

Constructing a Solution: Development Cost Relief Program

Pennsylvania Housing Finance Agency
Rental Housing: Encouraging New Construction

HFA Staff Contact

Jessica Perry

jperry@phfa.org

PHFA's Development Cost Relief Program (DCRP) Overview:

In a world still adjusting to post-pandemic life, the rippling effects of the COVID-19 continue to impact various industries across the country. With the construction industry being one of the hardest hit, developers have experienced unprecedented financial hardships stemming from the immense increases in the cost of labor and materials, supply chain shortages and delays, and losses in equity investments. The production of affordable housing within Pennsylvania suffered immensely as a result.

[The Development Cost Relief Program \(DCRP\)](#) has focused on allocating additional funding to affordable housing developments that are facing these aforementioned challenges. DCRP achieves this goal by filling the financial gaps that have arisen to ensure the successful completion of new construction. To achieve this goal, the Pennsylvania Housing Finance Agency (PHFA) worked closely with the General Assembly of Pennsylvania to approve the transfer of \$150 million in funding from the [United States Treasury American Rescue Plan Act \(ARPA\)](#) to PHFA to be used to continue the production of affordable housing throughout the Commonwealth of Pennsylvania.

Real-Time Adaptation to Developmental Needs:

Prior to the creation of DCRP, PHFA had previously introduced the Construction Cost Relief Program (CCRP) to offset rising costs during the height of the pandemic. This program laid the framework from which DCRP would be built.

CCRP took \$50 million of ARPA funds to allocate to developments facing increased *hard construction costs only*. Through the disbursement of these funds and feedback from developers, PHFA became aware of the extent of the cost increases affecting housing development and how these impacts went beyond just hard construction costs alone. The overwhelming industry response to CCRP led PHFA and other interested parties to request additional funding when creating DCRP.

PHFA developed DCRP to take on the overarching challenges facing the development of affordable housing throughout the state by simultaneously addressing cost increases, supply chain delays, and the loss in equity investments. This funding has been dedicated to the cause of encouraging new construction of affordable housing. PHFA developed new guidelines, a more streamlined application process, and put forth clear expectations of funding usages to ensure that DCRP funds would be allocated justly and efficiently. The updates set forth in DCRP over CCRP loosened the restrictions on funding usage while PHFA's application process was streamlined to promote ease of application.

Responding to an Important State Housing Need:

Since the pandemic, the construction industry has faced numerous issues encompassing building supply shortages, [ongoing labor shortages](#), supply chain delays, and rapid increases of material prices- [with the cost of lumber rising as much as 264% in comparison to pre-pandemic levels at one point](#). These issues have directly impacted affordable housing production. The increased costs and extended timeframes made it nearly impossible for developers to stick to original construction cost and budget estimates. Funding that had previously been secured by developers was no longer been enough to cover their escalated costs. Without additional funding to fill these shortfalls, developers were unable to complete construction to increase the amount of affordable housing within the state.

There is an immense need for more affordable rental options in the Commonwealth of Pennsylvania as [31 percent of its population are currently composed of renters](#), and [around 15,000 individuals are currently homeless](#). It has always been a priority for PHFA to ensure safe and affordable housing to as

many individuals as possible. Without intervention from the Agency to mitigate the compounding effects of construction industry challenges, there was a very real potential for the affordable housing crisis to become even more exacerbated for Pennsylvanians in need.

DCRP Funding Evaluation and Implementation:

With DCRP, it was important to PHFA to set forth clear guidance to ensure a straightforward process for applicants. To achieve this goal, PHFA focused its attention in the following areas: (1) Basic Eligibility Criteria, (2) Submission Requirements, (3) Loan Terms, (4) Disbursement of Funds.

(1) **Basic Eligibility Criteria:** Eligibility for DCRP funding is limited to applicants that could meet the following criteria:

- Be able to show cost increases/loss in equity related to the effects of COVID-19
- Have had to apply for low-income housing tax credits (LIHTC) during any cycle between 2019-2023
- Not having received a certificate of occupancy for each unit as of the date of the act.

PHFA used the aforementioned criteria to implement an internal priority ranking. The Agency first focused on reviewing applications for developments that had not received additional funding from other programs aimed at tackling construction cost increases. Afterwards, PHFA shifted its focus to applicants that had already received funding. By prioritizing applicants in this manner, PHFA has been able to track the levels of available funding for DCRP, while also ensuring that all eligible applicants would have the ability to receive some level of funding to assist in “plugging the gaps” that the COVID-19 pandemic created in their development budgets.

(2) **Submission Requirements:** The submission requirements that PHFA has chosen to focus on are dependent on how far along in the construction process a development is. The Agency broke the submission requirements into two separate pools: (1) Projects/ Developments Under Construction and (2) Projects Not Yet Closed.

- Projects/ Developments Under Construction: Applicants at this stage provide the Agency with change orders, construction contracts, and a comparison between construction costs at closing and current construction costs. The Agency reviews the revised project budget to ensure completeness and that it accurately reflects the increased construction costs to make a determination regarding the final loan amount.
- Projects Not Yet Closed: Applicants at this stage may apply for DCRP as part of their 60-day closing package submission to the Agency. Their submission should include all items listed on the DCRP checklist, a cover letter identifying the project gap and the related request for DCRP funding. The Agency reviews the most recent construction bid, draft construction contract, Attestation Form, and other submitted documentation to evaluate cost reasonableness and make a determination regarding the final loan amount.

(3) **Loan Terms:** Loan terms for DCRP were set by mirroring the requirements already laid out by the [Pennsylvania Housing Affordability and Rehabilitation Enhancement Fund \(PHARE Fund\)](#). The Agency concluded that this would allow for greater consistency and ease of submission since applicants would likely already have the information available if they had also sought funding through the PHARE Fund. Key points of the DCRP funding terms are listed below:

- DCRP Funding is issued as a cashflow only loan with a 0% interest rate

- The loan has a term of at least 40 years, and an affordability period of at least 35 years
- Principal payments to be made from surplus of revenues over expenses in accordance with the requirements in the Note

(4) **Disbursement of Funds:** Once a loan is closed, the funds will be disbursed to pay for construction costs through PHFA's approved draw-down process in accordance with the Agency's disbursement procedures. The Agency acts as the disbursement agent for all project funds.

Delivering Results for Pennsylvanians through Collaboration:

Since the program's inception in the latter half of 2022, PHFA has finalized DCRP awards for over \$75 million that will be used to build or preserve more than 500 units spread across the Commonwealth.

These current results are only the very tip of the iceberg. PHFA continues to receive and process DCRP applications. The next phase in the DCRP funding process will consist of reviewing applications for developments that have previously received different agency resources and 2022 Low Income Housing Tax Credit developments. The Agency is on track to provide an additional \$75 million in funds that will enable the new construction and preservation of approximately 500 additional units across the Commonwealth.

Since its inception, this program has been dependent on both the support of state and federal legislatures – the federal branches responsible for the creation of ARPA, and the General Assembly of Pennsylvania approving the transfer of \$150 million of these funds to PHFA. The disbursement of the funding is dependent on developers providing accurate and timely information to the Agency. Within the Agency itself, the swift implementation of this program has been dependent on a consistent chain of coordination and communication. Several departments have come together and collaborated throughout the application, review, approval, and disbursements of this funding.

Primary Benefits Outweigh Costs:

The primary benefit of this program is that it allows PHFA to further its goals in aiding the production of safe, secure, and accessible affordable housing for all residents of the Commonwealth.

In total- **Over 1000 new units** will be created (or preserved) just from the current allocations of DCRP funding alone. This funding has bridged gaps caused by COVID-19 to enable housing initiatives to move forward that otherwise may have faced insurmountable challenges. Since a key requirement of DCRP is the project to have received LIHTC, Pennsylvanians of all incomes and demographics have been provided access to housing.

Replicable and Adaptable:

PHFA's DCRP program provides a viable structure that other HFAs could easily replicate and adjust to the needs and priorities within their own states. Every state was granted ARPA funding, and DCRP highlights how much can be accomplished by allocating just a portion of this funding to a program that addresses unexpected financial shortages. DCRP provides the framework to show the impact these funds can have when HFAs and state legislatures work together to solve problems impacting citizens in their states.