data to determine that there is current demand for the type and number of housing units being developed.

2. Site Control
Evidence of site control shall be submitted with the application for HTF funds. Site control shall be substantiated by providing evidence in the form of an executed lease or sales option agreement, fee simple deed, executed land lease, or any other documentation acceptable to the County. Evidence of site control must be provided for all proposed sites.

3. Capital Needs Assessment (For projects acquiring an existing property.)
To ensure that the proposed rehabilitation of the project is adequate and that the property will have a useful life that exceeds the affordability period, a capital needs assessment of the property by a competent third party shall be submitted with the application. A capital needs assessment is a qualified professional’s opinion of a property’s current physical condition. It identifies deferred maintenance, physical needs and deficiencies, and material building code violations that affect the property’s use, structural and mechanical integrity, and future physical and financial needs. The Capital Needs Assessment shall identify any work that must be completed immediately to address health and safety issues, violation of Federal or State law, violation of local code, or any work necessary to ensure that the building can continue to operate as affordable housing.

4. Debt Service Ratio
a. Projects with hard debt service requirements:
   i. The Project is required to evidence a Debt Service Ratio of no less than 1.15x on all hard debt service requirements for the first 15 years.

b. Projects with no hard debt service requirements:
   i. The Project is required to evidence positive Net Operating Income throughout the 30-year proforma period.

c. Hard Debt Service:
   i. Defined as scheduled regular and periodic principal and/or interest payments of project loan obligations made for its direct benefit, as evidenced by a note and loan agreement.
   ii. The Applicant is required to support all hard debt service loans and terms with executed lenders’ commitment letters, letters of interest, or term sheets.

d. Underwriting Criteria and Requirements:
   i. Applicants are required to use the following parameters and assumptions in the preparation of the project proforma:
      1. Annual Income Inflation Rate of 2.0% and Annual Expense Inflation Rate of 3.0% for the first 15 years or term of the first mortgage, whichever is greater.
      2. Annual Income Inflation Rate of 2.0% and Annual Expenses Inflation Rate of 2.0% for the remaining term of affordability.
      3. Vacancy Rate of no less than 5.0%
      4. Annual Replacement Reserve Allocation of no less than $300 per unit per year.
5. Phase I Environmental Site Assessment
All proposed multifamily (more than four housing units) HTF projects require a Phase I Environmental Site Assessment.

For acquisition/rehabilitation projects, the Phase I Environmental Assessment should address lead based paint and asbestos.

6. Developer Fee
   i. New Construction – maximum developer fee of 15% of the total development costs or $3,750,000 (whichever is less)
   ii. Acquisition/Rehabilitation – maximum developer fee of 10% of the acquisition costs and 15% of the rehabilitation costs or $3,750,000 (whichever is less).

VI. SELECTION CRITERIA

   a. Timeliness and Readiness to Proceed (Max. 30 pts.) – The proposed project is feasible and will meet the required timelines to commit and expend HTF funds. Applicants need to demonstrate project “readiness.” Factors to be considered are site control, financial commitments, environmental factors, zoning, utilities and site and neighborhood standards;

   b. Consolidated Plan Priorities (Max. 10 pts.) - The extent to which the project proposes accomplishments that will meet the rental housing objectives for both the HHFDC and the County. The HTF is primarily a production program meant to add units to the supply of affordable housing for extremely low-income households. Merits of the application in meeting the priority housing needs of the County where the project is located such as accessible to transit or employment centers, housing that includes green building and sustainable development features or housing that serves special needs populations;

   c. Developer Experience and Financial Capacity (Max. 25 pts.) - Applicant’s ability to obligate HTF dollars and undertake funded activities in a timely manner. Need to review evidence of experience in developing and managing projects of similar type and scope, staff qualifications, and fiscal soundness. In addition, applicants who have received federal funds in the past will be evaluated on the basis of their past performance. Qualifications of the proposed project team, personnel and /or contractors to carry out the proposed project including proven record of experience with comparable projects;

   d. Financially Feasible Project (Max. 25 pts.) – Project pro forma to cover a minimum 30 year HTF affordability period and include rents that are affordable to extremely low-income households. Priority to be given for projects with extended affordability periods and project based rental assistance;
e. Use of Non-Federal Funding Sources (Max. 10 pts.) – Given the 30% AMI income targeting requirements, viable projects will require other funding sources compatible with HTF. Priority consideration to the extent project will use non-federal funding sources.

A minimum score of 50 points (out of the 100 total points) must be scored in order to be recommended for the award of HTF funds.

Successful Recipient(s) will receive a Notice of Award, which will state that the Subgrantee’s intent to award HTF funds is subject to approval of the applicable HTF Allocation Plan/Action Plan by the County Council/Approving Authority, HHFDC and HUD.

VII. MAXIMUM PER-UNIT DEVELOPMENT SUBSIDY LIMITS

Each year, HHFDC must establish maximum limitations on the total amount of HTF funds that may be invested per-unit for development of non-luxury rental housing projects. The HOME Program Maximum Per-Unit Subsidy Limits have been adopted for the HTF program. The development costs of affordable rental housing across the state are generally higher in comparison with the HOME subsidy limits. However, due to the limited funding, the HTF projects will require leveraging with other significant sources of funds. The HOME subsidy limit provides a reasonable maximum to develop a greater number of HTF assisted units throughout the state.

The following table reflects the maximum per unit subsidy limits by bedroom size for housing assisted with HTF within the State of Hawaii, for PY 2016.

<table>
<thead>
<tr>
<th>Bedrooms</th>
<th>PY2016 HTF Maximum Per-Unit Subsidy Limit</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>$140,107</td>
</tr>
<tr>
<td>1</td>
<td>$160,615</td>
</tr>
<tr>
<td>2</td>
<td>$195,304</td>
</tr>
<tr>
<td>3</td>
<td>$252,662</td>
</tr>
<tr>
<td>4+</td>
<td>$277,344</td>
</tr>
</tbody>
</table>

VIII. REHABILITATION STANDARDS

All rehabilitation projects must meet the applicable County HTF rehabilitation standards in accordance with 24 CFR 93.301(b).

If the rental project involves rehabilitation, the following property standards and requirements apply:

1) Local/state or national codes - All rehabilitation projects must meet all applicable state and local codes, ordinances and requirements. In the absence of a State or local building codes,
the housing must meet the International Existing Building Code of the International Code Council.

2) Uniform Physical Condition Standards (UPCS) – Standards must ensure that the housing will be decent, safe, sanitary, and in good repair as described in 24 CFR 5.703.

3) Health and Safety – Standards must identify the life threatening deficiencies that must be addressed if a housing unit is occupied.

4) Accessibility – Assisted housing must meet the accessibility requirements at 24 CFR part 8 (implementing section 504 of the Rehabilitation Act of 1973) and Titles II and III of the Americans with Disabilities Act implemented at 28 CFR parts 35 and 36. For “covered multifamily dwellings,” as defined at 24 CFR 100.205, standards must require that the housing meets the design and construction requirements at 24 CFR 100.205. (Note that grantees may use HTF funds for other improvements that permit use by a person with disabilities, even if they are not required by statute or regulation.)

5) Lead Safe Housing Rule – All HTF-funded rehabilitation must meet the requirements of the Lead Safe Housing Rule at 24 CFR Part 35.

6) Major Systems – For all rental housing, standards must require an estimate of the remaining useful life of major systems, based on age and condition. For projects with 26 or more units, this must be done with a capital needs assessment. If the useful life of one or more major system is less than the affordability period, it must be replaced or rehabilitated or the standards must require sufficient monthly deposits into replacement reserves so that it can be addressed when needed. Major systems include: structural support, roofing; cladding and weatherproofing (e.g., windows, doors, siding, gutters); plumbing; electrical; and heating, ventilation, and air conditioning.

7) Disaster Mitigation – Housing must meet state and local requirements for disaster mitigation, or requirements established by HUD, where they are needed to mitigate the risk of potential natural disasters.