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Kentucky Housing Corporation prohibits discrimination on the basis of race, color, religion, sex, national origin, sexual orientation or gender identity, ancestry, age, disability, or veteran status.
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Materials on KHC’s Web site under Housing Production; Multifamily Finance; Application, Guidelines, and Underwriting Models
- ☐ Non-Credit Score Sheet
- ☐ Application Checklist (part of on-line application)
- ☐ Green Construction Energy Star Checklist
**Introduction and General Information**

Kentucky Housing Corporation (KHC) is pleased to offer the funding process to create affordable housing in conjunction with our partners throughout the state. Through this funding process, KHC administers financial and technical support resources to enable development and rehabilitation of safe, affordable housing to benefit Kentucky families. The primary goal of the funding cycle is to enhance the state’s capacity to create and preserve affordable housing by effectively blending resources. KHC prefers to utilize funding through this process as permanent housing only.

For applications submitted for transitional housing, a permanent housing component packet must be submitted, as well. This component must be detailed and include how permanent housing will be offered, along with any additional services that may be required. See KHC’s guidelines on Transitional Housing requirements on KHC’s Web site, www.kyhousing.org, or Chapter 9: Transitional Housing Guidelines (non-credit).

This guide instructs applicants how to apply for affordable housing finance resources available through KHC’s competitive funding application process. This guide further explains: program criteria and basic requirements, applicant expectations, and review processes.

**Funding Sources Available**

The following funding sources are available for rental housing production through the funding process:

<table>
<thead>
<tr>
<th>Funding Source</th>
<th>Approximate Amount Available March 2011</th>
<th>Projected Amount Available October 2011</th>
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<td>HOME Investment Partnerships (HOME) Program</td>
<td>$3,625,000</td>
<td>TBD</td>
</tr>
<tr>
<td>Affordable Housing Trust Fund (AHTF)</td>
<td>$1,500,000</td>
<td>TBD</td>
</tr>
<tr>
<td>Small Multifamily Affordable Loan (SMAL) Program</td>
<td>$1,000,000</td>
<td>TBD</td>
</tr>
<tr>
<td>Non-credit projects have a set-aside of HOME and AHTF funds not to exceed:</td>
<td>$1,137,500 HOME $500,000 AHTF</td>
<td>TBD</td>
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If demand requires, KHC reserves the right to move available sources to be used as gap financing for Housing Credit projects. Likewise, if demand for resources for non-Housing Credit projects is high, KHC reserves the right to move available sources, as needed.

In addition, for projects requesting Housing Credits, due to the limited supply of gap financing, KHC will limit gap financing of HOME and AHTF, combined, to the lesser of $35,000 per unit or $850,000 per project. Furthermore, the maximum allocation of AHTF per project may not exceed $300,000.

For non-Housing Credit projects, due to the limited supply of gap financing, KHC will limit the amount of HOME and/or AHTF funds to no more than the applicable 221(d)(3) limit multiplied by four. Of that combined amount, no more than $300,000 may be requested from AHTF. Projects may have more than four units, however, the subsidy is limited to the 221(d)(3) limit multiplied by four.
KHC will allow additional HOME subsidy in projects that are requesting SMAL funds, if the need is documented.

For AHTF-only projects, the maximum allocation of AHTF may also not exceed $300,000.

**Eligible Project Types**

Rental housing production projects of any size are eligible to apply for one or more sources of KHC financing available through the funding process. The following project types are eligible for funding:

- Family Housing
- Independent Elderly Housing
- Frail Elderly Housing with Services
- Special Needs Housing
- Transitional Housing
- Adaptive Reuse Housing

**Application Funding Stages**

All applicants requesting affordable housing financing through KHC’s funding process will be required to adhere to the following application stages. These stages are discussed in greater detail throughout this manual:

1. Initial Contact/Technical Assistance
2. Site Reviews
3. Development Team Capacity Review and Scoring - chapter 8
4. Application Submission and Scoring Review
5. Technical Submission
6. Pre-Construction/Closing Stage
7. Construction Completion/Placed In Service

1. **Initial Contact/Technical Assistance**

Kentucky Housing has expanded its services to include additional technical assistance opportunities for developers to help ensure a project’s success.

Developers and community officials are encouraged to contact KHC’s business development officer to obtain assistance with projects throughout the development and application process. This assistance is offered to both new and seasoned developers. The business development officer will meet with partners and help identify additional resources that may be available to support multifamily developments, explore ideas on how a project is structured, work with development teams in developing solutions to overcome problems with project development, and explore new financing options, including U.S. Department of Housing and Urban Development (HUD) multifamily programs, Rural Development, Federal Home Loan Bank, as well as other partners. The business development officer will also meet with local officials to review projects and answer developers’ questions about the rental application, guidelines, scoring, and preparing the application prior to submission.

In order to submit an application, a member of the development team must have developed, operated, and completed a project that is now in the affordability stage with compliance and has developed at least four rental units with Kentucky Housing Corporation. However, if no member
of the development team meets this qualification, then a member must request application process technical assistance.

This type of assistance takes new partners through the process of documentation requirements, scoring criteria, relocation requirements (if applicable), design and construction requirements, etc.

**NOTE:** Requesting or attending technical assistance training does not guarantee the project will be awarded funds.

Contact Tammy Stansbury, business development officer, toll-free in Kentucky at (800) 633-8896 or (502) 546-7630, extension 411; TTY 711; or e-mail tstansbury@kyhousing.org.

### 2. Site Reviews

KHC has established a pre-application site review requirement for all multifamily housing developments that will request funds for Housing Credit, HOME, AHTF, and SMAL Program. **Applications will not be accepted without a pre-application site review.**

The review consists of KHC staff’s initial professional recommendations about site and location, rather than set scoring criteria. Please note that while KHC will conduct the pre-approval site visit, this does not assure approval of an award of funds. Applications submitted to KHC for 2011 and 2012 application rounds will be reviewed and scored based solely on the projects qualifications.

Site reviews will be conducted between the spring and fall months, and must be completed by the end of January 2011 for the 2011 application round and by the end of August for the 2012 application round. During the review, applicants must present a site plan outlining the layout of the rental buildings, community room (if applicable), recreational areas, and parking. The site plans do not have to be to scale during the pre-approval site visit and are not required to be completed by an architect.

Sites will be reviewed based upon Environmental/Compatibility, Visibility/Accessibility, Ingress/Egress, Public/Community Services and Site Design. KHC will also evaluate a site location to KHC’s existing portfolio of projects. If a site location will be in close proximity to an existing KHC project which is experiencing higher than normal vacancy rates, KHC may not approve the site for the current application round, or until the existing project obtains a sufficient occupancy rate.

Guidelines on the pre-application site review are available on KHC’s Web site, www.kyhousing.org, under Housing Production/Rental Programs. To schedule a site review, please contact Tammy Stansbury, Business Development Officer, toll-free in Kentucky at (800) 633-8896 or (502) 546-7630, extension 411; TTY 711; or e-mail tstansbury@kyhousing.org.
A. Application Processing Requirements for All Programs

Multifamily Finance offers one competitive application for Housing Credit, AHTF, HOME, and SMAL KHC funding sources. Application review teams will review and score each application submitted. Each application will be reviewed in accordance with capacity, project design, financial feasibility, and ready to proceed, as well as meeting scoring criteria guidelines. Any issues that could delay the project should be dealt with before submitting an application.

Once an application receives approval, that project will be held to a deadline. If the deadline is not met, the applicant could incur penalties or lose the funding associated with the project.

- Projects that rely on fees from supportive services to pay debt service are not eligible for funding under this application.

- Applications must be submitted in the current application version and all application attachments must be provided either in hard copy or uploaded to KHC’s system as part of your application submittal.

- Each application must be for an eligible project type and proposing an eligible activity.

- All applicants must request or identify all KHC funds required for the project in one application. Previously funded projects cannot access additional funds, including housing credits, for previously funded projects through the current application process.

- If an applicant HOME funds, proof of submission to the State Clearinghouse must be included with the application.

- New Construction and Rehabilitation Projects must meet the requirements of the latest edition of the Kentucky Building and/or Residential Code. The developer and or builder must be in compliance with local zoning, rules, regulations, ordinances, Universal Design and Minimum Design Standards as adopted by KHC, Housing Quality Standards (HQS) and all applicable Federal Rules and Regulations including the Fair Housing Act.

B. Application Preparation

The application is created and submitted through KHC’s online application process. A complete application must be transmitted to KHC. KHC will notify the applicant once the application has been transmitted successfully. Developers will have an option to upload all application attachments to satisfy the requirements of submitting originals and copies. If a developer cannot upload the attachments, KHC requires one original and four copies of the required application attachments, as well as one set of the plans and specifications.

For the application to be complete, the Underwriting Model must be either attached to the electronic application or e-mailed to rentaluw@kyhousing.com. Documentation that is not provided may result in the application not meeting Scoring Requirements. The application attachments must be tabbed and submitted in the order in which they are listed on the Application Checklist. Developers submitting multiple applications are only required to...
submit one copy of their financial information. However, the developer must clearly identify within the various project files that the copy has been submitted.

One annual application round is scheduled for projects requesting KHC funding. The schedule below outlines the submission/notification dates for this year’s funding round.

| Application Submission Dates for Housing Credit, HOME, AHTF, and SMAL funds |
|---------------------------------|-----------------|-----------------|-----------------|
|                                 | Capacity Review | Electronic Submission | Attachment Submission | Award Notification |
| 2012                            | September 2011 | October 2011 | October 2011 | January/February 2012 |

| Application Submission Dates for Affordable Housing Trust Funds (AHTF) |
|---------------------------------|-----------------|-----------------|
|                                 | Nonprofit AHTF Application Due | Award Notification |
| 2011                            | May 1, 2011 | May/June 2011 |
| 2012                            | January 2, 2012 | January/February 2012 |

KHC has created a new application for nonprofit participants requesting AHTF funds for their projects. Each applicant requesting AHTF funds must meet the application submission requirements and submit a separate application, which is completed by the nonprofit agency requesting the AHTF funds.

If funds are available, KHC will have additional application rounds for HOME, AHTF, and SMAL. KHC will announce the additional application dates in an eGram. The application dates for 2012 will be announced in October 2011.

The Rental Application Attachments should be uploaded as part of your application, or submitted to the following address:

Kentucky Housing Corporation  
Multifamily Finance Department  
Kentucky Housing Corporation  
1231 Louisville Rd.  
Frankfort, KY 40601

C. Application Scoring

Funding is based upon a three-stage process. Applications must pass the first two stages before funding can be determined. Failure to successfully meet the requirements of any stage will result in the rejection of the application.

Although funds will be awarded to the highest scoring projects KHC will make every effort to ensure funds are distributed geographically across the state. KHC reserves the right to award funding to a lower-scoring project located in a congressional district where no other funds have been allocated.
NOTE: Incomplete applications will be returned to the applicant. Additionally, KHC reserves the right to reject any application that does not meet the application requirements.

Projects that do not comply with all of the requirements and policies listed throughout these guidelines may be subject to having future applications scored lower due to non-compliance.

D. Scoring Review Process

Stage I: Scoring Criteria – Applications will be scored based upon capacity of the development team, project design and location, readiness to proceed, and financial design. Non-credit applicants must receive a minimum score of 230 in the scoring criteria to move to Stage II. For all competitive applications, applicants must achieve a minimum score of 250 to move to Stage II. Applications will be ranked according to their assigned score and those with the greater number of points receive priority in the conditional award process. Projects will be reviewed on the basis of the documentation contained within the application and supporting documentation. KHC will review and score each application based on the information presented and will not contact developers for clarification, or to obtain missing information. If KHC experiences a problem retrieving attachments which were uploaded into KHC’s system, contact with the developer will be made to have paper copies provided.

Tiebreakers for non-Housing Credit projects will be resolved in accordance with the following priorities:

1. Combined total points in project design and financial design.
2. Lower amount of Housing Credits per unit.
3. Lower amount of resources from KHC per unit.

Stage II: Financial Feasibility – A project is financially feasible if all (including federal, state, local, and/or KHC) program guidelines are met and the project is still viable. Rents and expenses must be reasonable, the sources and uses must balance, and the debt coverage ratio (DCR) must adhere to KHC’s requirements. KHC will review the submitted underwriting model, along with information in the application and attachments. The application, underwriting model and supporting documentation must all be in agreement. If a contradiction exists between the underwriting model and the application, the information in the underwriting model will be used to determine the financial feasibility.

Stage III: Market Need – A Market Study or Needs Analysis will be required to be submitted at time of application and will be reviewed in accordance with KHC’s guidelines. Projects are required to have an acceptable market. If the market is not acceptable, funds will not be allocated and the application will be denied. Market Studies and Needs Analyses will only be accepted by firms that are on KHC’s approved list.
E. **Application Requirements**

Certain documentation is required at application submission as indicated on the application checklist. Below is a detailed description of items that are required at application. If an item listed is not submitted at the time of application, the project will not be eligible for points in that category and will not be awarded the bonus points available for a complete application. If the missing documentation is critical to the analysis of the project, funding may not be awarded. The list below is to be used for guidance when submitting an application.

1. **Application Fee (Tax Credit Only)**

   This nonrefundable fee must accompany each project application submitted for Housing Credit. If applying for two different pools with the same application, two fees will be required. Application fees will not be returned for incomplete applications or applications that do not meet minimum threshold requirements. Application fee amounts are as follows:
   a. $1,000 exclusively for nonprofit applicants
   b. $1,500 for all other applicants

2. **Printed Application**

   Submit a hard copy of the application with your application package.

3. **Self-Scored Score Sheet**

   Complete the Developer Score Sheet and include a hard copy with your application package.

4. **Site Review**

   (A site visit is required on all applications; refer to general information)
   The applicant must submit evidence that the pre-application site review has been completed by the KHC representative. If a site review has not been conducted, then the project will be rejected and returned to the applicant. Please see above site review requirements and timeframes.

5. **501(c)(3)–Nonprofits Only**

   Include a hard copy of your IRS 501(c)(3) designation to verify the nonprofit’s tax exempt status.

6. **Technical Assistance Certification Form**

   This form is required for any applicant who has not previously used KHC resources to construct or rehabilitate a rental project. See page 2 for further guidance.

7. **Articles of Incorporation and Bylaws**

   (Required for nonprofits, minority-, and female-owned businesses)

   These items are required for scoring purposes. It is used to determine if the nonprofits, minority-, and female-owned businesses are materially involved in the
management and control of the business, as well as hold at least a 51 percent ownership.

8. **Certification of Minority or Female controlled development entity**

This is a scoring item. Applicants are required to submit certification as described in the Scoring Guidelines to document they are an approved for-profit minority or female controlled and managed entity.

9. **Applicant/Developer Certification Form**

The Applicant/Developer is certifying that:

- The information in the application and supporting documentation is accurate and correct.
- They are in good standing with the Kentucky Secretary of State and the Federal Government.
- The project complies with Minimum Design Standards and/or Universal Design Standards.
- All information in the application has been provided to the management company.

10. **Kentucky Intergovernmental Review Process**

(Required if requesting HOME or Risk Sharing funds)

Applicants must provide evidence that the project has been submitted to the Kentucky State Clearinghouse for environmental review comments.

11. **Permanent Housing Plan**

(Required with all Transitional Housing applications)

A plan detailing how the individuals will transition from their temporary housing into permanent housing – giving specific examples of what housing options will be available to the participants, such as preference on a Section 8 waiting list.

12. **Special Needs – Memorandum of Understanding**

A Memorandum of Understanding demonstrating the services that will be provided for the special needs population.

13. **Consultant and/or Administrative Contract**

If a consultant or administer is a part of the Development Team, a copy of their contract detailing the services they will provide is required.

14. **Consultant Certification**

The consultant is certifying that the information within the application and supporting documentation is accurate and correct; that the project complies with Minimum Design Standards and/or Universal Design Standards; and that they and the Development Team are in good standing with the Kentucky Secretary of State and the Federal Government.
15. **Management Certification**

The management agent is certifying that they received a copy of the application and will fulfill all the commitments made in the application and attributes pledged.

16. **Location Map**

A location map for every project must clearly show the site location and all major streets and highways. If applicable, please indicate all nearby airports, railroad tracks, interstates, rivers, etc., that may have an adverse effect on the proposed site.

17. **Green Construction**

The Leadership in Energy and Environmental Design (LEED) Green Building Rating System™ is the nationally-accepted benchmark for the design, construction, and operation of high performance green buildings. LEED gives building owners and operators the tools they need to have an immediate and measurable impact on their building’s performance. LEED promotes a whole-building approach to sustainability by recognizing performance in five key areas of human and environmental health:

1. sustainable site development
2. water savings
3. energy efficiency
4. materials selection
5. indoor environmental quality

For new construction and rehabilitation projects to receive scoring points, they must incorporate at least **six** of the green construction criteria outlined below. For additional information please see [http://www.usgbc.org/](http://www.usgbc.org/).

1. Locate project within ¼ mile of one or more stops for two or more public or campus bus lines useable by building occupants.
2. Prohibit smoking in the building and locate any designated smoking areas at least twenty-five feet away from entries, outdoor intakes, and windows.
3. All adhesives, sealants, and primers used on the interior of all buildings and applied on site must comply with South Coast Air Quality Management District Rule #1168. Acceptable VOC limits are listed in the table provided at the following Web site, [http://www.arb.ca.gov/DRDB/SC/CURHTML/R1168.PDF](http://www.arb.ca.gov/DRDB/SC/CURHTML/R1168.PDF).
4. Use of 50 percent wood-based materials and products certified in accordance with the Forest Stewardship Council’s (FSC) Principles and Criteria for wood building components.
5. Place a minimum of 50 percent of parking spaces under cover.
6. Open space – provide vegetated open space area equal to either:
   a. 20 percent of the project site area, or
   b. Equal to the building foot print.

Vegetated open space is defined as lawns, gardens, plant beds, and fish ponds with plants, shrubs, or trees.
7. Provide an easily-accessible area that serves the entire project and is dedicated to the collection and storage of non-hazardous materials for recycling, including (at a minimum) paper, corrugated cardboard, glass, plastics, and metals. Property is responsible for ensuring the proper disposal and removal of the recyclables.

8. Install compact florescent light bulbs (CFLs) throughout the project.

9. Utilize rapidly renewable floor materials such as bamboo, linoleum, cork, or eucalyptus to cover a minimum of 25 percent of the floor area of each unit.

   Note: Linoleum is not vinyl.

10. Provide covered storage facilities and racks for securing bicycles for 15 percent or more of building occupants.

11. Install a vegetated roof for at least 50 percent of the roof area.

12. Install programmable thermostats throughout project. Note: If a heat pump is installed in the units, a programmable thermostat specifically designed for heat pump systems must be utilized.

13. Develop and implement a construction waste management plan that recycles or salvages at least 50 percent of non-hazardous construction and demolition debris.

14. Install tankless water heaters in each unit. Note: Proper installation requires that the heating unit satisfies demand capacity and the manufacturer's energy requirements be strictly followed.

15. Use recycled, salvaged, refurbished, or reused materials so the sum of the materials constitutes at least 10 percent of the total value of materials on the project.

16. Use building materials which have been extracted, harvested, recovered, or manufactured within 500 miles of the project site for a minimum of 10 percent of the total material costs.

17. Use only carpeting which meets the product testing requirements of the Carpet and Rug Institute’s Green Label Plus program throughout the project. http://www.carpet-rug.org/about-cri/cri-signature-programs/green-label-plus-carpet.cfm

18. The average flow rate for all lavatory faucets must be ≤ 2.0 gpm.

19. The average flow rate for all showers must be ≤ 2.0 gpm.

20. The average flow rate for all toilets must be ≤ 1.3 gpf.

21. Toilets must be dual-flush and meet the requirements of ASME A112.19.14.

22. Toilets must meet the U.S. EPA WaterSense specification and be certified and labeled accordingly.

23. All domestic hot water piping shall have R-4 insulation. Insulation must be properly installed on all piping elbows to adequately insulate the 90-degree bend.

24. Central hot water manifold trunk no more than 6 feet, insulated to R-4, with no branch line exceeding 20 feet.

25. Compact hot water supply line design with no run over 20 feet from water heater.
26. Prior to construction, create detailed framing plans or scopes of work and accompanying architectural details for use on the job site. Indicate the specific locations, spacing, and sizes of all framing members in the floors, walls, roof and ceiling (if different from the roof).

27. Prior to construction, create a detailed cut list in lumber order that corresponds directly to the framing plans and/or scopes of work.

Note: Developer must clearly identify Green Building Techniques in the plans and specifications and/or work write-up. For application review purposes, KHC has provided a checklist to be completed for application submission. The Green Construction/Energy Star Checklist is available on KHC’s Web site, www.kyhousing.org, under Housing Production; Multifamily Finance; Application, Guidelines, and Underwriting Models.

18. **Energy Star**

Projects that earn Energy Star points must include products that meet guidelines for energy efficiency set by the U.S. Environmental Protection Agency. Energy Star qualified products include high performance windows, efficient heating and cooling equipment, and Energy Star qualified lighting and appliances.

Through Energy Star, builders and other home industry professionals can differentiate themselves in the market. New projects that qualify as Energy Star provide greater comfort and durability for tenants. In addition, Energy Star-qualified projects help protect the environment by reducing the greenhouse gas emissions associated with global warming.

For additional information on Energy Star guidelines, please see http://www.energystar.gov.

Utilization of the following combination of Energy Star rated products and energy efficiency technologies during construction helps to determine if a project is considered in compliance with KHC’s energy star requirements. For new construction and rehabilitation projects to receive scoring points, two of the following four choices must be utilized in each unit and incorporated into the specifications and/or work write-up for review as well.

1. Inclusion of Energy Star-rated heating and cooling products. Homes equipped with heat pumps which have programmable thermostats are required to use “adaptive recovery” technology in order to prevent excessive use of electric back-up heating.
2. All windows are Energy Star rated.
3. The unit includes three or more of the following Energy Star qualified appliances: clothes washer, dishwasher, refrigerator, freezer, or range hood. **Projects which have an on-site laundry facility, Energy Star washers in the facility will satisfy the requirement. Projects which have on-site laundry facilities can obtain points for providing Energy Star washers and dryers.**
4. All Energy Star qualified ceiling fans, light fixtures, and ventilation fans.

Exception: Incidental fixtures such as a service area (crawl space; attics, mechanical rooms, and medicine cabinets.)
For new construction and rehabilitation projects which exceed the Energy Star design requirements by electing all four of the above options, they will qualify for increased scoring.

Note: The developer must clearly identify Energy Star products in the plans and specifications and/or work write-up. For application review purposes, KHC has provided a checklist to be completed for application submission. The Green Construction/Energy Star Checklist is available on KHC’s Web site, www.kyhousing.org, under Housing Production; Multifamily Finance; Application, Guidelines, and Underwriting Models.

19. Universal Design

Universal design is required for all projects that receive debt or subsidy financing from KHC equal to 50 percent or more of the total project cost and all Housing Credit projects, for the purpose of constructing or reconstructing single-family or multifamily housing, with the exception of rehabilitation projects.

This requirement is for new construction or reconstructing single-family or multifamily housing. Universal design is a building concept that incorporates products, general design layouts, and characteristics into residences in order to:

- Make the residence usable by the greatest number of people.
- Respond to the changing needs of the resident.
- Improve marketability of the residence.

The goal of universal design is to build housing that meets the needs of the greatest portion of a community’s population. It differs from accessible design, which is primarily intended to meet the needs of persons with disabilities. It is, however, inclusive of adaptable design as it strives to incorporate structural features that will allow a residence to be adapted to an individual’s needs.

The most current version of the Universal Design Requirements can be found on KHC’s Web site, www.kyhousing.org, under Housing Production, Design and Construction.

20. Minimum Design Standards

Minimum Design Standards apply to new construction and reconstruction of all multifamily homes constructed with funds from:

- HOME Program
- Affordable Housing Trust Fund
- Housing Credit
- SMAL

The standards become effective when funding from KHC is 10 percent or more of the cost per unit based on total development cost.

NOTE: KHC’s Minimum Design Standards are to be used as a guideline to meet and exceed all local, state, and national codes. These standards also provide a way to enforce above average construction and design for builders, contractors, and design professionals who wish to utilize funding from KHC. Other methods of construction and design may be acceptable on a case by case basis. If you feel your
design meets or exceeds KHC’s Minimum Design Standards, please contact the Department of Design and Construction Review for further assistance. A copy of KHC’s Minimum Design Standards can be found on KHC’s Web page, www.kyhousing.org, under Housing Production, Design and Construction.

21. **Preliminary Plans – A Hard Copy is required**

**Applications of 11 units or less:** For new construction or rehabilitation, projects are required to submit building plans at 1/8-inch scale and typical unit plans at 1/4-inch scale. The plans must include building floor plans, elevations, and site plan.

**Applications of 12 units or more:** For new construction or rehabilitation, projects are required to submit building plans at 1/8-inch scale and typical unit plans at 1/4-inch scale. The plans must include a site plan and a building floor plan, as well as corresponding elevation drawings compiled by an architect licensed in the Commonwealth of Kentucky.

**Applications for scattered site projects:** Site plans must be submitted for at least 35 percent of the sites and complete preliminary plans must be submitted for each unit type (as applicable).

*Example:* If the project consists of 20 units, comprised of 5 one-bedroom units, 10 two-bedroom units, and 5 three-bedroom units, complete preliminary plans must be submitted for a one-bedroom unit, a two-bedroom unit, and a three-bedroom unit.

22. **Minimum Plan Requirements**

**Building Floor Plan**
- Drawings should be at 1/8” or 1/4” scale depending upon development type.
- Provide overall exterior building dimensions and show the different unit types that exist in each building.
- Show all adjacent walks, stoops and/or patios.
- Show location of all party and firewalls.
- Wall thickness, exterior finishes, doors, windows, cabinets, plumbing fixtures, closets, etc.
- Complete dimension of each typical unit so that room sizes can be determined.

**Elevations**
The elevations—at a minimum—should show the following:
- Exterior wall finishes.
- Window and door openings.
- Roof material and slope of roofs.
- Eave, rake and fascia conditions to include gutters and downspouts.

*Photographs that clearly show elevations for all sides of the buildings may be submitted in lieu of elevation drawings at the application stage.* **The minimum acceptable photograph size is 5-inch by 7-inch.** However, elevation drawings will be required during the Technical Submission Stage.
23. **Energy Efficient Methods**

Required on all project types, except acquisition only.

- If a project is **not** required to meet Minimum Design Standards, the architect or developer must provide a letter that explains how the design of the development will provide the most efficient insulation and heating system.
- If a project **is** required to meet Minimum Design Standards, the applicant may choose to submit a ResCheck calculation indicating the proposed design exceeds the Kentucky Energy code by 20 percent (which is a free download from the U.S. Department of Energy) or
- The applicant may elect to use one of the two methods provided in the Minimum Design Guidelines located on KHC’s Web site, [www.kyhousing.org](http://www.kyhousing.org), under Housing Production, Design and Construction.

24. **Federal and State Accessibility Requirements Section 504**

*New Construction-Housing Facilities:* If a development is requesting HOME, Project-Based Section 8, or Risk-Sharing, and has **five or more units** under one contract/deed, then 5 percent of the total units or more **must** be accessible to persons with mobility impairments **AND** 2 percent of the units (minimum of one unit) **must** be accessible to persons with visual and/or hearing impairments. **NOTE:** These accessible units must comply with Uniform Federal Accessibility Standards. See 8.22,24 CFR Chapter 8.

*Alterations of Existing Housing Facilities:* If a development containing **15 or more units** and requesting HOME, Project-Based Section 8, or Risk-Sharing, and the cost of the alterations is 75 percent or more of the replacement cost of the completed facility, then 5 percent of the total units or one unit must be accessible to persons with mobility impairments **AND** 2 percent of the units or one unit must be accessible to persons with visual or hearing impairments.

25. **Fair Housing Design Requirements**

*Applies to new construction and all rehabilitation units occupied after March 13, 1991:* Developments shall comply with all requirements of the Fair Housing Accessibility Requirements of the Fair Housing Act. For more information about Fair Housing Accessibility, visit the Fair Housing First Web site at [www.fairhousingfirst.org](http://www.fairhousingfirst.org).

26. **Kentucky Building Code**

Any application submitted for new construction, substantial rehabilitation/alterations to existing structures, or change in occupancy shall meet all applicable accessibility requirements of the Kentucky Building Codes.

27. **Preliminary Outline Specifications**

*(Required for all projects)*

All outline specifications shall be written following the standard Construction Specifications Institute current master format. Outline specifications shall specify products by model number and manufactures for the sole purpose to use as a guide for the contractor. It should never be the intent of the specification to limit the contractor to one or two manufactures.
All documents that pertain to the contract for construction shall be included. The specifications should include the following, if applicable:

- Division 01- General Requirements
- Division 02- Existing Conditions
- Division 03- Concrete
- Division 04- Masonry
- Division 05- Metals
- Division 06- Carpentry
- Division 07- Thermal and Moisture Protection
- Division 08- Door and Windows
- Division 09- Finishes
- Division 10- Specialties
- Division 11- Equipment
- Division 12- Furnishings
- Division 13- Special Construction
- Division 14- Conveying Equipment
- Division 21- Fire Suppression
- Division 22- Plumbing
- Division 23- HVAC
- Division 26- Electrical
- Division 27- Communications
- Division 31- Earthwork
- Division 32- Exterior Improvements
- Division 33- Utilities

The outline specifications should provide enough basic information to determine the quality and quantity of items that are specified. It should define the scope of work and provide a basis for what type of material or product that is to be used.

28. Work Write-Up Description
(Required for All Rehabilitation Projects)
Exception: projects of 11 units or less

Rehabilitation Projects: Submit a detailed description of each type of repair, change to existing structures and construction for each room in every unit of rehabilitated structures. If the development includes rehabilitation, consists of 12 units or more, and requests $250,000 or more of funding from KHC, a Physical Needs Assessment (PNA) will be required in addition to the work write-up. On these projects, the work write-up can be incorporated in the PNA or the scope of work description in the specifications; however the following information must be included.

Projects of 11 units or less: Projects that are 11 units or less can submit a work write-up in lieu of specifications, providing the work write-up is detailed and provides enough basic information to determine the quality and quantity of items that are specified. It should define the scope of work and provide a basis for what type of material or product that is to be used.

Minimum Work Write-up information

The work write-up must provide lists for:

- New items and materials to be installed in each room of every unit during construction.
- Items to remain, describing any repairs or renovation work to be performed in each room of every unit.
- Items to be salvaged from each room of every unit for re-use in the project.
- Items to be removed and disposed of from each room of every unit and the method of disposition.
- All exterior work to be performed and materials to be used on each individual building.
- All exterior work to be performed and materials to be used in all outdoor common areas.
If there is commercial space involved, all costs associated with the rehabilitation of that space should be broken out separately. Any work that is required for both commercial and rental shall be prorated on a square-foot basis. For example, if a new roof is installed on a three-story building, where the first floor is commercial and the second and third floors are rental, and all three floors have the same square footage, then 1/3 of the cost for the roof should be contributed to the commercial space. If the square footage were different, it should be done on a percentage of the total amount.

29. Site Plan
- Preferred scale: 1 inch equals 20 feet. Can be no smaller than 1 inch equals 40 feet. Property lines with metes and bounds.
- Buildings should be drawn on the site plan regardless of new construction or rehabilitation. Any other structures that are to remain should also be indicated on the site plan.
- All exterior items, such as parking, street walks, curbs, dumpster pads with enclosures, playgrounds, community rooms, and fences, should be noted on the site plan.
- All dimensions, setbacks, easements, and right-of-ways should be shown on the site plan, with an indicator for North.
- A site detail must be shown on the plan, or on a separate site detail sheet. Details should describe the type of walks, curbs, handicapped parking, etc.

30. Flood Plain Map
(Required for all project types)

A flood plain map must be submitted that shows the 100-year flood plain for the proposed development. The map must be prepared by a nationally accepted organization, such as FEMA and the project site must be indicated on the map.

In the event a FEMA flood plain map is not available, a signed statement from a licensed surveyor stating that the property is not located in a flood zone or a letter from a local insurance company or local county office official certifying the project is not located in a flood zone will be accepted along with the project site indicated on the map.

If the property has been built up and is no longer in a flood zone, a licensed surveyor’s report for the reclassification must also be attached. The report should clearly state that all land to be utilized for the project has been raised at least 1 foot or more above the floodplain.

31. Infrastructure to the Site

Provide third-party supporting documentation identifying utilities in proximity to the site. Utilities include electric, water, sewer, phone, and gas, if applicable.

32. Capital-Needs Assessment (CNA)
Required for:
- Rehabilitation developments of 12 units or more and requesting $250,000 or more of KHC funding.
- All applications requesting Housing Credit for rehabilitation

Applicants are responsible for fees, such as assessments. All rehabilitation projects consisting of 12 or more units and total KHC funding is $250,000 or more will be
required to submit a CNA as an attachment to the Application. All applications requesting Housing Credit for rehabilitation will be required to submit a CNA, regardless of project size.

A CNA is a written report performed by a qualified inspector for the purpose of rehabilitation of an existing building into housing units. This report will define the necessary repairs required to provide safe, sanitary, and affordable housing.

A complete and thorough inspection shall be made in regard to all aspects of the existing structure, appliances, mechanical, and electrical systems to determine the life expectancy and needed repairs and/or replacement.

The capital needs inspector and the appraiser shall work closely together to insure consistency concerning areas of square footage, number of buildings, bedroom mix, etc.

**Capital Needs Inspector Qualifications**

- All inspectors and/or firms must be insured, as directed by KHC.
- Inspectors must be experienced and have the background of inspecting multifamily residential housing.
- Inspectors shall be architects and/or engineers who are licensed to operate in the state of Kentucky. The inspector may also need to consult with structural, mechanical or electrical engineers in order to provide expert opinions as to the existing condition of a particular item. When other consultants are employed they shall meet all the requirements as set forth for an inspector, as well as be insurable.

**Capital Needs Report Requirements**

(These specific items should be addressed in each report)

- The report shall describe, in detail, all rehabilitation work required along with any new additional work. There must be separate estimates for both.
- A minimum of 25 percent of all units and at least one of each type must be inspected before the inspector prepares the report.
- A cost estimate of all the repairs and/or replacements must be included.
- All write-ups should be provided to indicate the items and areas that are in need of immediate repair. An analysis should be completed on all components that will need repair or replacement within the next five years.
- Provide a report on any existing conditions or items that are in violation of existing building codes, ordinances, etc. Corrective measures that would bring the items into compliance must be thoroughly detailed.
- Any visible evidence of hazardous substances, including but not limited to: Asbestos Containing Material (ACM), Lead-Based Paint (LBP), Petroleum Bulk Storage (PBS), Polychlorinated Biphenyl’s (PCBs), and Chlorofluoro carbons (CFCs), must be noted.
- Cost estimates for any items that require action due to market demand. These will be provided to the inspector by the appraiser or KHC.
- Any maintenance that is deferred and that wasn’t taken care of on a normal operating basis. Must include estimate of the cost to correct the item.
- Any repairs needed to nonresidential buildings such as community buildings, management offices, garages, etc.
Inspectors shall propose a total price to the applicant that will include all costs, including but not limited to: travel, clerical, inspection services, attending meetings at KHC (if applicable), etc.

In preparing the report, the inspector may choose to utilize the Inspection Form HUD-52580-A. This is not a requirement, additional information may need to be recorded on separate sheets and attached.

All inspectors will be required to make corrections as required by KHC.

All reports must be prepared in compliance with all applicable, federal, and state laws and regulations, including all applicable HUD policies, procedures, and directives. KHC requires a 30-year CNA for all projects unless the project is applying for Rural Development assistance where a 20-year CNA is required. KHC will require a subsequent CNA in year 15 and require the project to adjust the capital reserve replacement schedule accordingly. This requirement is only applicable for projects which obtain HOME or AHTF gap financing from KHC.

Adaptive reuse projects only need to provide a CNA that addresses the exterior of the building and all structural components

33. **Preservation – Provide proof of rents at affordable limits**

Provide proof that market rents on these units are at an affordable limit. Documentation must be submitted showing the current rents, as well as comparisons to the other market-rate projects in the area. Please include a map indicating the location of the other market-rate units in comparison to the proposed project.

34. **Relocation Plan or Letter**

(Required on all rehabilitation projects)

A relocation plan must be provided if the project is rehabilitating an existing rental unit. The plan must detail how the relocation will occur, who will pay for it, and how the tenant will be compensated. Please refer to the relocation guidelines in the HOME and AHTF sections of the guidelines.

35. **Deed/Subdivision Restrictions**

Provide a copy of the deed/subdivision restrictions or a letter stating there are no deed restrictions.

36. **Mayoral/County Judge Executive Letter of Support**

(Required for projects of 12 units or more and all projects requesting housing credits)

All applications must include a letter of support from the mayor or county judge executive (or equivalent) who is in office at the time applications are due, of the jurisdiction where the project is located. Please note: For merged city/county jurisdictions, the letter must be from the mayor. This letter must be a letter of support, not just a letter recognizing the project. If a letter of support is not submitted, the application will be rejected, regardless of final score. Letters of support may not be more than one year old at the time of application.
37. **Underwriting Model**  
(Required to on all projects)

A copy of the underwriting model **must** either be attached to the electronic application or e-mailed to rentaluw@kyhousing.org by 5 p.m. on the application due date.

38. **Utility Chart or Utility Company historical usage data**

A utility chart or historical data (if proposing utility allowances) must be submitted at application. If requesting Project-Based Section 8, the Utility Allowance Chart must be from KHC or the local Public Housing Authority must be used.

39. **Financial Review Documents/ Personal or Business Credit Report Certification**

Include financial review documents along with the Personal or Business Credit Report Certification with your application submission. Developers who are applying for multiple projects only need to provide financial review documents one time. The developer should clearly identify within the application that they are applying in multiple projects.

KHC will pull a credit report on all applications.

40. **Documentation to support the compliance period has ended**  
(Required for previously funded tax credit projects)

Provide a copy of a letter from KHC’s Compliance Department referencing that the compliance period has ended, or provide the Land Use Restriction Agreement to verify the 15-year compliance period has ended.

41. **Documentation indicating eligibility for Housing Credit projects applying for acquisition credit**  
(Required on tax credit only projects)

Please reference IRC Section 42(d) for further guidance.

42. **Internal Revenue Service waiver for troubled projects**  
(required for tax credit only projects)

43. **Firm Commitment Letters for all Non-KHC subsidies**

These commitment letters should include the name, rate, term, amount, and collateral. Please see the scoring guidelines for further details. Tax Credit Projects, please review the Qualified Action Plan for more detailed requirements.

44. **Market Studies**

KHC maintains an approved Market Analyst List from which developers may select an appropriate firm or individual. This list will be valid for at least one year. KHC will update the list in 2011 through a Request for Qualification (RFQ). KHC will announce the RFQ for market analysts in an eGram, as well as post on KHC’s Web site, www.kyhousing.org. However, KHC reserves the right to remove individuals/firms from this list for any reason. Market analysts submitting a report that materially fails to comply with KHC’s requirements or is otherwise unacceptable
may, at the sole discretion of KHC, be removed from the list. If reports are received that are not acceptable, the applicant/developer will be informed by KHC such report is unacceptable. Applicants/developers will enter into a contract for services directly with the market analyst and, with the exception of questions about KHC standards and/or requirements, the applicant/developer shall be responsible for handling all issues related to the market analysis. Applicants/developers contracting with market analysts for the benefit of KHC shall be responsible for negotiating the price of the contracted work. Although the applicant/developer is responsible for engaging the market analyst, the report shall identify KHC as the intended user for the purpose of providing KHC a basis for investment and loan underwriting decisions.

The needs analysis or market study will be reviewed to determine if a need exists in the proposed market area for the number of units and the unit configuration. This need must exist without adversely affecting other affordable housing in the same market area. A needs analysis is required for projects of 11 units or less. A market study is required for projects of 12 units or greater.

The capture rate will be one method of determining this need, but will not be the only factor. Overall vacancy rates in the area will be considered, as well as the rent level being proposed and how it compares to market-achievable rents. The overall recommendation of the market analyst will also be considered.

Typically, a capture rate of 30 percent or below is acceptable. If the capture rate is higher, there may be compensating factors that would make the project acceptable. These determinations will be made on a case-by-case basis.

**Note:** KHC reserves the right to request a market study or additional market information on any project, **regardless of size.**

45. **Proof State Historic Preservation Office (SHPO) has approved plans and specifications**

(For historic projects requesting federal dollars only)

Provide documentation supporting that SHPO has approved the plans and specifications according to their guidelines.

46. **Proper Zoning**

(Required for all project types)

The applicant must submit evidence that the proposed site is properly zoned for the proposed intended use. The following documents are required:

- A letter from the local zoning board or governing authority. The letter should indicate the type of zoning that is in place. If the proposed project site will need a zoning change, the letter should indicate when the change would occur. In the event the county does not have zoning, a letter from the county judge or mayor should indicate that there is no zoning present in the community.
- All zoning requirements and/or restrictions that affect the design or building location.
- A local zoning map that shows the classification of the proposed site and neighboring sites. **The location of the site must be clearly indicated on the map.**
47. **Evidence of Site Control**  
(Required on all project types)

The applicant must submit evidence of site control. Documents submitted for evidence of site control must be fully executed and sufficiently identify the subject property. In addition, option contracts must extend through the award announcement period with a clause for renewal. Real property conveyances must be recorded with the appropriate clerk, and leasehold estates must meet IRS requirements and exceed KHC’s affordability and mortgage periods. Acceptable forms of site control are:

- Property Deed
- Current Purchase Contract
- Current Option to Purchase
- Current Lease Agreement/Option to Lease (lease period must be through entire affordability period)

For scattered site projects with six or more buildings, where 50% or more of the sites are non-contiguous, proof of site control must be provided for 35% or more of the total sites.

KHC will evaluate the legal interest directly owned or controlled by the applicant at the time of application. An applicant that is capable of causing possession and control to vest in their favor for the duration of the mortgage and affordability periods will be deemed to have site control. KHC reserves discretion to make the aforementioned determination. All deed restrictions that affect the proposed site must also be submitted for review.

48. **Commitment Letter for donated land, materials, and/or Section 8 Rental Assistance and Rural Development Rental Assistance**

For donated land, provide a copy of an appraisal to demonstrate the value of the land. Provide a letter stating the type and amount of donated materials, as well as proof of the value of the materials. A copy of the Section 8 Rental Assistance or Rural Development Rental Assistance contract will be required.

49. **HOME Investment Partnership Program Funds - Guideform Notice**  
(Required for all HOME projects)

A Guideform Notice must be given to all Sellers disclosing that the purchase offer is voluntary and an arm’s length transaction. The notice is available on KHC’s Website, [www.kyhousing.org](http://www.kyhousing.org), under Housing Production, Multifamily Finance, Reference Materials.

50. **HOME – Guideform General Information Notice**  
(Required for all HOME projects which are relocating tenants)

This notice is required to be given to all tenants who will be relocated due to rehabilitation on their apartment units.
CHAPTER 2  Technical Submission Stage and Requirements

Once an applicant receives a conditional commitment from KHC to move forward, the application will then enter the Technical Submission phase of the process. Staff will work with applicants during this stage to ensure all guidelines and requirements are met. Additional documentation will be required and will be outlined in a letter to the applicant.

A. Reservation Notice

KHC will send each successful applicant a conditional commitment letter that indicates the initial reservation of Housing Credits and other KHC resources awarded. In determining the initial amount of credit to be reserved, KHC will use costs, incomes, and expenses submitted in the application, as determined by KHC to be reasonable. The final amount of credit allocated to each successful applicant may be less than, but may not be more than, the amount requested in the application, the amount specified in the conditional commitment letter, or the amount reflected in a carryover allocation.

B. Deadlines

Firm Commitment Letters

If a conditional award has been made, the applicant must provide to KHC, no later than 60 days after the date of KHC’s conditional commitment letter, binding final firm commitment letters from the non-KHC subsidy sources that provide:

1) The interest rate and term (if loan proceeds are involved)
2) The collateral for the project (if a loan is involved)

The firm commitment letters must also contain normal and customary contingencies for equity and loan commitments, including but not limited to: approval of appraisal, closing of other sources of financing, environmental and title review, financial condition of the developer, and satisfactory negotiation of partnership and/or loan documents.

If the firm commitment letters have not been submitted within the 60-day timeframe, the conditional commitment will expire automatically and KHC will recapture all associated funding. No extensions of the 60-day timeframe will be granted. Time is of the essence with respect to the conditional commitment and all time limitations therein or there under. KHC may strictly enforce requirements imposed upon applicants. Applicants must agree to proceed diligently to closing.

Applicants applying for RD for resources or assistance must provide a complete application and all required documents (with exception of the appraisal) to the RD office within one month of receiving the conditional commitment. Appraisals must be submitted to the RD office within 60 days of the conditional commitment. Firm commitments from RD or HUD loan financing is not required to be submitted within the 60-day timeframe. Applicants who do not provide a complete application to RD in a timely manner will risk not meeting the closing timeframe. No extension will be provided due to an applicant’s delay in providing RD with the required application and supporting documentation.
Applications for HUD resources must complete the pre-approval application process within the technical submission deadlines. KHC will accept a pre-approval for scoring purposes.

**Technical Submission**

All technical submission items must be received by KHC within 90 days of the conditional commitment award. Projects may request up to three 30-day extensions. No more than three extensions will be granted. An extension fee of $500 per extension must be paid prior to the expiration of the deadline. For projects which only obtain HOME funding, no extension fee will be charged. However, each extension provided will be considered for future funding capacity reviews.

**Project Closing**

Applicants will have 180 days to submit all final construction, fair housing, and other closing documents to KHC. The applicant will receive a checklist that will outline all outstanding or additional documentation needed. If the project does not close within the 180 day closing deadline, KHC’s conditional commitment to the project may expire and be null and void. A request for an extension may be made and, if KHC so approves, the closing deadline may be extended an additional 45 days. The extension fee for non-credit projects is $1,000. For credit projects, the extension fee is 0.5 percent of the conditional credit award. The extension fee must be paid to KHC on or before the 180-day closing deadline to avoid expiration of the conditional award. For projects which only obtain HOME funding, no extension fee will be charged. However, each extension provided will be considered for future funding capacity reviews.

A technical submission checklist will be provided to the applicant. If an applicant is new to KHC, a Rental Specialist will request a face-to-face meeting to provide training and to assist the applicant in reviewing the requirements in the technical submission checklist. Additional guidance and forms can be accessed at KHC’s Web site, www.kyhousing.org, under Housing Production, Multifamily Finance, Reference Materials.

**C. Technical Submission Document Requirements**

Below is a description of certain documents that will be required during the technical submission stage. **This is not an all-inclusive list of items.** Please refer to the Technical Submission checklist for additional documentation that will be required.

1. **Tenant Selection Plan**
   (Required on all projects)

   The tenant selection plan must be a written policy to ensure that new tenants are selected in conformance with the owner’s policies, and all applicable federal requirements. The tenant selection plan must describe the criteria that will be used to identify eligible tenants. Additional guidance can be accessed at KHC’s Web site, www.kyhousing.org, under Housing Production, Multifamily Finance, Reference Materials, Technical Submission Documents.

2. **Affirmative Marketing Plan**
   (Federal funds only, five units or more)

   Each applicant is required to carry out an affirmative program to attract prospective buyers or tenants of all minority and non-minority groups in the housing market area.
regardless of their race, color, religion, sex, national origin, disability, or familial status. Racial groups include white or Caucasian, black or African-American, American Indian or Alaska Native, Asian, and Native Hawaiian or other Pacific Islander. Other groups in the housing market area who may be subject to housing discrimination include but are not limited to: Hispanic or Latino, persons with disabilities, or families with children. The applicant shall describe in the AFHM Plan the proposed activities to be carried out during advance marketing, where applicable, and the initial sales and rent-up period. The affirmative marketing program also should ensure that any group(s) of persons ordinarily not likely to apply for this housing without special outreach, know about the housing, feel welcome to apply, and have the opportunity to buy or rent. This form can be found on KHC’s Web site, www.kyhousing.org, under Housing Production, Multifamily Finance, Reference Materials, Technical Submission Forms, HUD-935.2A.

3. **Fair Housing Plan**  
(Federal funds only)

Applicants requesting federal funds must submit a Fair Housing policy or incorporate policies into the organization's existing system, which will ensure that all citizens in the service area are aware that affirmatively furthering fair housing is a priority. A sample fair housing plan is located on KHC’s Web site, www.kyhousing.org, under Housing Production, Multifamily Finance, Reference Materials.

4. **Title VI Self-Survey**  
(Federal funds only)

Title VI of the Civil Rights Act of 1964 prohibits discrimination on the basis of race, color, or national origin. Applicants requesting federal funds must submit a Title VI Self-Survey and Statement of Assurance. These forms can be found on KHC’s Web site, www.kyhousing.org, under Housing Production, Multifamily Finance, Reference Materials.

5. **Section 504 Self-Evaluation**  
(Federal funds only)

Section 504 of the Rehabilitation Act of 1973 prohibits the exclusion from participation in, denial of the benefits of, or discrimination under any program or activity receiving Federal financial assistance of otherwise qualified individuals with disabilities.

A self-evaluation of all aspects of the organization, including all buildings or facilities for physical accessibility, program outreach and communication, eligibility and admission criteria and practice, distribution and occupancy policy and practice, percentage of accessible units, employment (including pre-employment), and complaint processing procedures must be prepared by the recipient in consultation with individuals with disabilities or organizations representing them. It is required all recipients with 15 or more employees must keep the evaluation on file for a minimum of three years.

A transition plan is mandatory if structural changes to facilities are needed to achieve program accessibility. The plan must be developed with the assistance of individuals with disabilities or organizations representing them. A copy of the plan must be made available for public inspection. The plan should identify the physical obstacles that limit accessibility, include a detailed description of methods that will be used to make facilities accessible, the schedule for each step of the process. All structural changes must be made within six months of project funding.
Applicants requesting federal funds must submit a Section 504 Self-Evaluation with attachments (and transition plan, if applicable). These forms can be found on KHC’s Web site, www.kyhousing.org on the Housing Production page under Multifamily Finance, Reference Materials. Please note that a person with disabilities, or a representative from an agency that serves persons with disabilities, must assist the applicant in completing the Self-Evaluation.

6. **Drug-Free Workplace Certification**  
(Required on all projects)

KHC’s policy is to promote a drug-free environment for all individuals acquiring housing through the use of KHC funds. Applicants are required to sign The Drug-Free Certification form that certifies the project will continue to provide a drug-free workplace by publishing a statement notifying employees that the unlawful manufacture, distribution, dispensing, possession, or use of a controlled substance is prohibited in the recipient's workplace and specifying the actions that will be taken against employees for violation of such prohibition. This form can be found on KHC’s Web site, www.kyhousing.org, under Housing Production, Multifamily Finance, Reference Materials, Technical Submission Forms.

7. **Sample Lease Documents**  
(Not required for acquisition only)

There are certain requirements that should be incorporated in the lease agreement between the owner and the tenant depending upon the funding source(s) in the development. KHC has established guidelines that contain both provisions and prohibited clauses in a lease. The lease should also conform to the tenant selection plan. Required lease provisions and prohibited clauses can be found on KHC’s Web site, www.kyhousing.org, under Housing Production, Multifamily Finance, Reference Materials, Technical Submission Forms.

8. **Commitment Letters for Match and Other Funding Sources**  
(Required for all projects)

All KHC Multifamily Finance Programs require a 5 percent match. Any non-KHC financing source may be eligible. During the technical submission stage, proof of match will be required. Please refer to Chapter 6 for additional information pertaining to match requirements.

Documentation supporting all other funds to be utilized in the deal will be required at technical submission stage. These documents must be firm commitments that includes all terms, the amount of the funding source, and documentation must be on the agency’s letterhead and signed. Final underwriting will not be completed until all source of funds documentation is received.

9. **Final Underwriting Model**  
(Required for all projects)

An electronic version and hard copy of the project’s final underwriting model must be submitted to the assigned project representative or specialist.
10. **Appraisal**

Appraisals are required on projects where KHC’s total loan amount (including HOME deferred and forgivable loans) is $250,000 or more. KHC reserves the right to request an appraisal on any project utilizing KHC funds. Appraisals must be received during the Technical Submission Stage.

The applicant will work with the appraiser directly throughout the appraisal process. If the applicant is planning to use KHC’s appraisal to meet the Syndicator’s requirement, the Syndicator’s guidelines must be provided to the appraiser and cost negotiations will occur at the time of first contact.

Housing Credit projects that are not requesting KHC loan funds but are requesting acquisition credit must provide an appraisal supporting the building basis for purposes of determining the proper amount of housing credit reserved. The appraisal must provide at a minimum the “as-is” market value of the building and a separate site value for the land. Eligible basis will be limited to the bases determined by the required final cost certification.

Applicants MUST choose an appraisal firm or individual listed on KHC’s approved list, available on KHC’s Web site, www.kyhousing.org, under Housing Production, Multifamily Finance.

11. **Legal Description of Property**
   (Required for all projects)

   The legal description should describe the metes and bounds of the property lines and should indicate setback requirements if they exist. All easements and right-of-ways should also have the metes and bounds described in the legal description.

12. **Owner and Architect Agreement**
   (Required on all projects of 12 units or more, required for smaller projects if an architect is involved.)

   The architect’s documents shall be prepared in accordance with the HUD Minimum Property Standards (MPS), Uniform Federal Accessibility Standards (UFAS), the Kentucky Building Code (KBC) and/or Kentucky Residential Code (KRC), Universal Design, Minimum Design Standards as adopted by KHC, applicable state and federal Fair Housing laws, and meet all Housing Quality Standards (HQS).

   - The architect and owner shall submit an unsigned copy of their agreement. There are various types of standard AIA documents that can be used depending upon the type of project and the relationship between the owner and architect. Only the most recent and up-to-date AIA documents should be used.

   - The most commonly used agreement is the lump sum contract, which is B 141 Standard Form of Agreement between the Owner and Architect with standard form of architect’s services.

13. **ALTA Survey**

   A surveyor licensed in the Commonwealth of Kentucky must complete an ALTA survey. The survey shall be stamped, sealed, dated, and signed by the licensed surveyor and be dated less than one year from submission date of application.
The survey is to include the following:

- The survey shall be a metes and bounds survey at a preferred scale of 1 inch equals 20 feet, but can be no smaller than 1 inch equals 40 feet.
- Metes and bounds legal description of the property line which should also indicate setback requirements if they exist. All easements and right-of-ways should also have the metes and bounds described in the description.
- The survey shall show all right-of-ways and/or easements and north arrow.
- All roads, setback requirements, and natural drainage ways.
- The survey shall indicate the 100-year flood boundary, any other floodways, and a written floodplain zone determination.
- All parking, streets, walks, curbs, dumpster pads, playground areas, etc., should be included on site survey.

For acquisition with rehabilitation, a subdivision plat may be submitted in lieu of the survey.

However, the plat should be of a large enough scale and show items normally found on a survey, along with proposed new buildings, sidewalks, parking areas, and utilities. These should be on a scale of 1 inch equals 20 feet. At the discretion of KHC, acquisition with rehabilitation that involves additions or new construction may require a full site survey/plot plan.

14. **Final Construction Plans**
(Required for all projects)

Note: On projects with 12 or more units, plans must be prepared by a licensed design professional and bear a signature and required seals.

**Minimum final plan information and requirements:**

- Plans must be at 1/4-inch scale
- Completed in accordance with the highest architectural and engineering professional standards
- Submitted to the appropriate building code officials for their review
- Comments received during the application stage must also be incorporated in the final plans
- Final comments shall be incorporated into the final drawings or amended by an addendum
- Meet all accessibility requirements (UFAS, Fair Housing, ANSI A117.1, Universal Design, one or more as applicable)
- Address the issues identified in the Physical Needs Assessment (if applicable for rehabilitation projects)
- Dated and sealed with the architect’s and engineer’s stamp and signature (12 or more units)

**For projects containing 12 units or more**

The construction plans must contain:

- Site plan
- Earthwork plans
- Landscaping plans
- Floor plans
- Enlarged floor plans
- Foundation plans
- Elevations
• Building sections or wall sections
• Enlarged bathroom and kitchen plans
• Door, window and room schedules
• Structural drawings (if applicable)
• Mechanical and electrical plans

➢ **For projects with 11 units or less**

The construction plans must contain:
• Site plan
• Earthwork plans
• Floor plans
• Enlarged floor plans
• Elevations
• Building or wall sections
• Mechanical drawings
• Electrical drawings

KHC will accept, at the time of technical submission, verification that the plans have been sent to the appropriate building code officials for review. KHC will not complete their final review until final verification of modifications or changes are received from the building code officials.

If corrections to the final plans are being done by an addendum, it must be submitted for review and should contain all corrections that are necessary.

During the technical submission stage, KHC will review all final plans. All modifications or corrections will be made during the technical submission stage. The Program Representative/Specialist will inform the applicant if additional changes or corrections will need to be made. All changes and modifications must be submitted and approved prior to KHC’s commitment and final underwriting.

15. **Earthwork Plans**
(Required for projects of 12 units or more.)

Information requirements for earthwork and grading plans:

• Grading contours existing and new at 2-foot intervals, unless the grade is too steep and it is not feasible.
• Storm drainage piping with manholes, headwalls, and retention areas, or any other miscellaneous structures. Should show top of structure elevation as well as invert elevation.
• Show slopes greater than 3:1 with ground cover.
• Show location of soil boring test, if they apply.
• All finish grade work at buildings shall be a minimum of 8 inches below finish floor elevation and slope away from the building a minimum of 6 inches over a 10-foot run.
• If retaining walls are required, they should be shown and provide a top of wall spot elevation and adjacent grade elevation.
• Walls, curb cuts, access ramps, dumpster pads, etc. must be shown on plans.
16. **Site Utility Plan**  
(Required for all projects)

Exception: Not required for 11 units or less if the information below is included with the site survey

- All existing utilities with size of piping shown.
- New water lines with size indicated and point of connection to the existing water line shown.
- Fire protection lines, vaults, and fire hydrants shown.
- Sewer and gas lines with the size indicated and manholes marked shown. Provide top elevations with invert elevations and direction of flow.
- Overhead or underground electrical service along with telephone and TV cable shown.
- All utility easements and their width should be indicated. Provide utility details, as required, to demonstrate all structures and/or improvements.

17. **Existing Utilities**  
(Required on all projects)

During technical submission, letters from the local utility companies indicating the availability and capacity of utilities to the proposed site must be provided. The cost of all connection fees, tap fees, and/or relocation cost, if any, should be included in the development cost. If the proposed development includes rehabilitation, a letter from the affected utilities must clearly state that the utilities are present and that the upgrades, additions, and changes are acceptable.

If off-site utilities are being brought to the site by local municipalities, the letter should include the date the work will begin and the anticipated cost. Evidence should be provided that the work will be done by a specific time. Proof that the work will be paid for by local municipalities must be submitted to the satisfaction of KHC’s Legal Department. If the Developer is extending the utilities to the site, they must have the utility extension completed before KHC funds can be accessed or the funds must be placed in escrow to assure completion of the utility extension.

18. **Landscaping Plan**  
(Required for 12 units or more. All projects should have an adequate amount of shrubs, trees, and plantings to enhance the project.)

- Provide planting details and show mulch areas.
- Provide trees and shrubs and a legend that gives their size.
- Show areas that need to be seeded or will receive sod.

19. **Foundation Plans**  
(Required for 12 units or more)

- Plans should indicate all footings and the foundation wall as it sits on the footings.
- Provide dimensions to indicate lengths, widths, and the thickness of each type of foundation.
- Indicate footing sizes, wall materials, and wall thickness.
- Indicate the steel reinforcing and grout.
• Show areas that will receive concrete slab on grade and areas that are located over crawl spaces.
• Provide details that indicate the slab and all associated materials, such as poly vapor barrier, stone base, wire mesh, construction joints, control joints, and expansion joints.

20. **Floor Plans**  
(Required for all projects)

Floor plans should include the following, at a minimum:

• Show the entire building drawn at no less than 1/8-inch scale. Provide a plan for each different building type.
• Indicate all exterior and interior walls and the thickness of the walls.
• All rooms labeled to indicate their use.
• Dimensions applied to drawings to indicate room size. Indicate on the plans if dimensions are to face of stud, center of stud, or to finish face.
• Show all window and door openings with door swings and a reference to a door and window schedule.
• Indicate exterior wall finishes and provide section and plan details for each type of wall construction.
• Show kitchen cabinets, plumbing fixtures, and bathroom accessories. Larger scale plans may be required to properly indicate these.
• Show closet shelving, ceiling access, exterior walkways, porches, etc.
• Show the complete project even if it is made up of more than one unit and are identical units.
• If a project is a rehab, the existing items shall be shown that will remain and those that will be demolished.

21. **Enlarged Floor Plans**  
(Required for all projects)

Enlarged floor plans at a minimum should indicate the following:

• Show all dimensions to include those that cannot be shown on the 1/8-inch scale building plan.
• Exterior dimensions and all wall thickness.
• All wall types and describe each type.
• Location of firewalls and party separations walls.
• Indicate walls that will receive insulation and note the type of insulation.
• Location and sizes of all access panels.
• All doors and windows with their designation as to type.
• Show indication line as to transition between different floor finishes.
• Indicate where ceilings and soffits are dropped.
• Include closet shelving and indicate type of shelving.
• Show kitchen cabinets, vanities and toilet fixtures.
• Show room description or room number.
22. **Elevations**  
(Required for all projects)

- Elevations required for all sides of the buildings.
- Exterior wall finishes.
- Window and door openings.
- Roof material and the slope of the roof.
- Eave, rake, and fascia conditions to include gutters and downspouts.
- Balconies, breezeways, railings, and exterior steps.

23. **Building and Wall Sections**  
(Required for all projects)

- Construction of exterior walls with footers, floor to wall details, and ceiling to wall conditions.
- Footing details complete with notes and dimensions.
- Exterior grade to finish floor relationship.
- Floor construction and height to second floor or ceiling structure above.
- Wall structure, thickness and type of interior and exterior finishes.
- Wall and floor insulation and give R-values.
- Show eave or overhang of roof to wall with materials and heights noted.
- Roof structure and materials with notes and dimensions.

24. **Enlarged bathroom and kitchen plans and elevations**  
(Required for 12 units or more)

- Kitchen cabinets and elevations
- Bathroom layout with all equipment and bathroom accessories.
- Mounting heights of all bathroom accessories.
- Show location of wood blocking in walls for attachment of accessories.
- Show turning radius and clearances required by the applicable codes in accessible units.

25. **Door, window and room schedules**  
(Required for 12 units or more)

- Provide room schedule with room designation or number. Indicate floor finish description, base finish, wall finish, ceiling finish, and notes for special finishes.
- Provide door schedule. Indicate door size, thickness, material, and fire rating, if applicable. Provide elevation of each door type.
- Door hardware schedule. Indicate hinges, lock sets, closures, panic push bars, kick plates, and weather stripping.
- Provide window schedule. Indicate window size, type, operation, and glazing. Provide elevations of each type.
- Show all details for windows, doors, and finishes, as necessary.
- Provide windows in bedroom and living rooms that meet egress and emergency escape requirements in the Kentucky Building Code and/or Kentucky Residential Code, and Housing Quality Standards (HQS).
26. **Plumbing Drawings**  
(Required for all project types)

Exception: For **projects of 11 units or less**, a plumbing contractor licensed in Kentucky may prepare schematic drawings.

- Drawings shall show plumbing supply lines and indicate size of pipe.
- Plumbing waste line and indicate size of pipe and direction of flow.
- Legends shall be placed on drawing which indicate all plumbing fixture type and manufacturer model numbers.
- Show riser diagrams for all piping to indicate size and direction of flow.

27. **Mechanical Drawings HVAC**  
(Required for all project types)

Exception: For **projects of 11 units or less**, a mechanical contractor licensed in Kentucky may prepare schematic drawings.

- Provide legends that have equipment sizes, model numbers and manufactures names.
- Show all mechanical supply and return ducts along with equipment. Indicate duct construction, sizes, design capacity, insulation, location of fire and/or smoke dampers (if required), and smoke detectors, (if required).
- Miscellaneous details as necessary.

28. **Electrical**  
(Required for all project types)

Exception: For **projects of 11 units or less**, an electrical contractor licensed in Kentucky may prepare schematic drawings.

- Show locations of all electrical outlets, switches and circuits for all areas.
- Show location of light fixtures, panel boxes and switch gear.
- Provide GFI circuits and outlets where required.
- Provide arc fault protection where required.
- Show exterior lighting if applicable and emergency lighting.
- Provide a legend that further describes light fixtures, circuit breakers and other miscellaneous items.

29. **Structural Drawings**  
(Required for 12 units or more only on occasion when larger scale developments may be required to include structural drawings.)

- Floor framing plans, complete with details and sections that fully describe the structural system of the floor.
- Roof and/or ceiling framing systems with details that clearly indicates all details and conditions.
- Foundation systems with associated details for all conditions that exist.
- Miscellaneous details that cover all aspects of the structural system that are involved.
30. **Final Specifications/Work write-up**  
**(Specifications are required on all projects)**

Exception: A work write-up may be used in lieu of specifications on minor rehabilitation or rehabilitation projects of 11 units or less.

During the technical submission stage, KHC’s Design and Construction staff will review the final specifications in conjunction with the final plans. All modifications or corrections will be made during the technical submission stage. If changes occur during the review of the final plans that may cause a change in the specifications, the Program Representative/Specialist will inform the applicant additional changes or corrections will need to be made.

If corrections to specifications are being done by an addendum, they must be submitted for review and should contain all corrections that are necessary.

31. **Specifications**  
**(Required for all projects).**

All specifications shall be written following the standard Construction Specifications Institute master format. Specifications shall include the standard A.I.A documents, such as, general requirements, contract for construction, performance bond, etc. The architect must write the specifications in accordance to accepted standards, rules, and regulations. The specifications must specify products by model number and manufacturer for the sole purpose to use as a guide for the contractor. It should never be the intent of the specification to limit the contractor to one or two manufacturers.

All changes and modifications must be submitted and approved prior to KHC’s commitment and final underwriting. Any previous review comments during the application stage shall be corrected and incorporated into the final specifications. **Final Specifications** should address the issues identified in the Physical Needs Assessment if applicable for rehabilitation projects.

All documents that pertain to the contract for construction shall be included. The specifications should include the following 22 divisions:

- Division 01- General Requirements
- Division 02- Existing Conditions
- Division 03- Concrete
- Division 04- Masonry
- Division 05- Metals
- Division 06- Carpentry
- Division 07- Thermal and Moisture Protection
- Division 08- Door and Windows
- Division 09- Finishes
- Division 10- Specialties
- Division 11- Equipment
- Division 12- Furnishings
- Division 13- Special Construction
- Division 14- Conveying Equipment
- Division 21- Fire Suppression
- Division 22- Plumbing
- Division 23- HVAC
- Division 26- Electrical
- Division 27- Communications
- Division 31- Earthwork
- Division 32- Exterior Improvements
- Division 33- Utilities

The architect should be explicit in each section to clearly define the following:

- Scope of work.
- Products and/or materials.
- Quality assurance, testing and quality control.
- Execution and/or installation.
- Submittals and samples.
- Warranties and/or guaranties.

The specifications should be written to describe the means and methods to accomplish the work during bad weather conditions and should also include the following:

- Project description.
- Bidder instructions, if applicable.
- Wage scale and Davis-Bacon requirements, if applicable.
- Copy of the general contractor’s agreement.
- General and supplemental conditions.

32. **Final Work Write-Up Description**
(Required for all rehabilitation projects)

During the technical submission stage, KHC’s design and construction staff will review the final work write-up in conjunction with the final plans. All modifications or corrections will be made during the technical submission stage. If changes occur during the review of the final plans that may cause a change in the work write-up, the Program Representative/Specialist will inform the applicant if additional changes or corrections will need to be made.

33. **Final Cost Estimate**
(Required for all projects)

Exception: Acquisition only

The final cost estimate may be altered after KHC has completed the technical submission review on the final construction plans, outline specifications and final underwriting. The Program/Representative/Specialist will contact the applicant if an updated Final Cost Estimate is needed.

The cost estimate shall indicate the actual amount that will be spent on each line item during construction. This document will be utilized throughout the course of construction for disbursement of funds. No soft costs should be included on any of the line items for this breakdown. The final cost breakdown and the final sources and uses must match.

The cost estimate can be one of three different forms:

- Construction Cost Breakdown HUD Form 2328
- Schedule of Values, AIA Document G702 and G703
- KHC’s Application and Certificate for Payment Form

Whichever form is used, be sure to apply the correct cost with the line item that best describes the work.

If the AIA document is used, the breakdown should be very detailed.
34. **Building Permit**  
(Required on all projects)

Before construction can begin, the contractor must receive a building permit. If local jurisdiction indicates that a building permit is not required, then the local authority in jurisdiction such as, the Mayor or County Judge must submit a letter to indicate such.

35. **Letter from Housing, Buildings and Construction**  
(Required on all projects)

The local Department of Housing, Buildings and Construction (HBC) or other local jurisdiction in the county where the project is located must review and approve the plans and specifications. If the local jurisdiction has no authority or a building inspector, then the developer should obtain approvals from the State Department of Housing Building and Construction in Frankfort if the project consists of two or more attached units (subject to change by policies of HBC).

A letter must be submitted to KHC acknowledging the approval of the plans and specifications. If the applicant cannot receive final approval before the due date of the technical submission packet, then the applicant must submit verification that plans have been forwarded for review. KHC will not be able to give final approval until final documentation is received and approval is received from either the local inspector or state inspector.

If there are changes made by local or state officials, these changes must be reflected on the final plans and or an addendum's will need to be submitted to KHC for final approval.

36. **Design Architect’s Certification**  
(Required for all projects in which the services of an architect are utilized.)

The Project Design Certification is to be completed and signed by the Recipient and Project Architect that certify that the plans and specifications comply with all local building codes, rules and regulations as set forth by the authorities in jurisdiction, Fair Housing Requirements, Universal Design and Minimum Design Standards. A copy of this form is included on KHC’s Web site, [www.kyhousing.org](http://www.kyhousing.org), under Rental Production section.

37. **Architect’s Certification of Accessibility**  
(Required for all projects in which the services of an architect are utilized.)

The Project Architect must certify that the project design is in conformance with the Fair Housing Act of 1988, KHC Minimum and Universal Design Standards, Uniform Federal Accessibility Standards, Section 504 of the Rehabilitation Act of 1973, Americans with Disabilities Act Accessibility Guidelines and any other state or local code or regulation pertaining to design or inclusion of rental housing accessibility features. This form is located on KHC’s Web site under the Housing Production, Design and Construction section.
38. **Lead-Based Paint Abatement, Inspection, or Assessment**  
(Required on rehabilitation projects constructed prior to 1978 and receiving HOME, Project Based Assistance and the Risk-Sharing Program will be subject to the new lead-base paint regulations of 24 CFR 35)

Please refer to the KHC’s Web site, [www.kyhousing.org](http://www.kyhousing.org), under Housing Production, Design and Construction. See Resources. There are several links listed that will provide resources for information pertaining to Lead Base Paint abatements, inspections, and risk assessments.

39. **Lead Paint Requirements**  
(Required on all project types)

Effective April 22, 2010, the Environmental Protection Agency (EPA) implemented a new lead-based paint rule that affects every type of rehabilitation work, whether funded privately or federally. The new rule requires contractors and construction professionals that work in pre-1978 housing or child-occupied facilities to follow lead-safe work practice standards and be certified. Essentially, anyone receiving compensation for renovating, repairing, and painting work in residences built before 1978 that disturbs painted surfaces is subject to the new Renovation, Repair, and Painting Rule (RRP). No paid job can disturb painted surfaces in pre-1978 homes or child care facilities unless the firm which is undertaking the work is certified by the EPA or a state, and the renovator has completed training and is a certified renovator. KHC will require a self-certification regarding your compliance with the RRP rule on all projects funded with state or federal funds.

The requirements under the rule apply to maintenance as well as rehabilitation and renovations. The following are benchmarks for work:

- Inside – Renovation or repair activities where six square feet (about the size of a poster) or more of a painted surface is disturbed.
- Exterior – Renovation or repair where 20 square feet or more of painted surface (about the size of a door) is disturbed on the exterior.
- Window replacement is also covered by the rule.
- The only exceptions are where paint is proven lead free or the job is smaller than six square feet.
- Safe work practices prevent the spread of dangerous lead dust and paint chips. These practices include:
  - Posting a warning sign.
  - Spreading plastic to pick up debris.
  - Refraining from sanders or other machines without a filter to prevent the spread of dust.
  - Cleaning up thoroughly.
  - Checking the work area.

40. **Lead-Based Paint Abatement, Inspection or Assessment**  
(Required on rehabilitation projects constructed prior to 1978 and receiving HOME, Project-Based Assistance, and the Risk-Sharing Program will be subject to the lead-based paint regulations of 24 CFR 35)

Please refer to KHC’s Web site, [www.kyhousing.org](http://www.kyhousing.org), under the Housing Production page under Design and Construction. There are several links listed that will provide
resources for information pertaining to lead-based paint abatements, inspections, and risk assessments.

41. **EPA Lead Compliance Certification**  
(Required for pre-1978 rehabilitation projects)

Applicants proposing the rehabilitation of buildings constructed prior to 1978 must submit the EPA Lead Compliance Certification form in order to comply with the Renovation, Repair and Painting (RRP) Rule. This form is located on KHC’s Web site, [www.kyhousing.org](http://www.kyhousing.org) on the Housing Production page under Multifamily Finance, Reference Materials.

42. **Davis-Bacon Wage Rate Request**

The following project types are subject to Davis-Bacon wage rates:
- HOME-funded projects of 12 or more assisted units
- Project-based Section 8 projects of nine or more assisted units
- Projects utilizing Risk Sharing construction financing on 12 or more units

The Davis-Bacon Act requires that laborers be paid an amount not less than the prevailing wage of the locality as predetermined by the U.S. Secretary of Labor. A project may not be split into more than one contract for the sole purpose of avoiding Davis-Bacon Requirements. The Davis-Bacon wage rate request form must be submitted during the technical submission stage. This form is located on KHC’s Web site, [www.kyhousing.org](http://www.kyhousing.org), under Housing Production, Multifamily Finance, Reference Materials.

43. **REScheck Documentation**  
([http://www.energycodes.gov/rescheck/download.stm](http://www.energycodes.gov/rescheck/download.stm))

If a project is not required to meet Minimum Design Standards, then the architect or developer must provide a letter that explains how the design of the development will provide the most efficient insulation and heating system.

If a project is required to meet Minimum Design Standards, then the applicant may choose to submit a ResCheck calculation that indicated the proposed design exceeds the Kentucky Energy code by 20 percent (which is a free download from the U.S. Department of Energy), or

The applicant may elect to use one of the two methods provided in the Minimum Design Guidelines located on KHC’s Web site, [www.kyhousing.org](http://www.kyhousing.org), under Housing Production, Design and Construction.

44. **Utility Letter(s)**  
(If not provided at application)

Letters from the local utility companies indicating the availability and the available capacity of utilities to the proposed site must be provided. The cost of all connection fees, tap fees, and/or relocation cost, if any, should be included in the development cost. If the proposed development includes rehabilitation, a letter from the affected utilities must clearly state that the utilities are present and that the upgrades, additions, and changes are acceptable. If off-site utilities are being brought to the site by local municipalities, the letter should include the date the work will begin and the anticipated cost. Evidence should be provided that the work will be done by a specific time. Proof
that the work will be paid for by local municipalities must be submitted to the satisfaction of KHC’s Legal Department. If the Developer is extending the utilities to the site, they must have the utility extension completed before KHC funds can be accessed or the funds must be placed in escrow to assure completion of the utility extension.

45. **Subsurface Investigation Report**
   Required on:
   - Developments requesting Risk-Sharing Funds
   - Projects of 12 or more units
   - As deemed necessary per site visit by construction specialist.

   A soils engineer is required to perform the soils report and provide information concerning the soil boring. The report shall include a site plan with the location of where the soil boring testing occurred along with the results. Test boring shall be located in critical areas where buildings are proposed. Footing designs and recommendations are required to be included within the report.

46. **KHC Project Review Agreement**
   (Required for all projects)

   All projects are subject to inspection by KHC. The Project Review Agreement outlines the applicant’s and KHC’s roles and responsibilities throughout the inspection process. Applicants are required to sign and submit the Project Review Agreement, which can be found on KHC’s Web site, [www.kyhousing.org](http://www.kyhousing.org), under Housing Production, Multifamily Finance, Reference Materials.

47. **A-95 Clearinghouse Letter**
   (Required if requesting HOME)

   A letter that is received from the Department of Local Government that states the project has gone through the process to ensure there will be no negative impacts on any part of the environment and has received clearance to move forward with the environmental review. This letter is received after application has been made to Kentucky Intergovernmental Review Process during the application stage. The Web site for the Kentucky Intergovernmental Review process is [http://dlg.ky.gov/clearinghouse/](http://dlg.ky.gov/clearinghouse/).

48. **Historic Preservation Letter**
   (Required for historic preservation projects)

   Applicants proposing the rehabilitation of historic properties must obtain a historic preservation clearance letter from the Kentucky Heritage Council’s State Historic Preservation Office (SHPO). Plans and specifications must still meet all KHC Design and Construction requirements.

49. **Phase I Environmental Site Assessment**

   **In most cases, a Phase I Environmental Site Assessment is required for all new construction** projects consisting of more than four units which include HOME, Risk Sharing, Project-Based Section 8, or Housing Credits as any portion of funding.

   KHC’s environmental risk management policy requires that all land development loans in excess of $200,000, all KHC funding for site-specific projects in excess of $500,000 (including homeownership neighborhood and/or subdivision developments), all multifamily funding of 12 units or more, all HOME projects of 5 units or more, all Risk-
Sharing projects, and all Tax Credit projects will require a Phase I environmental assessment and must conform to proper ASTM standards.

The purpose of an environmental site assessment is to determine whether a particular parcel of land or real estate has the presence, or likely presence, of any hazardous substances or petroleum products. These conditions could be of an existing release, a past release or a material threat of a release of any products found on the property or into the ground, ground water, or surface water of the property or surrounding properties. The range of contaminants shall be within the scope of Comprehensive Environmental Response, Compensation and Liability Act (CERCLA) and petroleum products.

The scope of this practice includes research and reporting requirements that support the user’s ability to qualify for the innocent landowner defense. Documentation of all sources, records, and resources utilized in conducting the inquiry required by this practice must be provided in the written report.

Individuals or agencies must be experienced in this field of work and have a current knowledge of all related federal and state law requirements. All reports shall be prepared in accordance with the standards set forth in ASTM E1527 and ASTM E1528. For more information, you may refer to WWW.ASTM.ORG.

Please note that on HOME and Risk-Sharing projects, it is important to submit the Phase I early in the technical submission stage. KHC needs the Phase I to be able to proceed with the HUD environmental review that is required and you cannot receive a commitment until the HUD environmental is complete.

KHC reserves the right to request a Phase I environmental study on any project it feels necessary, including those in which an appraisal indicates actual or evidence of possible environmental liability.

It is the policy of KHC to minimize the risks associated with environmental liability under federal and state laws and regulations by conducting the appropriate due diligence inquiry and taking other appropriate precautions related to real property which secure its loans. When evaluating potential loans, this policy also includes an investigation into the borrower’s potential environmental liabilities as they may affect the borrower’s financial condition and ability to repay the loan. When servicing loans, it is KHC’s policy to take precautions to avoid foreclosing on contaminated property or to become overly involved in the borrower’s operations and affairs such that KHC may become liable for environmental problems caused by the borrower.

50. **Phase II Environmental Assessment**
(Required on projects of 12 units or more, if applicable)

A Phase II assessment is only required when there is an item of concern discovered during the Phase I assessment, requiring additional action to remedy the problem.

51. **Archeological Survey**
(If requested by SHPO)

When nonprofits and units of local government request HOME funds and an archeological survey is required, the developer may receive reimbursement for the survey through HOME administration funds. These funds are above the amount of HOME funds originally awarded to the project. KHC reserves the right not to pay for
additional surveys if they are required and reserves the right to withdraw the
commitment. Nonprofit organizations must complete a bid process consistent with the
applicable procurement policy. The environmental specialist can provide a list of
agencies that the State Historic Preservation Officer (SHPO) has approved for these
services. If the project is not able to move forward or KHC decides not to continue with
the project, KHC reserves the right to require a refund of all archeological related
payments made to the developer.

When HOME funds are not requested but an archeological survey is required, the
developer is responsible for payment for the archeological survey and cannot receive
reimbursement from HOME administration funds. However, payment can be absorbed
through soft costs already included in total project costs.

For-profit developers requesting HOME funds for a project of less than 12 units may
receive reimbursement for the survey, if required, in the same manner as is described
for nonprofits and units of local government. Even though for-profit organizations are not
subject to procurement policies like nonprofit organizations, they will still be required to
follow a bid process, requesting at least three bids, to demonstrate they have received
the best possible price.

For all projects of 12 units or more being developed by a for-profit entity when an
archeological survey is required, the developer is responsible for payment of the
archeological survey and cannot receive reimbursement from HOME administration
funds; however payment can be absorbed through soft costs already included in total
project costs.

D. **Additional Items Needed if Requesting HOME or AHTF Funds**

1. **Project Set-Up Report**
   (HOME projects only. Required after executed funding agreement.)

   HUD requires that all HOME funds allocated to a project be reserved at the Treasury via
   the Integrated Disbursement and Information System (IDIS). The project set-up report
   form is the HUD document that the recipient must complete and submit to KHC to report
   project-specific information, performance measures and use of HOME funds. This form
   can be found on KHC’s Web site, [www.kyhousing.org](http://www.kyhousing.org), under Housing Production,
   Multifamily Finance, Reference Materials.

2. **Anti-Displacement and Relocation Assistance Plan**
   For all rehabilitation projects, a plan for relocation must be submitted, regardless if the
   building is vacant or occupied.

   All projects involving current tenants (regardless of whether or not they will be relocated)
   must submit a relocation plan. This will primarily be a practical narrative explaining the
   relocation situation for your particular project. **All projects subject to this requirement
   should discuss this with KHC’s environmental/relocation specialist as early in the
   planning phase as possible. This issue must be addressed prior to application
   submittal.**

3. **Authorized Signature Form**
   This document is required prior to KHC disbursing any funds. There are at least two
different signatures required on this form and it is a means of checks and balances for
KHC; one person signs the draw request form and another should sign the check. The
same person **may not sign both**. The signature form must be signed by the top official of the organization (i.e., CEO, mayor, etc.). This form can be found on KHC’s Web site, [www.kyhousing.org](http://www.kyhousing.org), under Housing Production, Multifamily Finance, Reference Materials.

4. **Resolution accepting HOME and/or AHTF Funds**
   This document is considered the formal acceptance of funds. The resolution may be either a Board resolution or a copy of the unit of local government’s approved board minutes. For private developers, KHC accepts a letter on the entity’s letterhead stating they accept the HOME/AHTF funds and all the responsibilities of said funds. The document should contain the amount of HOME/AHTF funds, the use of HOME/AHTF funds, and the date of acceptance. In addition, it should designate an authorized person to execute all documents related to the funds and to implement the funds in the project.

5. **Third Party Administrative Contracts**
   KHC requires a copy of all third party administrative contracts in order to verify the roles and responsibilities of any third-party participants in the project. This document must be fully executed and outline all parties’ responsibilities.

6. **Procurement Policy**
   This document is required for all units of local governments and nonprofits and governs the procurement of all goods and services in association with the federal funds. The policy must fully comply with 24 CFR Part 84 for nonprofit organizations or Part 85 for units of local government.

7. **HOME Administrative Certification Form**
   This document is required for all recipients of HOME funds. It outlines many of the requirements for the use of the HOME funds. It must be signed by the top official of the organization (i.e., CEO, mayor, etc.). This form can be found on KHC’s Web site, [www.kyhousing.org](http://www.kyhousing.org), under Housing Production, Multifamily Finance, Reference Materials.

8. **Site and Neighborhood Standards Questionnaire**
   Each recipient must administer its HOME funds in a manner that provides housing that is suitable from the standpoint of facilitating and furthering full compliance with the applicable provisions of title VI of the Civil Rights Act of 1964 and promotes greater choice of housing opportunities. This form must be completed and submitted to KHC for review and approval prior to release of HOME funds. This form can be found on KHC’s Web site, [www.kyhousing.org](http://www.kyhousing.org), under Housing Production, Multifamily Finance, Reference Materials.

9. **AHTF Administrative Certification Form**
   This document is required for all recipients of AHTF funds. It outlines many of the requirements for the use of the AHTF funds. It must be signed by the top official of the organization (i.e., CEO, mayor, etc.). This form can be found on KHC’s Web site, [www.kyhousing.org](http://www.kyhousing.org), under Housing Production, Multifamily Finance, Reference Materials.

10. **Housing Credit Documentation**
    Projects receiving a reservation of Housing Credit must submit additional documentation in order to carry over the credit into the following year. These documents must be submitted in November of the year the credit is reserved, with the exception of the reservation fee, which is due within two weeks of receipt of the conditional commitment letter.
11. **Owner/Recipient Information**
   Recipients of Housing Credits must submit a letter that includes the following:
   - Owner and General Partner federal identification numbers
   - Exact name and address of owner as it will appear on IRS Form 8609
   - Exact street address including zip code for all buildings in the project (include number of buildings)

12. **7 percent reservation fee**
   (Due within two weeks of receipt of technical submission letter)

   The amount of reservation fee due will be identified in the award letter sent to the applicant at the time of funding announcements and is calculated as a percentage of the total amount of credit received.

13. **Draft syndication agreement or letter of intent including syndication proceeds**
   Applicant/developer receiving housing credits must submit a copy of the draft syndication agreement which includes a tentative pay-in schedule with milestones and cents on the dollar being paid. The final syndication agreement will be required before final underwriting is completed.

14. **Partnership Agreement and Certificate of Limited Partnership as filed with the Secretary of State**
   The Partnership Agreement governs relations among and between the partners, and the Certificate of Limited Partnership documents the partnership was formed and is a legal entity. This document must be filed with the Secretary of State and a copy of the filed document must be submitted to KHC.

15. **Estimated project cost breakdown by building**
   Documentation will be required that shows the estimated cost of each building for the project. Example: If the project consists of four buildings, four separate cost breakdowns must be submitted (one for each building).

16. **Updated project completion schedule**
   Projects that are delayed for any reason must submit an updated project completion schedule identifying project milestones and the anticipated date they will be met.

17. **Owner certification of federal, state, or local loans and/or grants**
   KHC is required to ensure that the amount of Housing Credits allocated to a project does not exceed the amount necessary for the financial feasibility of the project. In making this determination, KHC will consider, among other things, the amount of subsidy the project is receiving. This form can be found on KHC’s Web site, [www.kyhousing.org](http://www.kyhousing.org), under Housing Production, Multifamily Finance, Reference Materials.

18. **Evidence of having incurred more than 10 percent of total project costs or a written request for 10 percent test extension**
   Projects allocated Housing Credits must be placed in service by the end of the calendar year in which the credits were allocated or they must submit a carryover request. If the project will not be placed in service prior the end of the allocation calendar year, the recipient must either submit evidence of having incurred more than 10 percent of the total project cost or the recipient may submit a written carryover request for an additional 12 months to submit this evidence.
19. **Gross Rent Floor Election**

The Internal Revenue Service (IRS) will treat the gross rent floor as taking effect on the date KHC initially allocates tax credits to the building, unless the owner designates the placed-in-service date instead, **informs KHC prior to that date**, and the IRS will make the gross rent floor effective on that date. This form can be found on KHC’s Web site, [www.kyhousing.org](http://www.kyhousing.org), under Housing Production, Multifamily Finance, Reference Materials.
CHAPTER 3  Pre-Construction and Closing Stage

All loan closings and execution of funding agreements occur after successful completion of the technical submission phase. Once an applicant has received a commitment of funds from KHC, it must be executed and returned to KHC before additional legal documents will be prepared. This commitment must be returned to KHC within 30 days. Construction cannot occur until all closing documents are received and recorded and a pre-construction conference has been held. In preparation for closing, applicants may be required to submit additional information prior to the closing.

KHC will consider requests for early start authority on a case-by-case basis. Developers need to work with their assigned program representative for early start authorization.

For those applications receiving other KHC funding, KHC’s legal department will be responsible for preparing certain closing documents and forwarding them to the applicant’s counsel where these documents will be executed and recorded. Funds may be disbursed after the original recorded documents have been returned to KHC.

A pre-construction conference must be held prior to any construction activities beginning. This includes projects that are not requesting construction financing from KHC.

Below is a list of items that will be required during the closing and construction stage, this is a non-exclusive list.

1. **Surveyors Report**  
   (Required on projects utilizing Risk-Sharing funds only)

   The surveyor’s report HUD form 92457 must be completed, dated, signed, and stamped by a licensed surveyor in the state of Kentucky. The survey must be dated within 120 days of the day of closing to be valid. A copy of the surveyor’s report can be found at [www.HUD.Gov](http://www.HUD.Gov) under “Forms.”

2. **Final Site Survey/Plot Plan**  
   (Only if utilizing Risk-Sharing funds for construction)

   A final site survey needs to be submitted, signed, sealed, and dated within 120 days of closing. The survey must be accurate and the metes and bounds must agree with the legal description. The survey is to show all easements, right-of-ways, encroachments, set-backs, etc. If site survey was approved during technical submission phase, the only thing that will be needed is the seal and dated within 120 days. Seven copies will be required for closing.

3. **Owner and Contractor Agreement**  
   (Required for all projects)

   At this stage the owner and contractor can execute the Owner/Contractor agreement once final cost is determined. The Owner/Contractor agreement must agree with the final cost estimate. The applicant can utilize either the AIA Document or HUD’s Construction Contract From.

   The contract should be completely filled out for final review and include the following:
   
   - The construction contract amount, the date the construction should begin, and the date the construction should be completed.
• It must be signed and dated by the contractor and the owner.
• If liquidated damages are in the contract, it must be indicated and the amount per day must be stated.
• The contract must refer to the plans, specifications, and any addendums that have been issued.
• Cost contingencies are not to be included in the total hard construction costs on the Owner/Contractor agreement.

4. **Assurance of Completion**  
(Required when KHC is providing construction financing)

KHC requires an Assurance of completion for all projects using KHC funds during construction when KHC has committed a total of $100,000 or more in any combination of grant or loan.

Assurances of completion shall be in one of three forms:

1. **Payment/Performance bond** (AIA document A 312 or the HUD Form 92452) equal to or greater than 100 percent of the total construction contract amount. An individual who has been given power of attorney by the insurance company issuing the bond must sign the bond, and they must be licensed in the State of Kentucky. KHC’s name must appear on the document as an additional insured.

2. **Irrevocable On-Sight Demand Letter of Credit** for 11 units or less in an amount equal to or greater than 15 percent of the total amount of KHC funds. For projects of 12 units or more, the amount equal to or greater than 30 percent of the total amount of KHC funds. The letter of credit is a personal guarantee.

3. Cash deposited with KHC in the sum equal to or greater than 30 percent of the total amount of KHC funds used for the construction of the development.

**The adequacy and sufficiency of assurances of completion shall rest solely with KHC.** Assurance of completion is required only for construction of rental housing developments financed in whole, or in part, by KHC and for land development projects where KHC is financing the construction phase of the development.

5. **Evidence of Proper Insurance**  
(Required on all projects)

The contractor must provide evidence of proper insurance prior to closing. The insurance policy should provide evidence of workers compensation, builders’ risk, and liability. The insurance shall be carried during the length of the contract. A binder from an insurance company is sufficient documentation. **KHC must be listed as either the primary Certificate Holder or Additional Insured on all certificates of insurance.**

6. **Building Permit/Approval Letter from Department of Housing, Buildings and Construction**  
(Required on all projects)

Before construction can begin, the contractor must receive a building permit. If the local jurisdiction indicates that a building permit is not required, the local authority in that jurisdiction, such as the mayor or county judge, must submit a letter verifying this information.
If no local authority exists in which plans were reviewed by a licensed local code enforcement official, a letter of approval from the Department of Housing, Buildings, and Construction will be required.

7. **Pre-construction Conference**  
(Required on all projects)

Once all construction documents, plans, and specifications have been submitted and approved, the project is ready to close. A pre-construction conference must be scheduled before any funds may be disbursed, unless waived by KHC due to significant prior experience.

All projects will be required to participate in a pre-construction conference **before any construction activities begin**. This includes projects that are not requesting construction financing from KHC. The purpose of the pre-construction conference is to outline basic responsibilities and duties of the various parties throughout the construction and warranty periods. The pre-construction conference will be conducted by KHC’s construction specialists in conjunction with the program representative/specialist assigned to the project.

Individuals involved with the construction of the development should attend the pre-construction conference. These individuals should include the developer/applicant, contractor, and architect, if applicable. The purpose of the pre-construction conference is to outline basic responsibilities and duties of the various parties throughout the construction and warranty period.

KHC’s construction specialist will conduct the meeting along with the program representative/specialist. The following are topics that will be discussed during the meeting:

- A construction inspection schedule determined.
- Final cost estimate.
- The notice to proceed.
- Requirements for safety fencing.
- Requirements for job safety.
- Wage scale and Davis-Bacon requirements, if applicable.
- Change order process.
- The duties and responsibilities of the owner, architect, and contractor.

**Note:** Construction may not start on a project prior to the construction closing without prior written permission from KHC. Starting construction early without KHC’s permission may affect capacity scoring on future applications.

8. **Title Insurance Commitment**  
(Not required on grants)

A copy of the Title Insurance Commitment must be submitted if KHC is providing funding in the form of a loan. A commitment of title insurance is provided by the closing attorney after a title search has been completed. The title insurance provided is for the protection of KHC as the lien holder.
9. **Closing Attorney's Contact Information**  
(Required if not utilizing Risk-Sharing funds)

The contact information for the attorney who will be preparing the closing documents must be provided to KHC, including the attorney’s name, mailing address, e-mail address, and phone number.

10. **Inspections**

Once the pre-construction conference has been conducted and all construction documents have been received, a Notification of Construction Start-up form must be submitted to KHC prior to the start of any construction. During construction, KHC’s construction specialist will inspect the work progress and conduct regular inspections. At a minimum, projects will be reviewed prior to footing placement, before drywall installation, and at final inspection. The second stage will occur mid-way through construction and the final stage at construction completion. The number of inspections conducted will be left to the discretion of KHC’s Design and Construction Department. The construction specialist will also inspect for pledged amenities made at application submission.

For projects requesting to draw other KHC funds, during the monthly inspection the construction specialist will review and sign the draw requests upon approval for construction costs. All other costs will be approved by the program representative/specialist. KHC will not pay for materials stored off-site. KHC will disburse funds for materials stored on-site if they are insured, invoiced, properly stored, and secure. Draws are limited to one draw per month and must be signed by a KHC inspector.

**Note:** All change orders to the approved plans and specifications must be submitted to KHC for review and approval at the time the change is needed. Change orders submitted after the completion of the work to be changed will not be approved, unless prior authorization is given by KHC in writing.

In addition to the regular construction inspections, if the project has Housing Credits, a pre-8609 inspection will be conducted by Compliance Monitoring staff to determine if pledged amenities and/or other non-construction related attributes pledged during the application process have been provided.

11. **Change Orders**

All change orders to the approved plans and specifications must be submitted to KHC for review and approval at the time the change is needed. If KHC’s inspectors are unable to review the work at the time of the change or the change order is held and submitted at the end of construction, the change order may not be approved. Change orders must be signed by the Construction Specialist prior to submitting them to KHC for approval. The draw requesting the contingency funds needed for the change order will not be processed until the change order has been approved by Design and Construction.

12. **Construction Draws**

KHC will not pay for materials stored off-site. KHC will disburse funds for materials stored on-site if they are properly stored and secure. Draws are limited to one draw per month.

In projects where KHC has awarded both loan and grant funds, the loan funds must be disbursed first. KHC will disburse 40 percent of the developer fee upfront. The
remaining 60 percent of the developer fee will be disbursed on a percentage basis in line with the percent of work completed. Construction contingency funds will not be awarded unless change orders have been submitted to the KHC construction specialist and approved by the Director of Design and Construction Review. KHC will retain 10 percent of the total of all KHC funds until final inspection is complete and all final documents are received.


The following documentation is required for each draw request:

1. KHC draw form.
2. Title Endorsement to Title Policy (KHC will accept a faxed copy, provided the original is received within 24 hours).
3. Builders or Contractors Affidavit (must be submitted with every draw).
4. Form G-702 and G-703, or KHC Payment Request Form.
5. Copies of invoices, receipts, etc., for payment of soft cost (and hard costs if an architect is not involved).
6. The first draw must include all closing fees due KHC that were not received prior to closing (i.e., loan origination fee, processing fees, etc.).
7. The final draw may include construction interest due to KHC, escrows for taxes and insurance, etc. The final draw will not be approved until the final inspection, project completion reports, and/or final endorsements/modifications to the note have been received.

Each draw request for payment associated with projects for which Kentucky Housing Corporation holds a mortgage, i.e., rental and lease-to-own projects, must include a Title Update. It is recommended that applicants limit the number of requests for payments, thereby reducing the cost and number of title updates.

The language that must be included in the title endorsement and update is as follows:

“A disbursement of $XX (amount of current draw) was made under the Insured Mortgage. The title search was duly continued down to DATE at TIME (should be the same date the draw was submitted) and all encumbrances disclosed by the search were disposed of, except (note any exceptions on Sch.B). Liability under the policy is now increased to $XX (total drawn under the loan), the total amount disbursed to date under the Insured Mortgage.”

**NOTE:** Please remember that the title endorsement should reference the name of the borrower and the policy number, as well as the name of the insured party for ease in reference.
CHAPTER 4  Construction Completion/Placed In-Service Stage

All projects are required to submit final close out documentation. These may include final closing documents, project completion reports, certificates of occupancy, and final draws. The 10 percent retainage held during the construction phase will *not* be released until all project completion documents are received and approved. If Risk-Sharing funds are being utilized, there will be a permanent loan closing which will take place at KHC’s outside counsel’s office. When necessary, certain documents may have to be forwarded to an outside agency (i.e., HUD) for approval before the funds for the final draw can be released.

Once construction has been completed, the following items will be required to close out the project and release any remaining funds that are held for retainage, as applicable.

1. **Final As-built survey**  
   (Required on projects utilizing Risk-Sharing funds only)

   A surveyor that is licensed in the State of Kentucky must prepare the survey. The survey shall show all conditions as they exist after construction has been completed. It must show all utilities, easements, right-of-ways, and setbacks. The survey is to have the surveyor’s signature, stamp, and seal, and must be dated within 120 days.

2. **Cost Certification**  
   (Required on projects utilizing Risk-Sharing or Housing Credits)

   A Certified Public Accounting firm shall prepare the cost certification immediately upon the completion of the construction. KHC staff shall determine its acceptability. The cost certification will be used to determine the maximum insurable mortgage and shall contain all costs associated with the construction of the project. A closing date will not be scheduled until the cost certification has been approved.

3. **Certificate of Substantial Completion**  
   (Required on projects of 12 units or more, or if an architect was involved and KHC is the primary lender)

   The architect shall issue a Certificate of Substantial Completion after he/she has made a final inspection and finds the project is complete. The standard form used is the AIA G-704.

   The KHC construction specialist will do a follow-up inspection once all punch list items have been corrected and/or resolved. Once items are approved, the construction specialist will notify the program representative/specialist.

4. **Certificate of Occupancy**  
   (Required on all projects)

   It is the responsibility of the contractor or applicant to contact the local officials in the area to inspect and issue the Certificate of Occupancy. A certificate of occupancy must be issued for each building in the project. If certificates of occupancies are not issued in the county of the project location, the developer will need to receive approval in the form of a letter from the Department of Housing, Building and Construction in Frankfort, Kentucky.
5. **Termite Inspection Report or Certification**  
     (Required on all projects)

     A termite inspection report or certificate must be furnished and show evidence that the building and surrounding foundation has been properly treated to prevent the infestation of termites.

6. **Final Inspection**  
     (Required on all projects)

     The final inspection will be conducted by the architect (if applicable), the contractor, and KHC’s construction specialist. The final inspection will cover all interior and exterior items. A punch list will be completed if there are items that need correction or have not been completed.

     The KHC construction specialist will do a follow-up inspection once all punch list items have been corrected and/or resolved. Once items are approved, the construction specialist will notify the program representative/specialist.

7. **Final Punch List**  
     KHC’s construction specialist will submit a punch list of items which still need completion. The specialist will also verify that the items have been completed.

8. **Final Draw**  
     The final draw request will be submitted to KHC for processing, at which time the remaining retainage may be released.

9. **Project Completion Packet**  
     (HOME only)

     The Project Completion Packet is completed when all HOME units have been leased up and includes the documentation listed below. The final retainage of HOME funds will not be released until the Project Completion Report (PCR) and Final Funds Expenditure Statement are received and complete. All documents needed to complete the packet can be found on KHC’s Web site, [www.kyhousing.org](http://www.kyhousing.org), under Housing Production, Multifamily Finance, Reference Materials.

     - **Project Completion Report (PCR)**  
       The PCR is a reporting of the project’s final sources of funds and designation of the fixed or floating HOME units at initial occupancy. The total activity cost must match the total project cost on the Final Funds Expenditure Statement.

     - **Final Funds Expenditure Statement**  
       The Final Funds Expenditure Statement is a reporting of the final uses of all funding sources. If two different funding sources are used for one line item, the amount allocated to each funding source must be broken out. The total project cost must match the total activity cost on the PCR.

     - **Section 3 Report**  
       (Applicable to projects with contracts over $200,000 and subcontracts over $100,000)

       The Section 3 Report provides information regarding any employment, job training, contracting and subcontracting opportunities given to low- and very low-income
persons as a result of the HUD funds used for the project. More information regarding Section 3 requirements can be found on KHC’s Web site, www.kyhousing.org, under Housing Production, Rental Production Programs, Rental HOME Packet.

- **Minority Business Enterprise/Women Business Enterprise (MBE/WBE)**
  The MBE/WBE is a report of the contracts awarded to minority and female businesses. The MBE section is to report the racial classification and number of contracts for contractors and subcontractors and the WBE section is to report gender classifications and number of contracts for contractors and subcontractors.

10. **CP 575 D (Notice of New Employer Identification Number) or W-9 Form**
   This is required for all projects with loans to for-profit and nonprofit entities that are not tax exempt (not required for grant-only projects). This form is required for all projects that KHC maintains the Reserve for Replacement account. The W-9 form can be found on KHC’s Web site, www.kyhousing.org, under Housing Production, Rental Production, Technical Submission Packet.

11. **Management Contract**
   (This contract is required if a management company is utilized)

   For projects using a management company, a copy of the contract between the owner and the management company must be provided.

12. **Proof of Lead Based Paint Abatement Clearance**
   (This is required for projects built prior to 1978 and funded with HOME, Risk Sharing, and Project-Based.)

   A copy of the Certificate of Clearance provided by the abatement company must be provided as proof.

13. **Operating Deficit Reserve/ Reserve for Replacement Certification**
   All applicants are certifying that an Operating Deficit Reserve account has been established and identifying the banking institution. Further, they are certifying that a Reserve for Replacement account has also been arranged, who holds the account, and the amount. These requirements are only for reserve accounts not financed with KHC resources and/or maintained by KHC. This form can be found on KHC’s Web site, www.kyhousing.org, under Housing Production, Rental Production, Technical Submission Packet.

14. **IRS Form 8609 Information**
   (Housing Credit projects only)

   The applicant must provide the exact name, address, and federal identification number as it will appear on the IRS Form 8609. In addition, the exact street address, including zip code, of all buildings must be provided.

15. **Application for Issuance of Certification of Allocation Form 8609**
   (Housing Credit projects only)

   A completed Request for Issuance of Low Income Housing Tax Credit Allocation and Certification (IRS Form 8609) packet must be sent to KHC’s Compliance Department. The application for Issuance of Certification of Allocation Form can be found on KHC’s Web site, www.kyhousing.org, under Housing Production, Rental Production. The
information received in this packet will be used by both the Compliance and Rental Production Departments in the preparation of the Extended Use Agreement (EUA) and IRS Form 8609. The EUA will be mailed to the owner to be signed and recorded. The IRS Form 8609 will mailed to owner once the executed EUA has been received by KHC.
CHAPTER 5 Funding Sources and Requirements

The following program requirements are not intended to be an all-inclusive list of all requirements of each program, but are intended for guidance and information when selecting a funding source. Contact your program representative/specialist with any questions.

A. Small Multifamily Affordable Loan (SMAL) Program

- Eligible applicants may be nonprofit organizations, for-profit entities, and units of local government.
- The SMAL Program can be used for construction loans and/or permanent mortgage loans. Interest rates are the same for both construction and permanent financing.
- Projects cannot exceed 11 units. The total number of units on contiguous lots may not exceed 11 units.
- Eligible rental activities are new construction, substantial rehabilitation, acquisition/new construction, and acquisition with rehabilitation.
- SMAL funds cannot be used for refinancing.
- Eligible households must have incomes at or below 80 percent of the area median income.
- Rents should be projected at 30 percent of the income level of the targeted population and may not exceed the rent limits as published for this program.
- The SMAL Program may be combined with other KHC funds, such as the HOME Program, the Affordable Housing Trust Fund, the Housing Development Fund, Project-Based Section 8, and Housing Credit. SMAL may also blend with many sources of funding outside KHC.

SMAL Program Financial Requirements

- SMAL loans are recourse loans.
- The maximum loan amount requested cannot exceed 90 percent loan- to-value or the loan amount supported by a 1.25 debt coverage ratio (DCR) in year one (whichever is lower). The DCR should remain at or above a 1.0 through year 15. Please refer to Chapter 1: Application Processing, Review, and Requirements for more detailed information.
- Interest rate requested cannot be lower than 3.5 percent but will be determined based on what the project can support.
- The term of the loan shall not exceed 30 years.
- An origination fee of 1 percent of the mortgage amount will be charged and is eligible as a project soft cost. This fee will be paid at the loan closing.
- The vacancy rate for this program will be projected at 10 percent.
• Income and expenses from supportive services cannot be used to pay debt service. These services must be kept separate from the housing component.

• The pro-rata share of SMAL to the total development costs determines the number of units that must meet the SMAL income and rent requirements.

Example:

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>SMAL requested:</td>
<td>$500,000</td>
</tr>
<tr>
<td>Total project cost:</td>
<td>$800,000</td>
</tr>
<tr>
<td>SMAL percentage:</td>
<td>62.5%</td>
</tr>
</tbody>
</table>

Total rental units 11

SMAL Percentage: x 62.5%

SMAL units = 6.875 (always round up)

The number of required SMAL units would be 7

Please refer to the SMAL rent and income chart for the maximum rent and income limits for this program. These can be found on KHC’s Web site, www.kyhousing.org, under Housing Production, Rental Production Programs. See reference materials.

SMAL Compliance Requirements

(Please refer to KHC’s Web site, www.kyhousing.org, on the Compliance Monitoring page for additional requirements).

• Annual compiled financial statements, on the project only, will need to be mailed to KHC’s Asset Management Department within 120 days of the end of the project’s fiscal year. The compilation shall be prepared by a third party CPA in accordance with generally accepted auditing standards and government auditing standards. New Multifamily projects which have been Placed-In-Service must provide monthly reports as required by Asset Management.

B. HOME Investment Partnerships (HOME) Program

HOME funding is considered gap financing only. Applications requesting the entire development cost in HOME funds will be considered only as a last resort and if it is advantageous to KHC to do so.

□ Eligible applicants for this source of funding are nonprofit and for-profit entities and units of local government.

□ Projects within the following areas are not eligible to apply for state HOME funds, which are administered by KHC. These jurisdictions receive a direct allocation of HOME; projects located in these areas should apply to the local jurisdiction for HOME funds.

○ Covington
○ Louisville/Jefferson County
○ Lexington/Fayette County
○ The consortia consisting of the cities of Ludlow, Bromley, Newport, Bellevue, and Dayton
HOME projects must be completed within the time frames outlined in the closing documents.

Eligible rental activities are limited to new construction, acquisition with new construction, acquisition with rehabilitation, and rehabilitation of existing rental units.

HOME funds can be used for construction and permanent mortgage loans.

HOME funds cannot be used for refinancing or acquisition only.

HOME funds may not be used to fund reserve for replacement accounts or for administration costs. HOME funds shall be used for soft costs and/or construction costs only, including developer fees. Developer fees are capped at current KHC limits. Refer to 24 CFR, Part 92 for additional guidance.

HOME funds may be used to establish an initial operating deficit reserve for new construction and rehabilitation projects. HOME funds may not be used to fund any other reserve account.

Projects utilizing HOME funds must adhere to the lease provisions of 24 CFR 92.253.

The minimum affordability period requirements for this program are as follows:

- Rehabilitation < $15,000 per unit: 5 years
- Rehabilitation > $15,000 - $40,000 per unit: 10 years
- Rehabilitation > $40,000 per unit: 15 years
- New construction or acquisition: 20 years

The HOME maximum per-unit subsidy limits apply to rental units. The actual subsidy provided will be subject to cost containment and subsidy layering analysis.

All HOME monitoring/reporting requirements apply throughout the affordability period. All HOME-funded developments must comply with 24 CFR, Part 92.

HOME funds are provided in the form of an amortizing loan (due at maturity) or deferred loan (forgiven at maturity). For HUD 202/811 projects only, KHC may approve the use of deed restrictions in lieu of a mortgage to secure the HOME loan. This will be reviewed on a case-by-case basis. Interest rates on loans are flexible and the loan term, at a minimum, must be equal to the required affordability period. Interest will not be charged during the construction period of the loan. If HOME funds are requested in the form of an amortizing loan, the interest rate must be at least 3.5 percent or higher to not be counted as a KHC subsidy. If the interest rate is below 3.5 percent, the HOME funds will be considered as a KHC subsidy for scoring purposes.

- An environmental review is required and shall be carried out following the National Environmental Policy Act of 1969, and related laws, in accordance with 24 CFR, Part 58. KHC’s environmental specialist will conduct this review.

The federal Davis-Bacon Act wage rate requirements apply to contracts for the development of 12 or more HOME assisted/designated units. The Davis-Bacon Act requires that workers receive no less than the prevailing wages being paid for similar
work in the locality. Prevailing wages are computed by the U.S. Department of Labor and are issued in the form of a Federal Wage Determination. The Wage Determination lists each classification of workers who will work on the project and the rates that must be paid to each classification.

- All HOME-funded acquisition and rehabilitation projects are subject to the requirements of the Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970 (URA) (49 CFR, Part 24 and 42 U.S.C. 4201-4655). KHC requires certain documentation at application, technical submission, and at the Construction Completion/placed-in-Service stages to ensure compliance with the provisions of this act. Developers are strongly urged to review the requirements of URA and contact a program representative or KHC’s environmental/relocation specialist if considering a project that involves acquisition of real property or the permanent or temporary relocation of individuals or households.

☐ Detailed information on complying with the relocation and acquisition requirements can be found on the U.S. Department of Housing and Urban Development (HUD) Real Estate Acquisition Web page, http://www.hud.gov/offices/cpd/library/relocation.

1. **Community Housing Development Organization (CHDO)**
   A CHDO is a nonprofit, community-based service organization that has received a special designation from KHC because of its significant capacity to develop affordable housing in the community it serves. To be eligible, a nonprofit must be legally organized under state and local law, maintain a record of good standing with the Kentucky Secretary of State’s office, and have its 501(c) tax-exempt determination from the Internal Revenue Service. For more information about CHDOs, please visit KHC’s Web site, www.kyhousing.org.

Nonprofit organizations that have a current CHDO designation from KHC may undertake acquisition and rehabilitation of existing rental properties or new construction of rental property as an eligible CHDO activity. KHC sets aside a minimum of 15 percent of its total annual HOME allocation for CHDO-eligible projects.

2. **Procurement**
   Units of local government and nonprofit organizations are required to follow the federal procurement standards at 24 CFR, Parts 84 and 85. For-profit and CHDO organizations are not subject to the procurement standards. However, KHC suggests all projects utilize the competitive-bid process to ensure they are cost effective. For further detailed information, visit KHC’s Web site www.kyhousing.org, under Housing Production, Rental Production Programs, Rental HOME Packet/Procurement.

3. **Conflict of Interest**
   Potential conflicts of interest may arise from many situations. Some of the more common examples are:

☐ Requests for program assistance from employees and/or families of employees, board members and/or families of board members of recipients or sub-recipients

☐ Recipients or sub-recipients contracting with or procuring materials from employees and/or families of employees, or board members and/or families of board members of recipients or sub-recipients.

It is the responsibility of the recipient to identify conflicts of interest and to comply with the appropriate regulations.
4. **Requirements for Participating Jurisdictions, State Recipients, and Sub-Recipients**

HOME regulations require participating jurisdictions, state recipients, and sub-recipients (including CHDOs that are acting as sub-recipients) to comply with two different sets of conflict of interest provisions. The first set of provisions comes from 24 CFR, Parts 84 and 85 as set forth in the HOME regulations.

5. **Activities Covered by CFR Provisions**

In the procurement of property and services by participating jurisdictions, state recipients, and sub-recipients, the conflict of interest provisions at 24 CFR 85.36 and 24 CFR 84.42 applies. These regulations require participating jurisdictions and sub-recipients to maintain written standards governing the performance of their employees engaged in awarding and administering contracts. At a minimum, these standards must:

a. Require that no employee, officer, agent of the participating jurisdiction, or its sub-recipients shall participate in the selection, award, or administration of a contract supported by HOME if a conflict of interest, either real or apparent, would be involved.

b. Require that the participating jurisdiction or sub-recipient employees, officers, and agents not accept gratuities, favors, or anything of monetary value from contractors, potential contractors, or parties to sub-agreements.

c. Stipulate provisions for penalties, sanctions, or other disciplinary actions for violations of standards.

A conflict would arise when any of the following has a financial or other interest in a firm selected for award:

- An employee, agent, or officer of the participating jurisdiction or sub-recipient.
- Any member of an employee’s, agent’s, or officer’s immediate family.
- An employee’s, agent’s, or officer’s partner.
- An organization that employs or is about to employ an employee, agent, or officer of the participating jurisdiction or sub-recipient.

6. **Activities Covered by HOME Regulations**

In cases not covered by 24 CFR 85.36 and 24 CFR 84.42, the HOME regulations at 24 CFR 92.356 governing conflict of interest apply. These provisions cover employees, agents, consultants, officers, and elected or appointed officials of the participating jurisdiction, state recipient, or sub-recipient. The HOME regulations state that none of these people who previously or currently exercise any functions or responsibilities for HOME activities, or are in a position to participate in decisions or gain inside information may:

1. Obtain a financial interest or benefit from a HOME activity.
2. Have an interest in any contract, subcontract, or agreement for themselves or for persons with business or family ties.

This requirement applies to covered persons during their tenure and for one year after leaving the participating jurisdiction, state recipient, or sub-recipient entity.

**Exceptions:** Upon written request, exception to both sets of provisions may be granted by HUD on a case-by-case basis, only after the participating jurisdiction has:

1. Disclosed the full nature of the conflict and submitted proof that the disclosure has been made public.
2. Provided its legal opinion stating that there would be no violation of state or local law if the exception were granted.

7. **Provisions for Nonprofit and For-Profit Owners, Developers, and Sponsors**

The HOME regulations state that no owner, developer, or sponsor of HOME-assisted housing, including their officers, employees, agents, or consultants, may occupy a HOME-assisted unit in a development. The provisions do not apply to:

a. An individual receiving HOME funds to acquire or rehabilitate his/her principal residence.
b. An individual living in a HOME-assisted rental housing development where he/she is a project manager or a maintenance worker in that development.

Exceptions to this conflict of interest provision (for governing owners, developers, and sponsors of HOME-assisted housing) may be granted by the participating jurisdiction on a case-by-case basis based on the following factors as set forth in the regulations:

- Whether the person receiving the benefit is a member of a group or class of low-income persons intended to be the beneficiaries of assisted housing, and the exception will permit him or her to receive generally the same interest or benefits as are being made available or provided to the group as a whole.
- Whether the person has withdrawn from his or her functions or responsibilities or the decision-making process with respect to the specific assisted housing in question.
- Whether the tenant protection requirements of CFR 92.253 (prohibited lease terms, termination of tenancy, and tenant selection) are being observed.
- Whether the affirmative marketing requirements are being observed and followed.
- Any other factor relevant to the participating jurisdiction’s determination, including the timing of the requested exception.

8. **HOME Financial Requirements**

- HOME loans (deferred, amortizing) are recourse loans.
- For projects of 11 units or less, a vacancy rate of 10 percent should be projected, and for projects of 12 units or more, a 7 percent vacancy rate should be projected.
- All proposed developments requesting HOME funds are required to provide a minimum of 5 percent match of the total HOME funds requested. Match information can be found in Chapter 5: Funding Sources and Requirements.
- For units designated as low-HOME units that are also receiving Project-Based Rental Assistance, the maximum rent may be either the low-HOME rent or the rent allowable under the Project-Based Rental Assistance program provided the tenant pays no more than 30 percent of their adjusted gross income toward rent. To achieve a greater cash flow, the Project-Based rents may be more advantageous. However, please note that this option does not apply to high-HOME units or to units receiving Tenant-Based Rental Assistance.
- HOME rental developments with less than five HOME-assisted units must have all HOME units occupied by households at or below 60 percent of the area median income. A project consisting of five or more HOME-assisted units must have at least 20 percent of the HOME units occupied by households at or below 50 percent of the area median income.
- A development that uses KHC-administered HOME financing must designate a proportionate amount of units as HOME units based on the percent of HOME funds in the development as compared to total development cost. If the project has five or more HOME units, 20 percent of the HOME units must be at the low HOME
rent/income limit or less. The remainder of the designated HOME units cannot exceed the high HOME rent/income limit.

**Example:**

<table>
<thead>
<tr>
<th>HOME amount requested:</th>
<th>$300,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total project cost:</td>
<td>/ $2,000,000</td>
</tr>
<tr>
<td>HOME percentage:</td>
<td>15%</td>
</tr>
<tr>
<td>Total rental units:</td>
<td>30 units</td>
</tr>
<tr>
<td>HOME percentage:</td>
<td>x 15%</td>
</tr>
<tr>
<td>HOME units:</td>
<td>= 4.5 (always round up)</td>
</tr>
</tbody>
</table>

If the formula calculates less than five units, then all units may remain at the high HOME rent level. If five or more, 20 percent of that amount must be rented at the low HOME rent.

<table>
<thead>
<tr>
<th>Total HOME units</th>
<th>5 units</th>
</tr>
</thead>
<tbody>
<tr>
<td>x 20%</td>
<td>1.00</td>
</tr>
<tr>
<td>Total low HOME units:</td>
<td>= 1.00</td>
</tr>
<tr>
<td>(Any fraction of one unit must be rounded to one unit)</td>
<td></td>
</tr>
</tbody>
</table>

In this instance, the development will need to have at least one unit rented at the HOME low rent level.

The high and low HOME rental units must be proportionately spread out by unit type. Using the example above of four units at high HOME rent and one at low HOME rent, the distribution is as follows:

30 total units
12 – 1 BR units
18 – 3 BR units

The HOME percentage as shown above is 15 percent. This percentage is applied to each bedroom type.

12 X 15% = 1.8, therefore 2 (1BR) units
18 X 15% = 2.7, therefore 3 (3BR) units

The second test when using HOME funds is the subsidy-per-unit test. Once the number of HOME restricted units has been determined, it must be determined if the amount of HOME requested is within the required limits. Multiply the HOME units by bedroom type by the applicable HOME subsidy limit.

**Example:**

<table>
<thead>
<tr>
<th>HOME subsidy limit:</th>
<th>1BR $90,796</th>
<th>2 BR $110,407</th>
</tr>
</thead>
<tbody>
<tr>
<td>Requested subsidy:</td>
<td>$300,000</td>
<td></td>
</tr>
<tr>
<td>Located in Frankfort</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2 (1BR) units X $90,796 =</td>
<td>$181,592</td>
<td></td>
</tr>
<tr>
<td>3 (3BR) units X $110,407 =</td>
<td>$331,221</td>
<td></td>
</tr>
<tr>
<td>Total allowable subsidy</td>
<td>$512,813</td>
<td></td>
</tr>
</tbody>
</table>

The requested $300,000 HOME subsidy does not exceed the allowable limit.

- At the time of application, the applicant will be required to select “fixed” or “floating” HOME units.
Fixed: When HOME units are “fixed,” the specific units that received HOME assistance (and therefore are subject to HOME rent and occupancy requirements) are permanently designated and never change.

Floating: When HOME-assisted units are “floating,” the units that are designated as HOME units may change over time as long as the total number of HOME-assisted units in the project remains constant.

The floating designation gives the owner some flexibility in assigning units and can help avoid stigmatizing the HOME-assisted units.

Please refer to KHC’s Web site, www.kyhousing.org, under Housing Production page, Multifamily Finance, for the HOME rent and income chart for the maximum rent and income limits.

9. HOME Compliance Requirements

• If the legal documents between KHC and the project owner require annual financial statements, a compilation of the annual financial statements for the project only will be required within 120 days of the end of the project’s fiscal year. This should be a full disclosure compilation or audit conducted by a certified public accountant (CPA). It should include a balance sheet, profit and loss (income statement), and statement of cash flows. If the agency is required to submit an audit under the Single Audit Act, OMB Circular A133, KHC will accept the agency-wide audit but may ask for additional project-specific information if it is necessary to evaluate the stability of the project. Financial statements must be mailed to KHC’s Asset Management Department within 120 days of the close of the projects fiscal year end. New multifamily projects that have been placed in service must provide monthly reports as required by Asset Management. Please note: Failure to submit the required annual financial statements will be considered by KHC in future funding proposals.

• Each unit assisted with HOME funds must remain in compliance with Housing Quality Standards (HQS) throughout the affordability period. HQS guidelines are outlined in 24 CFR § 982.401 of the regulations. The owner of the property is responsible for inspecting each unit annually and retaining documentation of the inspection in tenant’s file.

☐ Each rental unit assisted with HOME funds must ensure continued affordability to low-income families. It will be the responsibility of the applicant to ensure that the appropriate HOME rent limits are not exceeded for the duration of the affordability period. If the project also received funding from Housing Credits, Historic Housing Credits, or any other funding source, the most restrictive of the limitations applies.

☐ KHC requires that 100 percent of all HOME-assisted rental units serve households at or below 60 percent of the area median income at the time the family moves in. If more than five units are assisted with HOME funds, 80 percent of the units must be reserved for households at or below 60 percent of the area median income and charged the high HOME rent or Fair Market Rent (FMR), whichever is less. The other 20 percent of the units must be reserved for households at or below 50 percent of the area median income and charged the low HOME rent or FMR, whichever is less. KHC will update its Rental Production Web page each year with the new releases for rent and income limits.
In some instances, households residing in HOME rental units may be receiving Tenant-Based Section 8 rental assistance. Please note: The applicable HOME rent limit may be less than the Section 8 FMR. At no time may the gross rent exceed the applicable HOME rent limit unless the unit is receiving Project-Based Section 8 rental assistance, the household makes 50 percent or less AMI, and is designated a low HOME unit.

When leasing mixed funding projects, owners/managers must assure that:

- A sufficient number of units are leased or held available for lease to HOME-eligible tenants in order to meet the low- and very-low income targeting requirements of the program.
- Rents charged to tenants in the HOME units are within the high and low HOME rent limits published by HUD.

If a project is utilizing both Housing Credits and HOME funding, the tenant's rent may never exceed the Housing Credit program limits, regardless of the household’s income.

HOME rents may decrease. While project rent levels are not required to decrease below the HOME rent limits in effect at the time the HOME Funding Agreement is executed, a change in market conditions may force owners to reduce the HOME rents in order to retain tenants.

The Annual Performance Report is required yearly for developments utilizing HOME funds once all funds have been drawn and construction is completed.

Nonprofits and local government applicants that have expended $500,000 or more in aggregate of federal funds, including HOME funds, during its fiscal year must procure and have completed annual audits in the form of CPA-prepared financial statements with management letter within 120 days after the close of the applicant’s fiscal year. These financial statements must include a balance sheet, operating statements, source and use of funds statement, Schedule of Expenditures of Federal Awards, and sufficient supporting schedules. Audits must also be conducted in accordance with the provisions of OMB Circular A-133 and the Single Audit Act of 1996. If the applicant has drawn $500,000 or more of federal funds in their fiscal year, the audit must be submitted to the Audit Clearinghouse.

Records must be retained for five years after the project completion date. Records of individual tenant income verifications, project rent, and project inspections must be retained for the most recent five-year period, until five years after expiration of the affordability period.

C. Affordable Housing Trust Fund (AHTF)

AHTF funding is considered to be gap financing only. Any applications submitted requesting the entire funding amount to utilize AHTF funds will not be viewed as favorable. If applications are submitted for transitional housing, a permanent housing component packet must be submitted as well.

Nonprofit or units of local government applicants will complete a separate application for the AHTF funds and identify the project the AHTF funds are supporting in the application. The
AHTF nonprofit or units of local government application is separate from the application for Housing Credit, HOME, and SMAL funds.

Each application must be completed by the eligible applicant and submitted to KHC by the deadline established.

☐ Eligible applicants for this source of funding are **nonprofits** and **units of local government**.

☐ Nonprofits must be a part of the ownership entity and materially participate in the project for the term of the loan or grant.

☐ Nonprofits must be in good standing under the laws of the Commonwealth of Kentucky and registered with the Kentucky Secretary of State.

☐ Nonprofits are not affiliated with or controlled by any for-profit entity and one of the exempt purposes of the nonprofit includes the fostering of low-income housing.

☐ Nonprofits must meet the criteria defined as material participation in IRC Section 469(h).

☐ Eligible activities under the AHTF Program include acquisition/new construction, acquisition with rehabilitation, and/or new construction of very low-income rental developments. There are four priorities with this funding.

1. New construction projects submitted by nonprofits or units of local governments.
2. Projects using existing privately-owned housing stock.
3. Projects using existing publicly-owned housing stock.
4. Applications from units of local government for projects that demonstrate effective zoning, conversion, or demolition controls for single-room occupancy units.

☐ Preference will be given to projects that serve households below 30 percent of the area median income. However, these funds allow households to serve up to 60 percent of the area median income.

☐ The affordability period for rental projects is 30 years.

☐ The corporation shall require at least 40 percent of all AHTF funds to be used for rural areas of the Commonwealth, excluding the following areas: Ashland, Bowling Green, Covington, Henderson, Hopkinsville, Jefferson County (including Louisville), Fayette County (including Lexington), Owensboro, and Paducah.

☐ In combination with the above activities, AHTF can also be used to fund up-front services to residents, including budgeting and life skills development, homeownership counseling, tenant education, and self-sufficiency development. However, ongoing support services to keep clients in housing are **not** eligible activities.

☐ AHTF requests can be in the form of a loan or grant. No less than one-third of the total statewide AHTF allocation will be made available as a loan.

- AHTF rental developments can serve households with incomes at or below 60 percent of the area median income. You can refer to the HOME income chart to find the maximum income limits used for the AHTF program. This chart can be found on KHC’s Web site, [www.kyhousing.org](http://www.kyhousing.org), under Housing Production, Rental Production Programs, Reference Materials.

☐ While there are not published rent limits for this program, it is expected that the proposed rents will be proportionate with the income level being served, unless some form of rental assistance is being provided. As noted above, there are no rent limits for this program but the HOME rent chart can be used as a guide.

☐ The AHTF can be blended with other KHC funds, such as the HOME Program, the SMAL Program, the Housing Development Fund, Project-Based Section 8, and Housing Credits. AHTF also has the potential to be blended with many sources of
funding outside of KHC. If AHTF is allocated to a tax credit project, the AHTF award must be made to a nonprofit agency in the form of a grant and the nonprofit will then loan the AHTF funds to the project with an assignment to KHC. The nonprofit will be partially responsible for continued compliance as well as the developer.

- The AHTF closing documents must be executed in the eligible applicant’s name.

1. **AHTF Relocation Requirements**

   All very low-income persons (defined as 60 percent AMI and below) displaced by the project must be provided reasonable relocation expenses. Reasonable relocation costs equal the applicable dollar amount as defined by the U.S. Federal Highway Administration’s Uniform Relocation Assistance and Real Property Acquisition Policies Act, as Amended, Fixed Residential Moving Cost Schedule, plus a one-time assistance payment of $300 per applicable unit. You can view the schedule at [http://www.fhwa.dot.gov/realestate/fixsch96.htm](http://www.fhwa.dot.gov/realestate/fixsch96.htm). In the event displaced persons are eligible for federal relocation benefits, no additional relocation benefits are required as a result of this policy. Also, all projects involving current tenants (regardless of whether or not the tenants will be relocated) must submit a relocation plan.

2. **AHTF Financial Requirements**

   - AHTF loans are non-recourse.
   - The amount of Developer fee (including any fees for consulting services) paid for with AHTF funds cannot exceed 5 percent of the total AHTF award for the project.
   - Interest rates are flexible and start at zero percent.
   - Loan terms shall not exceed 30 years
   - For projects of 11 units or less, a vacancy rate of 10 percent should be projected, and for projects of 12 units or more, a 7 percent vacancy rate should be projected.

3. **AHTF Compliance Requirements**

   - If a project is receiving AHTF only, and no other KHC financing, the owner/manager is required to verify and document the tenant’s income at initial move-in and to recertify the tenant’s income annually to determine that the rent being charged is affordable as compared to the population being served. (Although not required, the industry norm to define affordability is 30 percent of a household’s monthly income). The Section 8 method for verifying income is not required for AHTF-only projects, but the same verification method must be used for all tenants.

   - If the legal documents between KHC and the project owner require annual financial statements, the project would be required to submit compiled annual financial statements within 120 days after the end of the project’s fiscal year. These statements must be prepared by a third party CPA and sent to KHC’s Asset Management and Compliance Department. Please note that failure to submit the required annual financial statements will be considered by KHC in future funding proposals.

   - New Multifamily projects which have been Placed-In-Service must provide monthly reports as required by Asset Management.
A. **Requirements for Underwriting**

1. The construction contingency should not exceed 10 percent of total construction hard costs. When calculating contingency, acquisition of the property should not be included as hard costs. For new construction projects, contingency should always be less than 10 percent (in most cases generally less than 5 percent). For acquisition-only projects, generally there should be no construction contingency, and for rehabilitation projects, the contingency should generally be minimized by in-depth studies and evaluations that should be conducted as part of the developer’s due diligence in preparing the application.

2. **The contingency is set aside for unforeseen cost over runs.** To draw contingency funds, a change order must be prepared and approved by both the inspector and plan reviewer at the time the change is deemed necessary. Do not wait until the project is complete to submit the change orders or they will not be approved. If contingency funds are not used, those funds will be recaptured and the necessary loan documents will be modified to reflect the difference in the amount funded.

3. The required debt coverage ratio (DCR) in year one for projects must be a minimum of 1.25 and should remain at or above 1.0 through year 15. Projects requesting Housing Credits only may have a lower DCR, if required by the investor or by the federal program associated with the project. All projects that have a deferred loan and/or grant only, must have positive cash flow through year 12.

4. **All projects with declining cash flows and DCRs that are approaching the breakeven point (DCR of 1.0) in or before year 15 must provide an explanation and documentation that sufficient funds will be available to support and maintain the project for a minimum of 15 years. Housing Credit only projects must adhere to the requirements established by the investor.**

5. **For non-credit projects, if the DCR or cash flow becomes negative before year 15, an explanation and documentation for how this shortfall will be funded must be provided in the application. An example could be used, the establishment of a sinking fund reserve. If no documentation is submitted, then the project will not meet the financial requirements and will not be approved for funding.**

6. Operating expenses must be supported and generally should fall between $2,500-$4,500 per unit. If higher or lower, the corresponding question in the Financial Design Section of the application should be answered. Operating expenses should reflect ongoing compliance costs, as well as fees paid to other entities that have monitoring responsibilities.

7. Management fees generally should be comparable to market fees and should not exceed 8.5 percent of effective gross income. Smaller projects and/or special needs projects, which may require a higher fee, should justify a higher percentage.

8. **ALL permanent loans, except AHTF, shall have monthly debt service payments. HOME and AHTF loans do not accrue interest during the construction period.**

9. KHC funds will be in first position unless approved otherwise prior to closing.
B. Match

All KHC’s Housing Finance and Construction Programs, except Housing Credits, will require a 5 percent match. Any non-KHC financing source may be eligible. This includes, but is not limited to:

- Private bank financing
- Other federal funds
- Owner equity
- Donated services
- Gap financing from any non-KHC source

For applicants requesting HOME funds, eligible match sources are only as follows:

☐ Cash contributions. Excludes proceeds from Housing Credits and other owner equity.

☐ Donated real property. If the real property will not be donated but will be sold for below-market value, the match amount is the difference between the appraised value and the sale price of the property. If a below-market value sale is proposed, attach a copy of the appraisal and a copy of the purchase contract. Also, attach a statement from the owner explaining that the property was sold for affordable housing purposes.

☐ Donated construction materials. The letter of commitment must include the method of calculating the value of donated materials.

☐ Sweat equity. Valued at $10/hour.

☐ Volunteer labor. Valued at $10/hour unless classified as a professional/skilled service, such as electrical or plumbing, which may be valued at documented market rate. For projects proposing skilled labor, document the current market hourly rate and method of calculation. For projects proposing unskilled volunteer labor, attach a letter from the coordinating volunteer agency (church group, civic group, etc.) stating the commitment, including the number of hours, when volunteer labor will be performed and cost per hour. Note that there is a maximum of 3,500 hours per unit for volunteer labor.

☐ Waived fees and taxes.

☐ Owner equity in the form of cash contribution meeting the following requirements:

- To assist applicants that cannot fulfill the HOME matching requirement, KHC will accept cash contributions in the form of owner’s equity (this does not include proceeds from the sale of Housing Credits) as an eligible form of match.
- The cash contribution must be in the form of a grant to the project. Cash contributions that are loaned to the project are not eligible. In addition, the developer must provide a letter from the local government entity stating that they are not willing to waive taxes (in whole or in part temporarily) for the project as a source of match.

Because CHDO proceeds are derived from HOME funds, any expenses funded with CHDO proceeds may not be counted as match. CHDO proceeds and all other non-match-eligible funds are classified as leverage.

KHC staff will work with potential applicants to identify various sources of match early in the project development process. However, KHC will reserve the right to waive the
match requirement if no such match can be located. This will only be granted in unique situations.

**Using KHC Administered Funds as Match**

AHTF funds may be used to match HOME, provided the funds are structured as a grant to the rental development. Applicants proposing the use of either source of funds as match to meet the minimum 5 percent requirement must provide a minimum of 5 percent of other funds not administered by KHC. The source of these funds does not have to meet the HOME definition of match.

C. **Appraisals**

Appraisals are required on projects where KHC’s total loan amount (including HOME due at maturity and forgivable at maturity loans) is $250,000 or more. KHC reserves the right to request an appraisal on any project utilizing KHC funds. Appraisals must be received during the Technical Submission Stage. All appraisals will be ordered from KHC’s contract appraisers and will be prepared in accordance with KHC’s Appraisal Guidelines. Applicants are responsible for all costs associated with the completed appraisal.

Housing Credit projects that are not requesting KHC loan funds but are requesting acquisition credit must provide an appraisal supporting the building basis for the Housing Credit funds requested at the Technical Submission Stage. These appraisals do not need to meet KHC’s Appraisal Guidelines or need to be ordered from KHC’s contract appraisers.

D. **Credit Review**

For purposes of credit/financial review, financials must be submitted for either the developer or owner of the project. If all the owners of the project are not known at the time of application submission, the credit review information must be submitted for the development entity. Failure to submit financial documents will result in KHC denying the application. KHC reserves the right to request additional financial information, as needed, as part of the application review process. Developers submitting multiple applications only need to provide financials one time; however, they must clearly identify in the application that the financials have been submitted as part of another project.

Projects requesting Housing Credits only or KHC grant funds only, do not require a financial review; however, KHC will pull a credit report for a credit review. If only KHC grant funds are requested at the time of application and the request is changed to a loan by KHC during underwriting, the applicant will be required to submit all appropriate credit review documents during the technical submission phase.

All financial statements should be prepared in accordance with Generally Accepted Accounting Principles (GAAP). **All personal financial statements must be prepared on the KHC Personal Financial Statement form.** This form should be completed electronically and printed to insure all formulas calculate correctly. You can find this form on KHC’s Web site, [www.kyhousing.org](http://www.kyhousing.org), under Housing Production, Multifamily Finance. All business financial statements should be compilation statements or audited financial statements. If submitting compilation statements, there must be a certification.
contained with the statements certifying they meet the requirements for a compilation statement.

All development entities/intended guarantors must submit the following:

- ☐ Most recent one-year development entity financial statements
- ☐ Year-to-date development entity financial statement
- ☐ Most recent one-year business tax return or Form 990
- ☐ Current bank statement if pledging cash to the project
- ☐ Personal and/or Business Credit Report Certification

If any other person/entity not covered above will be responsible for construction shortfalls, guarantees to investors, or KHC, they must also submit this information.

If the guarantor is an individual, the following is required:

- ☐ Three years personal tax returns
- ☐ Current personal financial statement
- ☐ Current bank statements
- ☐ Personal and/or Business Credit Report Certification

As part of the review of the above documents, a personal credit report will be ordered on all principals of the development entity/guarantor(s). A business credit report from Dunn and Bradstreet will be ordered on the development entity. Personal and business credit reports are good for 90 days.

**NOTE:** Nonprofit agencies will not be required to submit personal financial information; however, the nonprofit must still submit development entity financial statements.

A qualified nonprofit organization is one which is:

- Described in §501(c) (3) or (4) or the code and is exempt from tax under §501(a) of the code.
- Not controlled by a for-profit.
- Has as one of its exempt purposes as the fostering of low-income housing.
- Has been in existence for at least one year.
- Owns fifty-one percent of the general partnership interest of the ownership entity of the development and materially participates in the development, ownership, and management of the project.

**E. Construction Financing**

Construction financing can be provided to developments utilizing HOME, SMAL, AHTF, and Housing Credits for the acquisition, creation/production, or rehabilitation of rental housing units. Construction financing will be conditioned on the following:

1. Interest will be billed and collected quarterly (calculated on a calendar year basis). Monthly billings are possible for larger developments.
2. All fees associated with both the interim/construction and permanent financing will be collected at the close of the interim/construction financing.
3. KHC will retain 10 percent of the total KHC funds until the final draw, final inspection, and all project completion reports have been submitted and approved.

4. Developer fee paid with KHC funds will be disbursed on a pro-rata share equal to the percent of project completion, with the exception of the initial draw as follows:
   a. Up to 40 percent of the project’s developer fee can be disbursed at the initial draw.
   b. The remaining 60 percent can be drawn based upon the percentage of construction completion.

**NOTE:** Developer fee should be used to cover all funding shortfalls before additional funds can be requested. KHC will continue to hold the 10 percent retainage until all project completion and closeout documents are received.

F. **Cost Containment**

While maintaining aesthetic and livable standards, it is KHC’s objective to fund as many proposals as possible. Because funds are limited, cost per type of unit and construction costs per square foot are important factors in analyzing applications. KHC has adopted cost containment guidelines to evaluate the total development cost for all projects.

In the underwriting model you will be requested to enter the cost containment limit for your project. You can find KHC’s Cost Containment Limits on KHC’s Web site, [www.kyhousing.org](http://www.kyhousing.org), under Housing Production, Multifamily Finance, Reference Materials.

The total development costs must not exceed the cost containment limit. See the examples below:

11 unit elderly new construction project located in Franklin County
Non-elevator
5 – 1BR, 6 – 2BR
Total development cost of $950,000

Cost containment test:
1BR = $105,872
2BR = $127,684

Therefore: 5 X $105,872 = $ 529,360
6 X $127,684 = $ 766,104
Maximum Cost Containment Limit: $1,295,464
G. **Maximum Allowable Fees**

*(Non-credit projects only, credit projects refer to QAP)*

All fees must be within the limits as shown below. Maximum allowable fees are based on total development cost. The fees are calculated as follows:

*General requirements equal:*

\[
\text{General requirements} / (\text{Total Hard Cost} - \text{Construction Contingency})
\]

Construction management fees are considered to be a part of General Requirements. Therefore, they must be included with general requirements and cannot exceed the general requirement percentage.

*Builder’s overhead equals:*

\[
\text{Builder’s Overhead} / (\text{Total Hard Cost} - \text{Construction Contingency})
\]

*Builder’s profit equals:*

\[
\text{Builder’s Profit} / (\text{Total Hard Cost} - \text{Construction Contingency})
\]

**Maximum allowable fees based on total development cost of:**

<table>
<thead>
<tr>
<th>$0 - $250,000:</th>
<th>$251,000 - $750,000:</th>
</tr>
</thead>
<tbody>
<tr>
<td>General requirements</td>
<td>up to 6%</td>
</tr>
<tr>
<td>Overhead</td>
<td>up to 7%</td>
</tr>
<tr>
<td>Profit</td>
<td>up to 12%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>$751,000 and greater:</th>
</tr>
</thead>
<tbody>
<tr>
<td>General requirements</td>
</tr>
<tr>
<td>Overhead</td>
</tr>
<tr>
<td>Profit</td>
</tr>
</tbody>
</table>

H. **Developer Fee**

The allowable fees for developers are based on the total development cost (TDC) of the project. The developer fee on any Housing Credit project may not exceed 15 percent. At KHC’s sole discretion, tax-exempt bond financed projects may be allowed an increase in developer’s fee.

The amount of Developer fee (including any fees for consulting services) paid for with AHTF funds cannot exceed 5 percent of the total AHTF award for the project.

The developer fee (as a percentage) is calculated as follows:

\[
\text{Developer Fee + Consulting Fees + anything resembling consulting or developer fees} / \text{Total Project Costs} - \text{Developer Fee} - \text{Consulting Fees} - \text{anything resembling cons. or dev.}
\]

A subsidy layering/financial review will be required on all projects when there is a combination of any of the following funding sources: HOME, Housing Credits, or Project-
Based Section 8. Projects requiring this review will be limited to a 10 percent Developer Fee.

Note: Identity of Interest exists where there is a financial, familial, or business relationship that permits less than arm’s length transactions. This includes, but is not limited to: the existence of a reimbursement program or exchange of funds; common financial interests; common officers, directors, or stockholders; or family relationships between officers, directors, or stockholders.

I. Reserve for Replacement

Following is the reserve policy for projects where KHC is the primary funding source:

The calculation for determining the appropriate reserve for replacement is based on the following assumptions:

- $275 per unit for new construction or $325 per unit for rehabilitation developments, as applicable.

The reserve for replacement annual deposit shall increase 3 percent per year. This amount may be reviewed annually to determine if reserves are adequate.

For projects receiving grants, KHC will require a reserve account established by the calculation noted above. KHC will monitor the reserve account held by the applicant but will not be administering the account. This will be noted in the Grant agreement.

Acquisition with rehabilitation and rehabilitation-only projects may be required to make an initial deposit to the reserve for replacement account as part of the funding of the project. This will be determined on a case-by-case basis and determined by the Capital Needs Assessment.

J. Operating Deficit Reserve Account

All applicants will be required prior to closing to sign a certification stating that a separate account has been set up for an operating deficit reserve (ODR). The purpose of the reserve is to fund the day-to-day operating expenses and debt service until the project reaches stabilized occupancy.

KHC calculates the minimum requirement as follows:

\[
\text{Six Months of Projected Operating expenses} + \text{Six months of debt service payments} = \text{Minimum Operating Deficit Reserve Required}
\]

If KHC is funding the operating deficit reserve, the full amount is required to be drawn on the final draw. All applicants will be required to identify the funding source on the underwriting model.

For purposes of KHC underwriting, the ODR is a total reserve that may include rent up reserves, lease-up reserves, etc. KHC will hold the ODR account unless otherwise indicated by a federal program.
K. **Acquisition and Rehabilitation of Commercial Space**

No KHC funds may be used to assist with the acquisition costs or rehabilitation costs of commercial space. KHC funds may be used in conjunction with a project that includes acquisition and/or rehabilitation of commercial space by prorating the residential square footage to the commercial space square footage. Please refer to Architectural and Construction Guidelines under the Work-Write up section of application submission for additional guidance.

Any project with commercial space must separate the commercial space costs from the residential costs. If there is to be commercial space within a project, the commercial space will need to be deeded separately as a condo regime.
CHAPTER 7  Program Policies

The following policies (or policy excerpts) are intended to provide guidance for key areas of project development. Unless otherwise noted, policies apply to all Multifamily Finance funds. For a full discussion of policies specific to HOME funds, please refer to the HOME Program guidelines (updated annually) in the state’s Consolidated Plan located on KHC’s Web site, www.kyhousing.org, under Data Library, Consolidated Plan.

A. Applicable Program Fees

1. Closing Extension Fee: Applicants will have 120 days from the date of their conditional commitment to submit all final construction, fair housing, and other closing documents to KHC and close. If the project does not close within the 120-day closing deadline, KHC’s conditional commitment to the project will expire and be null and void and of no further force and effect.

   However, KHC may approve a request for extension where the closing deadline may be extended an additional 45 days. The extension fee for non-credit projects is $1,000. For credit projects, the extension fee is 0.5 percent of the conditional credit award. The extension fee shall be payable to KHC on or before the 120-day closing deadline, to avoid expiration of the conditional credit award.

   Each applicant may request one extension. If a project does not close within 120 days or 165 days with the extension, the conditional award will automatically expire and KHC will recapture the credit and all associated soft funding. Projects that receive extensions may be considered in future proposals of the development team. However, each extension provided will be considered for future funding capacity reviews.

2. Project Completion/Extension Fee: A project completion/extension fee will apply to all projects (excluding Housing Credit-only projects) funded through the rental process. Project completion means that all construction is complete, certificate(s) of occupancy are obtained, and all documentation associated with placed-in-service.

   The fee is 3/8 of 1 percent of the total KHC award, (excluding Housing Credit). This fee will be charged monthly, if all above items are not completed within the 12 month deadline indicated on all funding agreements and commitments, or the date of the construction loan closing, whichever occurs last.

   The funding/loan commitment may be extended on a month-to-month basis, as approved by KHC in writing. The non-refundable extension fee will be due at the date of such extension, for each 30-day period for a maximum of three 30-day extensions.

B. Funding Gaps/Substantial Change

If a funding gap is identified prior to construction (after application approval and funds reserved), KHC will consider a request for additional funds as long as the request does not exceed 10 percent of KHC’s investment. The following information must be sent to the program representative/specialist along with the request for the additional funds:
1. Updated underwriting model
2. Justification for the gap

If a project identifies a gap in excess of 10 percent of KHC’s investment exclusive of Housing Credit or the number of units increase or decrease by 10 percent or more, this will be viewed as a **substantial change**. In this case, the client either locates other funding or must forfeit their funds reservation and submit another application in the next funding round.

If a funding gap is identified during construction, KHC will consider a request for additional funds, but there will be no guarantee. The following information must be sent to the program representative/specialist along with the request for the additional funds:

1. Updated underwriting model
2. Justification for the gap
3. Evidence that all other funding opportunities have been exhausted.

**NOTE:** Developer fee should be used to cover all funding shortfalls before additional funds are requested.

C. **Audits**
(Required at placed in service)

Any project that KHC holds a mortgage, regardless of lien position, may be required to send financial statements to KHC on an annual basis. The audited financial statements for Risk Sharing loans are to be submitted to KHC within 60 days of the project’s fiscal year end. All other projects are required to submit a compilation financial statement within 120 days of the project’s fiscal year end.

All audit requirements will be noted in the written agreement with KHC, if the project is funded. KHC always reserves the right to request financial statements from any project/partner that receives funding.

For projects funded in previous years, the requirement as to whether a project must submit audited financial statements is outlined in the application guidelines that were in effect at the time the application was submitted to KHC. The requirement would also be noted in the project’s legal documents between the property owner and KHC.

D. **Compliance Issues**
All funding sources, please refer to individual program requirements for additional compliance requirements.

Projects utilizing any KHC funds are required to meet compliance requirements throughout the affordability period of the project. If an application receives approval, the applicant will receive a Technical Submission Packet that will include additional information pertaining to compliance issues.

KHC’s Compliance Department will be responsible for conducting compliance reviews. All projects, regardless of funding, will be inspected at least every three years. These reviews shall consist of rent restrictions, income restrictions, property conditions, and pledges made in the original application, extended use agreement (if applicable), the HOME funding agreement (if applicable), and the commitment letter.
The Compliance Department will notify the entity, in advance, when inspections will be scheduled. The entity or management agency should adhere to the following to eliminate any possibilities of non-compliance in addition to the requirements previously noted:

- Tenants must be given at least 30 days written notice before increases are implemented. Any increases are also subject to other provisions of the lease agreements. For example, rents may not increase until the tenant’s lease expires. Documentation of increases must be kept in the tenants file.

- Owners/Management companies must include the following in the tenant files:
  
  ✓ **Rental Application**: The rental application or income survey form used to gather information about household income, composition, and student status.

  ✓ **Evidence of household eligibility**: Such documentation may vary depending upon the funding source(s) in the project.

  ✓ **Lease**: The lease must be included, documenting the rent amount, and should be signed by both parties.

  ✓ **Set-aside documentation**: Evidence to support set-aside selection, as pledged in the project’s application and extended low-income housing commitment. *(Projects utilizing Housing Credits only)*.

  ✓ **Income calculation**: Include formula used to calculate income.

- KHC reserves the right to inspect each development for compliance with Housing Quality Standards (HQS) throughout the term of the loan and Labor Uniform Physical Condition Standards.

- Any development using several sources of financing may have additional compliance requirements. Please refer to program specifics for additional compliance requirements.
Projects will be reviewed on the basis of the documentation contained within the application. If documents on the scoring checklist are not submitted, applications will not receive points in areas where documentation is required. It is the responsibility of the applicant to ensure all required documentation is submitted. Projects will be ranked according to their score. Those with the greater number of points will receive funding, providing the project meets all financial and market requirements.

Applications will be scored on the development team, project design and location, financial design/ready to proceed, and bonus opportunities. Non-credit applications must receive a minimum score of 230; Housing Credit applications must receive a minimum score of 250. All applicants must have a minimum score of 60 in Development Team capacity.

Although funds will be awarded to the highest scoring projects within their respective pools, KHC will make every effort to ensure funds are distributed geographically across the state. KHC reserves the right to award funding to a lower-scoring project located in a congressional district where no other funds have been allocated.

A. Development Team Capacity Review

Capacity Review Timeframe and Response Period 2011:

- Developers will identify the development team when they first access the online application. This system will be available on Wednesday, December 1, 2010, for the 2011 Housing Credit round.
- KHC will review and score the development team capacity based on the information in the application. KHC will provide developers with the score for the capacity review no later than Tuesday, February 1, 2011.
- In order to ensure the highest possible standard of accuracy, thoroughness, and service, applicants will have until Thursday, February 10, 2011, to provide a written response to any factual discrepancies in the review.
- KHC will review the response, make any adjustments deemed necessary and appropriate, and provide a final experience and capacity evaluation on Tuesday, February 15, 2011.
- Applications entered after Tuesday, February 1, 2011, and before Thursday, February 10, 2011, will receive the capacity review score and have until the end of the business day on Thursday, February 10, 2011, to submit their written response to any factual discrepancies.
- Applications entered after Tuesday, February 15, 2011, will be reviewed for capacity, but will not have the ability to submit a written response for consideration. All capacity scores after Tuesday, February 15, 2011, will be final.
- Awards will be announced in June/July 2011.

Capacity Review Timeframe and Response Period 2012:

- Developers will identify the development team when they first access the online application. This system will be available on Friday, July 1, 2011, for the 2012 Housing Credit round.
- KHC will review and score the development team capacity based on the information in the application. KHC will provide developers with the score for the capacity review beginning on Thursday, September 1, 2011.
- In order to ensure the highest possible standard of accuracy, thoroughness and
service, applicants will have until Friday, September 9, 2011, to provide a written
response to any factual discrepancies in the review.

☐ KHC will review the response, make any adjustments deemed necessary and
appropriate, and provide a final experience and capacity evaluation on Thursday,
September 15, 2011.

☐ Applications entered after Thursday, September 1, 2011, and before Friday,
September 9, 2011, will receive the capacity review score and will have until the end
of the business day on Friday, September 9, 2011, to submit their written response
to any factual discrepancies.

☐ Applications entered after Thursday, September 15, 2011, will be reviewed for
capacity, but **will not** have the ability to submit a written response for consideration.
All capacity scores after Thursday, September 15, 2011, will be final.

☐ Awards will be announced in January/February 2012.

All written responses to any factual discrepancies must be signed, identify the
discrepancy, and provide supporting documentation or a narrative justifying
reconsideration. All responses must be submitted to Andrew Hawes by mail at Kentucky
Housing Corporation, 1231 Louisville Road, Frankfort, Kentucky 40601, or by e-mail at
ahawes@kyhousing.org.

The application review process is a three stage process: Stage I is Scoring Criteria,
Stage II is Financial Feasibility, and Stage III is Market Need. The following guidelines
are designed to ensure applicants understand the scoring requirements for Phase I of
the review process.

Projects will be reviewed on the basis of the documentation contained within the
application. If documents on the scoring checklist are not submitted, applications will not
receive points in those areas. It is the responsibility of the applicant to ensure all
required documentation is submitted. Projects will be ranked according to their score.
Those with the greater number of points will receive funding, **providing the project
meets all financial and market requirements**.

Applications will be scored on:

1. The development team
2. Project design and location
3. Financial design/ready to proceed
4. Bonus opportunities.

**Applications must receive a minimum score of 230.**

Although funds will be awarded to the highest scoring projects within their respective
pools, KHC will make every effort to ensure funds are distributed geographically across
the state. KHC reserves the right to award funding to a lower scoring project located in a
congressional district where no other funds have been allocated.

**B. DEVELOPMENT TEAM**

**Capacity of the Development Team**

1. **Monitoring/Compliance**
   
   This section of the scoring criteria includes developer, consultant, management
   agent, owner, applicant preparer, general partners, and/or nonprofit partners.
   Generally, for compliance and asset management issues, KHC will look back
   approximately one year (January 1, 2010) when evaluating the capacity of the
   various members of the Development Team. For production issues, KHC will look
back approximately three years (January 1, 2008). However, KHC reserves the right to consider developmental concerns prior to this date, if warranted. Development Team review will be conducted prior to application. KHC will consider the responsibility of the Development Team member when awarding points in capacity. For example, a consultant may have worked on a previously-funded project that requested a forbearance on its debt service in subsequent years. Since this is outside of the responsibility of the consultant, KHC would not consider this when allocating a score in the capacity section for a new project in which that same consultant is involved. Likewise, capacity points will not be lowered in a proposed project due to the involvement of a management company that manages a previously-funded project that experienced delays during production.

**Only one applies:**

a. No member of the Development Team within the past year has had any Compliance and/or monitoring issues (excluding cured issues during the 30-day Correction Period) whether it is federal, statutory, or KHC policies.

or

One or more members of the Development Team has had noted noncompliance issues (federal, statutory, or KHC policies), but all have been corrected within six months after the close of the Correction Period (i.e., Issuance of the IRS Form 8823 and/or Closed Review letter with Open issues).

or

A member of the Development Team has been found to be directly or indirectly responsible for any project in which there is or were uncorrected noncompliance issues for more than six months from the close of the Correction Period (i.e., Issuance of the IRS Form 8823 and/or Closed Review letter with Open issues) and the member(s) of the Development Team have been notified and the noncompliance issue has been documented. IRS Form 8823(s) issued for acts of God or for reasons beyond the owner's control, may be excluded, as determined by KHC.

or

A member of the Development Team has had chronic and repeated compliance issues or findings of noncompliance and they have been notified and it has been documented. This includes occurrences such as having ample time to correct issues or findings but not doing so, expiration of the time period to make corrections, or no effort made to make corrections.

b. No member of the Development Team has requested a waiver or modification for pledged amenities or requested a deviation from project design. (This includes pre-8609(s) reviews and excludes equitable substitutions of amenities and/or project design elements as included in original application for funding. Such substitutions must be approved by KHC.)

c. No member of the Development Team has a property previously financed by KHC that received a REAC score of 60 or below in its most recent inspection. KHC reserves the right to consult with HUD to ensure that no other HUD-financed project in which a member of the Development Team is involved has received a REAC score of 60 or below in its most recent inspection.
2. Production

a. No member of the Development Team has been involved in a project awarded Housing Credits or other KHC funding prior to December 31, 2007, and the project has yet to be placed in service and/or close-out documentation remains to be submitted to KHC.

b. No member of the Development Team has had funds recaptured by KHC within the past three years; Development Team was notified and it has been documented. Recapture event is due to not meeting KHC-imposed deadlines. This includes funds recaptured from homeownership or rental projects and all funding sources including: Housing Credits, SMAL, HOME, Affordable Housing Trust Fund, Risk-Sharing, Housing Assistance Funds, Housing Development Funds, HOPWA, ESG, etc.

c. A member of the Development Team has requested to exchange (swap) previously-awarded Low Income Housing Tax Credits for a newer year within the past three years. (This excludes Recovery Kentucky, Scholar House, Kentucky Domestic Violence Association, and the Distressed Appalachian Initiatives).

d. A member of the Development Team has been a part of a Development Team within the past three years that has developed and placed in service a KHC-financed multifamily project of at least four units.

    or

A member of the Development Team has been part of a Development Team within the past three years that has developed and placed in service a multifamily project in another state utilizing Housing Credit or tax exempt bonds.

    or

Non-credit developers within the past three years have developed and placed in service a project in another state, utilizing affordable housing programs.

3. Asset Management

a. No member of the Development Team has been involved in a KHC-financed project that has been delinquent for 75 days or more on debt service payments or any KHC-maintained escrow accounts (without a KHC-approved forbearance).

    or

A member of the Development Team has been involved in a KHC-financed project that has been delinquent for 75 days or more on debt service payments or any KHC-maintained escrow accounts. This also includes Housing Credit projects in which another lender is involved and KHC is informed of such delinquent status by the third-party lender.

b. Within the past year, a member of the Development Team has been involved in a project which previously received KHC funds and has requested a forbearance.

c. No member of the Development Team is involved with a project in which the most recent review by KHC of the audited financial statements and/or compilation revealed a ranking of critical.
4. **Sponsor Characteristics**

Applicants must submit certification, as described below, to document they are an approved for-profit minority or female controlled and managed entity to receive points in this area (See Score sheet for points).

The definition of a for-profit minority- or female-owned and managed entity is:

a. If the firm is a corporation, such individuals must own at least 51 percent of each class of voting stock outstanding and 51 percent of the aggregate of all stock outstanding.

b. If the firm is a partnership, 51 percent of each class of partnership interest must be owned by socially- and economically-disadvantaged individuals, and be reflected in the firm’s partnership agreement.

c. If the firm is a limited liability company, at least 51 percent of each class or member interest must be owned by socially- and economically-disadvantaged individuals.

**Minority-Owned Business**

For additional and more specific information on the requirements of the certification process for minority-owned agencies, the link for this certification is [www.mwbe.com/cert/certification.htm](http://www.mwbe.com/cert/certification.htm).

A for-profit minority-owned business is an enterprise, regardless of size, physically located in the United States or its trust territories, which is owned, operated, and controlled by minority group members. “Minority group members” are United States citizens who are Asian, Black, Hispanic, or Native American.

Certification is done at a local or regional level. There is a non-refundable application fee. Certification must be renewed each year, along with payment of annual fee. To find the certifying agency for the state of Kentucky, visit the Web site listed above.

Minority-owned entities must provide articles of incorporation and other documentation, as necessary to establish that they meet the criteria listed below, as well as a formal certification from any state or federal government agency or professional association pertinent to the housing and/or construction industry.

- Ownership: 51 percent ownership by a minority. The applicant must share in all risk and profits commensurate with their ownership interest.
- Control and Management: Proof of active management of the business.

**Female-Owned Business**

Female-owned entities must provide articles of incorporation and other documentation, as necessary to establish that they meet the criteria listed below, as well as a formal certification from any state or federal government agency or professional association pertinent to the housing and/or construction industry.

- Ownership: 51 percent ownership by a woman or women. The applicant must share in all risk and profits commensurate with her ownership interest.
• Control and Management: Proof of active management of the business. Women must possess the power to direct or cause to direct the management and policies of the business.

Nonprofit Organizations

Nonprofit Organizations are required to materially participate in the development, operation of the development, ownership, or management of the project.

A qualified Nonprofit Organization is one which is:
• Described in §501(c)(3) or (4) of the code and is tax exempt from tax under §501(a) of the code.
• Not controlled by a for-profit.
• Has as one of its exempt purposes as the fostering of low-income housing.
• Has been in existence for at least one year.
• Owns 51 percent of the general partnership interest of the ownership entity of the development.

C. PROJECT DESIGN AND LOCATION

1. Building Design
   a. Projects covering 100 percent of the total exterior walls of every building with materials of brick, stone, or HardiePlank™ Lap Siding or equal, and documenting these materials in the specifications or work write-up, will receive additional points.
   b. Brick, stone, or HardiePlank™: Each and every building of the proposed project must have 50 percent of the total exterior walls covered with materials of brick, stone, or HardiePlank™ Lap Siding or equal plank, and document these materials in the specifications or work write-up in order to receive points in this area (See Score Sheet).
   c. Energy Star: Points under this section will be awarded for utilization of the following combination of Energy Star-rated products and energy efficiency technologies during construction. Two of the following four choices must be utilized in each unit and incorporated into the specifications and/or work write-up:
      1) Inclusion of Energy Star-rated heating and cooling products. Homes equipped with heat pumps which have programmable thermostats will be required to use “adaptive recovery” technology to prevent excessive use of electric back-up heating.
      2) All windows are Energy Star rated.
      3) Three or more of the following Energy Star qualified appliances: clothes washer, dishwasher, refrigerator, freezer, hot water heater, or range hood. Projects which have an on-site laundry facility, Energy Star washers in the facility will satisfy the requirement. Projects which have on-site laundry facilities can obtain points for providing Energy Star washers and dryers.
      4) All Energy Star-qualified ceiling fans, light fixtures, and ventilation fans. Exception: Incidental fixtures such as storage and service areas (crawl space, attics, mechanical rooms, and medicine cabinets.)

   New construction and rehabilitation projects will exceed the Energy Star design requirements by electing all four of the above options to qualify for increased scoring.
Note: Developer **must** clearly identify Energy Star products in the plans and specifications and/or work write-up. For application review purposes, these **must** be identified collectively in one location.

d. **Green Construction**

New construction and rehabilitation projects that incorporate in their plans and specifications Green Building techniques will receive these points if the project incorporates at least six of the Green Construction criteria outlined in Chapter 1, Application Processing, Review, and Requirements. They must be included in either the specifications or work write-up and as a separate attachment indicating which green construction techniques will be utilized.

2. **Project Size**

Points will be awarded in this category based upon the following project sizes:

- 11 units or less
- 12 units or more

Please indicate in the application the number of total units (including both affordable and market) and refer to score sheet for points.

3. **Plans and Specifications**

**NOTE:** For scattered-site projects, site plans must be submitted for at least 35 percent of the sites and **complete** preliminary plans must be submitted for each unit type. As an example, the project consists of 20 units, comprised of 5 one-bedroom units, 10 two-bedroom units, and 5 three-bedroom units, complete preliminary plans must be submitted for a one-bedroom unit, a two-bedroom unit, and a three-bedroom unit.

For further guidance on KHC Plans and Specification Requirements, as well as rehab submission requirements, refer to Chapter 1: Application Processing, Review, and Requirements.

a. If plans and specifications (and rehab submissions, if applicable) meet all KHC requirements for “Application Submission” as listed in Chapter 1, points will be awarded as specified on the score sheet.

b. If plans and specifications (and rehab submissions, if applicable) are submitted but require minor revisions to meet KHC requirements for “Application Submission” as listed in Chapter 1, points will be awarded as specified on the score sheet.

c. If plans and specifications (and rehab submissions, if applicable) are incomplete, vague, and/or require major revisions to meet KHC’s requirements for “Application Submission” as listed in Chapter 1, or no plans or no specifications (or missing rehab submissions, if applicable) are submitted, there will be no points awarded.
4. **Project Amenities**

Applicants that elect to include amenities in their projects will be required to provide and maintain these throughout the entire affordability period. The application must clearly state the type of amenities that are being offered for the project. In addition, the amenity should be appropriate for the type of project proposed.

Examples of acceptable amenities include but are not limited to:

- Washer/dryer hookups in the unit
- Security service/alarm in the unit
- Help/call system (type typically found in elderly and/or handicap units)
- Self-cleaning oven
- Microwave
- Dishwasher
- Frost-free refrigerator with icemaker
- Walk-in closet
- Laundry facilities on-site
- Carpet
- Drapes
- Built-in electric stove
- Fitness room on-site with fitness equipment

Applicants can identify additional comparable amenities not listed and receive points.

Examples of unacceptable amenities include the following:

- A patrol around the apartment complex every few hours does not constitute as a security service/alarm provided in the unit.
- A resident checking on the well-being of another resident does not constitute as a help/call system typically found in elderly and/or handicapped units.

5. **Unique Marketable Attributes**

a. A community room is an area for the benefit of the tenants that is separate from other areas, such as the office or laundry facility. This is a designated area where individual tenants and their families or groups of tenants can share common interests. A community room should not be confused with a Community Service Facility which is defined in KHC’s Qualified Allocation Plan.

b-d. To receive points in the Unique Marketable Attributes area, pictures of the type of commercial grade equipment must be sent as an attachment. A higher quality of equipment and permanent type fixtures are expected in order to increase the life expectancy in projects of this type. The specifications should reflect the commercial grade equipment that will be used. In order to comply with Fair Housing, the community areas and playground areas must be made handicap accessible. This could include sidewalks and wider openings to playground, outdoor sitting/community areas and outdoor grilling areas. It is strongly suggested that you consult your insurance agent regarding the cost of insurance prior to pledging any playground, grilling areas or other outdoor equipment. The insurance for these amenities may be costly.

e-f. Additional storage areas and private patio/deck areas must be provided for individual units to receive points for these amenities. Any additional storage or
patio/deck areas should be shown on the plans and specifications. Normal closet space and pantries will not be considered an additional storage area.

g. To receive point(s) in this area, the application narrative, as well as the specifications must include a fenced backyard area with a single-family unit.

All other amenities/unique market attributes provided must be listed with a full description of that amenity in the narrative section of the application.

Examples of acceptable amenities/attributes include, but are not limited to:

- Off-street parking
- Community garden
- Close proximity to public transportation
- Case management
- Area lighting for parking and common areas
- Vehicle shelter

Applicants can identify additional comparable amenities not listed and receive points.

Examples of unacceptable amenities/unique marketable attributes include the following:

- A grassy fenced area does not constitute a playground.
- A dirt area with spray painted lines and a movable basketball goal does not constitute a basketball court.
- A charcoal grill and a folding chair nearby does not constitute an outdoor grill area with grills.
- A patio table with an umbrella does not constitute a gazebo or covered structure.
- A swing set and/or playground equipment from the local store designed for one or two children does not constitute a type of playground necessary for an apartment complex. A commercial/industrial grade of equipment is expected, especially in family-designed complexes.

6. Site Design and Location

Flood Plain – To receive points in this section, a flood plain map must be submitted that shows the 100-year flood plain for the proposed development. The map must be prepared by a nationally-accepted organization, such as FEMA, and the project site must be indicated on the map.

In the event a FEMA flood plain map is not available, a signed statement from a licensed surveyor stating that the property is not located in a flood zone, or a letter from a local insurance company or local county office official certifying the project is not located in a flood zone, will be accepted along with the project site indicated on the map.

If the property has been built up and is no longer in a flood zone, a licensed surveyor’s report for the reclassification must also be attached. The report should clearly state that all land to be utilized for the project has been raised at least 1 foot or more above the floodplain.
7. **Neighborhood Renewal Efforts**

**Housing Characteristics**

A number of points will be determined based upon housing need, which is derived from configuring the following numbers: number of units below poverty level, number of substandard housing units, number of vacant units, and total number of housing units.

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Please Note: Regardless of the Community Housing Needs Score (CHNS), a Market Study/Need Analysis demonstrating need will still be required before KHC will fund any project.

D. **FINANCIAL DESIGN/READY TO PROCEED**

**Financial Feasibility**

*Project Feasibility*

A project is financially feasible when all (including federal, state, local, and/or KHC) programmatic guidelines are met and the project is viable. Rents and expenses should be reasonable, the Sources and Uses must balance, and the debt coverage ratio (DCR) meets KHC standards.
A review of the submitted underwriting model along with the information in the overall application will be reviewed. **If a contradiction exists between the underwriting model and the application, the information in the underwriting model will be used.** The project must remain financially feasible, as defined above, with the changes. If the changes cause the project to no longer be financially feasible, the project will not receive funding.

**Development Team Creditworthiness**

Applicant must submit all required documentation on the application checklist for KHC to determine if the entity is financially feasible. If documentation is not submitted to determine this review, the application will be denied.

If the applicant is applying for funds that require a guarantee, the appropriate financial documents will be reviewed to confirm the ability to guarantee the level of funding requested. If funds are being pledged to the project, the bank statements will be reviewed to verify adequate funds are currently available.

If the applicant is applying for funds that do not require a guarantee, the appropriate documents are reviewed to show creditworthiness. The review will verify the applicant’s other business ventures and/or personal finances, where applicable, are handled in an effective, efficient manner. Discrepancies between credit reports and financial statements are a red flag. Low paydex scores for business reports and low FICO scores for personal credit reports are also red flags and may require more information. Near term liabilities that the applicant is not likely to satisfy or financial statements that do not match tax returns are also areas that may require further explanation.

Other than review for cash pledged or guarantees provided, the review is to find a track record that the proposed owner/developer has a history of managing finances in an efficient manner in his/her other business practices and is an acceptable risk to KHC to develop this project.

**NOTE:** KHC reserves the right to request additional financial information, as needed. KHC deals with all financial information in a confidential manner. This information is never shared with any other entities.

1. **Debt Coverage Ratio (DCR)**

Applications that meet KHC guidelines for DCR, without adjustments to the underwriting model, shall receive points in this section. The DCR must be at least 1.25 in year one, unless a lower DCR is required by Rural Development (RD), Federal Home Loan Bank, or the equity provider. KHC does not consider a floor DCR as a requirement. The DCR must stay positive through year 15.

2. **Maximum Allowable Fees**

Projects that have the construction-related maximum allowable fees within the correct limits (Chapter 6: Financial Requirements for All Funding Sources) shall receive points in this section.

3. **Cost Containment**

Projects that remain within the KHC Cost Containment limits shall receive points in this section.
4. **Funding Commitments – non KHC**

In order to receive points in this area, applicants bringing other sources of funds into the project (other than KHC funds) can receive additional points based upon the commitment of funds letter submitted. The letter must be specific about the terms of the funding and should be on the funding source’s letterhead.

Examples of other non-KHC funds include Federal Home Loan Bank Affordable Housing Program (AHP) funds, HUD HOPE VI funds, HOME, or Community Development Block Grant funds from a local government. Loan commitments should list the rate, term, and amount of the loan and grant commitments should list the grant amount.

a. **If all** other funding has been committed, points will be awarded in accordance with the score sheet. A copy of the firm commitment that includes all terms and the amount of the funding source on the funding agency’s letterhead must be submitted.

b. **If some** of the funding sources have been committed, the applicant can receive points in accordance with the score sheet by providing a firm commitment letter (on the funding source letterhead) that includes all terms and the amount of the funding source. Pre-application or invitations to apply for HUD or RD financing will satisfy this level.

5. **Rental Assistance Commitment**

If the project already has Section 8 or Rural Housing rental assistance secured for 100 percent of the units, full points will be awarded for this item.

If Section 8 or Rural Housing rental assistance is secured for less than 100 percent of the units, partial points may be given.

Applicants must provide evidence of current rental assistance or copies of the security instruments from the assistance provider reflecting the project’s award of rental assistance. Both new and existing rental assistance projects will qualify for scoring purposes.

6. **Donated land, materials, and/or labor and other subsidies**

a-c To receive points for commitments of donated land, materials, and/or labor, a commitment letter should be submitted detailing the donated materials or labor and the value of the donation. This section **does not** include donated cash. Furthermore, for KHC’s purposes, furnishings are not considered materials. While the donation of furnishings is permitted, such donations may not be used as “Other Funding” for scoring purposes in this section.

7. **Zoning/Infrastructure**

Applicants must submit proper zoning documentation to receive points in this category. Documentation must be one of the following:

a. **If site is already properly zoned**, points will be awarded in accordance with the score sheet. A local zoning map that shows the classification of the proposed site and neighboring sites and a detailed description of what is
allowed in each zoning classification must be provided as an attachment (see application checklist). The location of the site must be clearly indicated on all copies of the map. A letter from the local zoning board or governing authority indicating the proper zoning classification must also be attached.

NOTE: If no zoning exists, the developer must submit a letter from the county judge executive or mayor indicating that this is the case to receive points.

b. All infrastructure is adjacent (on the property's edge) to the site or already on the site.

8. Site Control

Proof of site control must extend through the award announcement period. Applicants MUST have one of the following as proof of site control to receive points in this area:

- Property Deed
- Current Purchase Contract
- Current Option to Purchase
- Current Lease Agreement/Option to Lease (through the entire affordability period)

For additional guidance on site control requirements, please refer to Chapter 1 of the Rental Production Application and Programmatic Guidelines.

E. BONUS OPPORTUNITIES

Listed below is an opportunity to earn an additional 25 points just by double-checking that you submit a complete application. By doing these few simple things, you can make sure your application is the best you can make it, as well as receive additional points. There are no exceptions in receiving these bonus points.

1. ALL attachments checked on the check list MUST be submitted to receive five bonus points.

2. If you are submitting a physical, printed application, one original and four copies of all application attachments MUST be submitted to receive five bonus points. If you are e-mailing your application and attachments, attachment documentation may be uploaded with your application. All application attachments must be received by KHC either electronically or in hard copy.

3. Self-scoring sheet MUST be completed and attached to receive five bonus points.

4. Underwriting model, application, and funding source commitments all match and are accurate to receive ten bonus points.
The purpose of transitional housing is to provide short-term rental housing (up to two years) to individuals and families who are transitioning from a service or treatment facility into permanent housing and independent living. While ongoing services may be offered, transitional housing is not an extension of the service or treatment facility. Transitional housing developments should look like and be indistinguishable from any other market rental housing. The only difference between transitional housing and standard rental housing is the availability of services to the tenants and the limitation of two years’ tenancy.

KHC has set aside $500,000 of combined HOME and AHTF funds for transitional housing projects. Please note: KHC may not invest its HOME funds in areas covered by a local participating jurisdiction. Those areas include the merged governments of Lexington/Fayette and Louisville/Jefferson, as well as the city of Owensboro and the northern Kentucky consortium consisting of the cities of Bellevue, Bromley, Covington, Dayton, Ludlow, and Newport.

**Applicant Requirements**

Applicants for transitional housing projects must either:

a. Have developed a standard rental housing project with KHC within the last three years.

   or

b. Partner with a developer who has successfully completed a standard rental housing project with KHC within the last three years to develop the proposed transitional housing project.

In either case, the prior project may not have any unresolved or outstanding compliance, audit, or asset management issues; be in default; or have requested extensions or forbearance of debt service.

**Design Requirements**

- Typical rental structures such as apartments, duplexes, or single-family homes are eligible. Group homes and single-room occupancy (SRO) housing are permissible; however, dormitory or barracks-style housing is not eligible under this initiative.

- The maximum number of bedrooms in a transitional housing project is six total. For example, in an SRO setting, there may be up to six bedrooms with shared kitchen or bath facilities. If constructing one-bedroom duplexes, you may build up to three duplexes. If constructing three-bedroom, single-family homes, you may build up to two homes.

- A mix of one-, two-, and even three-bedroom units should be made available, depending on the population being served.

- Each dwelling unit should have its own bath and kitchen facilities. Group homes may have shared facilities, provided each person or family has separate, private living/sleeping space. SRO units must have either private food preparation or bathroom facilities (may have both). In either case, if the target population is families, private bathrooms are required. For non-familial populations, shared bathrooms are permissible among same-gender occupants.

- The minimum square footage per unit shall be:
  - 0-bedroom unit (SRO) – 150 net square feet (common kitchen or bath)
  - Efficiency unit – 400 net square feet
  - 1-bedroom unit – 600 net square feet
  - 2-bedroom unit – 800 net square feet
  - 3-bedroom unit – 1,000 net square feet
  - 4-bedroom unit – 1,100 net square feet
• Dependent upon the source and amount of KHC resources requested for the project, KHC’s minimum design and universal design standards will apply. All other KHC design and construction requirements, as outlined in the program guidelines, will apply.

• The transitional housing must look like standard-market housing where the units could be marketed and leased to any renter, even those without special needs or requiring services. In KHC’s model for transitional housing, it is the services that are transitional; if the services are removed, you must still have viable community rental housing.

**Occupancy and Lease Requirements**

- Occupancy of any unit must not exceed two related persons per bedroom. Unrelated persons cannot be required to share a bedroom.
- Tenants must be allowed to stay in the housing for up to two years and be able to sign a standard lease. The lease cannot contain any language prohibited by the HUD Section 8 program.
- A high level of appropriate services should be available to tenants, but a requirement to participate in services **cannot** be included in the lease. The owner/service provider can require a tenant to sign a separate service agreement with the agency, but services and housing must be independent of each other. Participation in services cannot be a contingent requirement of tenancy.
- The transitional housing cannot be "captive" to any one particular agency, i.e., the applicant cannot accept referrals only from its own agency. Referrals for residency must also be accepted from any other qualified service facility in the community that is serving a similar population and offering similar services.

**Financial Requirements**

- Rents must be appropriate to the populations served and adhere to the requirements of the funding sources requested. If tenants are coming off the street into the housing, little or no rent may be justified. If tenants are coming from a lengthy stay in treatment, it may be that they have some employment income, but very little.
- The rent paid by tenants cannot contain any amount for services; therefore, the operating proforma cannot contain any fees attributable to a service component.
- If rental assistance and/or operating subsidies are required to sustain the continued viability of the transitional housing, the applicant must provide written firm commitments from the providers of the rental assistance and/or operating subsidy, as applicable. The commitments must extend for a minimum of three years. In addition, copies of operating and/or rental subsidy agreements must be provided. At its discretion, KHC may consider rental assistance contracts of less than three years, if upon review of the agreement it is apparent that the assistance is likely to continue.
- Conditional commitments are not acceptable. The applicant must prove the long-term financial sustainability of the project.
- All other KHC underwriting requirements will apply, including debt coverage ratio, cost containment limits, maximum fees, reserve accounts, etc. A market study or needs analysis will not be required; however, a narrative describing the need for the project must be included with the application.

**Permanent Housing Plan**

Ensuring that transitional housing tenants are moved into permanent housing within the allowable two-year timeframe is the cornerstone of a successful transitional project. Turning residents back out onto the street or rendering them otherwise homeless is not acceptable. Therefore, it is the applicant’s responsibility to assist residents in securing permanent housing.
The applicant must identify sources of permanent subsidized housing available for residents of the transitional housing. Memorandums of Agreement (MOAs) must be submitted from the owners or managers of the permanent housing stating that units will be available to persons exiting the transitional housing and that they will receive preference on available units. When possible, a set-aside of units for residents of the transitional housing is preferred.

- If few permanent, subsidized housing resources are available in the community, the applicant must show how the residents will be able to acquire enough income to move into market housing at the end of the maximum two years’ residency.
CHAPTER 10  Basic Terms

**Affiliate:** Any entity that directly or indirectly controls another entity or has a controlling front door interest in the entity.

**Affordability period:** The required period of time the development must continue to remain affordable to the target population.

**Bridge loan:** A short-term loan used to finance an enterprise, investment, or government, pending the receipt of other funds.

**Chronically Homeless Person:** An unaccompanied homeless individual with a disabling condition who has either been continuously homeless for a year or more OR has had at least four episodes of homelessness in the past three years. A disabling condition is defined as "a diagnosable substance use disorder, serious mental illness, developmental disability, or chronic physical illness or disability, including the co-occurrence of two or more of these conditions." In defining the chronically homeless, the term "homeless" means "a person sleeping in a place not meant for human habitation (e.g., living on the streets) or in an emergency homeless shelter."

**Community Room:** This is a designated common area specifically for the tenants only. It is separate from other areas such as the office and laundry facility.

**Community Service Facility (CSF):** A space that can be used for purposes, including but not limited to, child daycare, senior programs, and job training. They are defined as facilities that are designed to primarily serve low-income households (60 percent or less of area median income.) Project employees could also use the facilities. To receive additional tax credits, the CSF must be must be located in a Qualified Census Tract.

**Conflict of interest:** A conflict between the private interests and the official responsibilities of a person in a position of trust.

**Contiguous Sites:** Sites that are adjacent, bordering, or adjoining each other.

**Construction contingency:** Funds set aside for unanticipated construction expenses or cost over-runs normally calculated as a percentage of total hard cost.

**Controlling Interest:** The possession, directly or indirectly, of and the power to direct or cause the direction of the management and policies of an entity, whether through the means of ownership, position, contract, or otherwise.

**Cost Containment guidelines:** Cost guidelines limiting the amount of total dollars per unit allowed in the development.

**Debt Coverage Ratio (DCR):** Net operating income divided by total debt service (loan payment).

**Debt service:** The payment of principal, interest, and Mortgage Insurance Premium (when applicable) to repay the loan.

**Deed restriction:** A limitation that passes with the real property, regardless of the owner. Usually limits the real estate’s type of use or intensity of use.  *See also:* Restrictive Covenant.
**Developer's fee:** Fee received by the developer for coordinating and developing the project, including any fees paid for consulting services or any other fees resembling consultant or developer fees.

**Elderly Project:** There are two ways to qualify as an elderly project: All units are occupied solely by persons 62 years of age or older (100 percent elderly) or 80 percent of the units are occupied by at least one person who is 55 years of age or older.

**Homeless:** A person sleeping in a place not meant for human habitation or in an emergency shelter, or a person in transitional housing.

**Identity of Interest:** A financial, familial, or business relationship that permits less than arm’s length transactions. This includes but is not limited to: the existence of a reimbursement program or exchange of funds; common financial interests; common officers, directors, or stockholders; or family relationships between officers, directors, or stockholders.

**Leverage:** The degree to which an investor or business is utilizing borrowed money.

**Loan-to-value ratio:** The ratio of a mortgage loan and the value of the security pledged; usually expressed as a percentage.

**Maximum mortgage amount:** The maximum principal amount to be loaned under the applicable programs.

**Maximum subsidy/allocation:** The maximum amount of funding allowed on a per-unit basis.

**Mentally Disabled:** Having either a psychiatric disorder (e.g., psychosis, neurosis, personality, or behavior disorder), a development disorder (e.g., mental retardation), or a neurological disorder that affects cognitive or emotional functions to the extent that capacity for judgment is significantly diminished.

**Mortgage Insurance Premium:** The insurance required to be paid annually for developments utilizing HUD insurance through the Risk-Sharing program.

**Operating Deficit Reserve Account (aka Rent-Up Reserve):** Funds set aside in a reserve account to cover operating deficits until the project reaches sustaining occupancy.

**Operating expenses:** Both fixed and variable expenses incurred in the day-to-day operation of the project.

**Other funding sources:** Any funding source, not provided by KHC, being used to fund the project.

**Physically Disabled:** Having a physical condition that adversely affects the day-to-day motor functioning, such as cerebral palsy, spina bifida, multiple sclerosis, orthopedic impairments, and other physical disabilities

**Preservation:** (Minor rehabilitation is NOT included.) Maintaining existing units or the integrity of the original existing unit, as closely as possible. Can include the relocation of certain walls or major components, such as plumbing or electrical systems. However, the existing shell of the building must be maintained. This can include the reduction of units to update or modernize to meet current market needs.
**Pro forma:** A spreadsheet that projects income and expenses (including reserve for replacement) of the development, as well as debt service, debt coverage ratio, and cash flow for each year.

**Project Completion:** All construction is completed, all close out documents have been submitted, final closing has occurred (if applicable), and all funds have been expended and disbursed.

**Rent-Up Reserve (or Operating Deficit Reserve):** Funds set aside in a reserve account to cover operating deficits until the project reaches sustaining occupancy.

**Reserve for Replacement:** An allowance that provides for the periodic replacement of deteriorating building components that must be replaced during the building’s economic life. Funds are set aside in a reserve account.

**Restrictive Covenant:** A private agreement that restricts the use and occupancy of real estate, is part of a conveyance, and is binding on all subsequent purchasers; may involve control of lot size, setback, placement of buildings, architecture, cost of improvements, or use.

**Soft costs:** Service costs and fees that are incurred when developing a project.

**Single Room Occupancy (SRO):** The unit must contain a bedroom and a full bath or an efficiency kitchen (sink, refrigerator, microwave).

**Subsidy Layering/Financial Analysis:** A review required when a development combines Housing Credits with other governmental assistance, including the HOME program.

**Sustaining occupancy:** The point in time when the gross income is sufficient to cover the operating expenses. Net income is $0 or greater.

**Term of loan:** The period of time allowed for repayment of the loan amount and any accruing interest.

**Total Hard Construction Costs:** Total cost to construct the building and other improvements.

**Vacancy Rate:** The percentage of total units that are not occupied.