

2015

MULTIFAMILY FINANCE GUIDELINES



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Application Materials

Forms required to complete the application are located on KHC's website:

- Application Checklist (part of online application)
- Underwriting Model
- Other KHC-provided forms

Information Sharing

KHC reserves the right to share, at its discretion, all project-related information, including the application, attachments, technical submission documents, and other pertinent materials with other funders participating in the project throughout the life of the project. KHC will not share personal information, such as financial statements, tax returns, credit reports, and other credit review documents unless specifically authorized by the applicant.

Introduction and General Information

Kentucky Housing Corporation (KHC) offers a competitive funding process to create affordable housing in conjunction with our development partners. Through this process, KHC administers federal and state resources to enable the development and rehabilitation of safe, affordable housing for Kentucky families.

These guidelines instruct applicants how to apply for Multifamily Finance resources available through KHC's competitive funding application process and explains program criteria and basic requirements, applicant expectations, and review processes.

If there are any inconsistencies between the requirements in the [2015 Qualified Allocation Plan \(QAP\)](#) and the 2015 Multifamily Finance Guidelines, the QAP requirements will prevail for Low Income Housing Tax Credit (Housing Credit) applications.

Funding Sources Available

The following funding sources are available for multifamily housing production through the current competitive funding process. Please refer to the QAP for Housing Credit pools and set-asides.

HOUSING CREDIT PROJECTS

Funding Source	Projected Amount Available
HOME Investment Partnerships (HOME) Program	\$2,000,000
Affordable Housing Trust Fund (AHTF)	\$900,000
Risk-Sharing	Amount Available Based On Demand
Construction / Bridge Loan	\$36,000,000

NON-HOUSING CREDIT PROJECTS

Funding Source	Projected Amount Available
HOME Investment Partnerships (HOME) Program	\$500,000
HOME Community Housing Development Organization (CHDO)	\$369,306
Affordable Housing Trust Fund (AHTF)	\$300,000
Affordable Housing Trust Fund (AHTF) - <i>Transitional Housing Set-aside</i>	\$300,000
Small Multifamily Affordable Loan (SMAL) Program	\$1,500,000

****KHC reserves the right to reallocate funds between the Housing Credit and Non-Housing Credit set-asides in order to fund the maximum number of projects possible.***

Projects requesting Housing Credits will be limited to the amount of HOME and AHTF combined in an amount equal to the lesser of \$35,000 per unit or \$500,000 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 for a one-bedroom unit multiplied by four. Of that combined amount, no more than \$300,000 may be from AHTF. Projects may have more than four units; however, the subsidy is limited to the 221(d)(3) one-bedroom limit multiplied by four. For AHTF-only projects, the maximum allocation of AHTF may also not exceed \$300,000.

Program	Eligible Applicants & Activities	Summary of Program Requirements
Affordable Housing Trust Fund (AHTF)	<ul style="list-style-type: none"> • AHTF is for gap financing only. • Eligible applicants are nonprofit organizations. The nonprofit must be a part of the ownership entity and materially participate in the project for the term of the loan. • Eligible activities are new construction, acquisition with new construction, acquisition with rehabilitation and rehabilitation of existing rental units. 	<ul style="list-style-type: none"> • AHTF requests can be in the form of an amortizing or deferred due-at-maturity loan. Nonprofit organizations may request a forgiven-at-maturity loan if the project does not have the ability to repay. • AHTF loans are non-recourse. • The affordability period and loan term shall not exceed 30 years. • Eligible households must have incomes at or below 60% of the area median.
HOME Investment Partnerships (HOME) Program	<ul style="list-style-type: none"> • HOME is for gap financing only. • Eligible applicants are nonprofit organizations and for-profit entities. • Eligible activities are new construction, acquisition with new construction, acquisition with rehabilitation and rehabilitation of existing rental units. • HOME is a federal program and all federal cross-cutting regulations apply (24 CFR, 92.350 – 92.358). 	<ul style="list-style-type: none"> • HOME funds can be used for construction and permanent mortgage loans. HOME funds cannot be used for refinancing. • HOME is a recourse loan. • HOME funds must be secured with a mortgage and may be structured as an amortizing loan or deferred due-at-maturity loan. • The affordability period and loan term shall not exceed 30 years. • Eligible households must have incomes at or below 60% of the area median.
Housing Credit (Low Income Housing Tax Credit)	<ul style="list-style-type: none"> • Housing Credit is not a source of funds; it is an allocation of federal tax credits that the project owner sells to an investor. • Eligible applicants are nonprofit organizations, for-profit entities and units of local government. However, for-profit involvement is required to access credits. • Eligible activities are new construction, rehabilitation and/or preservation of low-income rental housing. 	<ul style="list-style-type: none"> • This program is designed to attract private investment in affordable housing. An investor purchases the Housing Credits, which they claim against their federal income tax liability for ten years. The resulting equity from the purchase of credits is used to finance the project. • The property must remain affordable for a minimum of 33 years. • Required fees include application fees of \$1,500 (nonprofits) or \$2,500 (for-profits) per Housing Credit pool; 8% reservation fee, 1/2% inspection fee. • Eligible households must have incomes at or below 60% of the area median.
Small Multifamily Affordable Loan (SMAL) Program	<ul style="list-style-type: none"> • Eligible applicants are nonprofit organizations, for-profit entities and units of local government. • Eligible properties must have eleven units or less. • Eligible activities are new construction, acquisition with new construction, acquisition with rehabilitation and rehabilitation of existing rental units. 	<ul style="list-style-type: none"> • SMAL can be used for construction loans and permanent mortgage loans. SMAL cannot be used for refinancing. • The interest rate will not be lower than 3.5% and the maximum LTV is 90%. There is a 1% origination fee. • The term of the loan shall not exceed 30 years. SMAL is a recourse loan. • Eligible households must have incomes at or below 120% of the area median.

<p>Risk-Sharing</p>	<ul style="list-style-type: none"> • Risk-Sharing provides permanent financing for projects of 5 or more units; construction loans not currently allowed. • Eligible applicants are nonprofit organizations, for-profit entities and units of local government. • Risk-Sharing is a mortgage insurance program in conjunction with HUD. All federal cross-cutting regulations apply. • Eligible activities are new construction, acquisition with new construction, acquisition with rehabilitation and rehabilitation of existing rental units. 	<ul style="list-style-type: none"> • The loan term may not exceed 40 years and the maximum LTV is 90%. • Loan interest rate is determined periodically as established by KHC. • There is a 1/2% monthly mortgage insurance premium (MIP). • Required fees include \$3,000 application fee, 3% commitment fee, 1/2% upfront MIP and \$5,000 closing fee. • Risk-Sharing loans are non-recourse and must be utilized with Housing Credits. • Eligible households must have incomes at or below 60% of the area median.
<p>Tax-Exempt Bond</p>	<ul style="list-style-type: none"> • KHC is the designated bond issuing authority for all housing projects within the Commonwealth of Kentucky. • Eligible applicants are for-profit and nonprofit developers; however a member of the development team must have prior experience with KHC's Tax-Exempt Bond program in order to apply. • KHC issues the bonds with proceeds going to a developer for the purpose of constructing affordable housing. • Repayment of the bond financing comes from revenue generated by the project. • Eligible activities are new construction, acquisition with new construction, acquisition with rehabilitation and rehabilitation of existing rental units. 	<ul style="list-style-type: none"> • Because bonds are tax exempt, developers can obtain an interest rate that is typically lower than market rate. • Bonds can be short term (24 months) or long term (up to 40 years). • Bond projects that utilize at least 51% of bond proceeds to fund eligible project costs are eligible for 4% Low Income Housing Tax Credits to generate equity for the project. • Application fee is \$2,500 per project. • Eligible households must have incomes at or below 60% of the area median. • The Tax-Exempt Bond program utilizes the same rent and income limits as the Housing Credit program.

Eligible Project Types

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

- Family Housing
- Elderly Housing
- Special Needs Housing
- Permanent Supportive Housing
- Transitional Housing
- Veterans' Housing

KHC has set aside \$300,000 of AHTF specifically designated for **transitional housing** projects. The purpose of transitional housing is to provide short-term rental housing to individuals or families who are transitioning from a service or treatment facility into permanent housing and independent living. All transitional housing applications must submit commitment letters from service provider and referral sources, as well as a permanent housing component packet. This component must be detailed and include how permanent housing will be offered, along with any additional services that may be required. Refer to [Chapter 11 Transitional Housing Guidelines](#) for more information.

In addition, KHC has allocated Housing Credit resources in a Nonprofit Supportive Housing Pool to address the need for **permanent supportive housing** in the state. KHC's permanent supportive housing program is designed to help populations with special needs attain housing that is decent, safe, quality, and integrated into the community. To qualify for this set-aside of Housing Credit, the project must provide supportive housing services to at least 50 percent of the units for individuals or families who are elderly (age 62 or older), homeless, at risk of homelessness, victims of domestic violence, and/or have disabilities, acquired traumatic brain injury, aging out of foster care, persons with HIV/AIDS, severe mental illness, or chemical/alcohol dependency and who require access to supportive housing services.

KHC believes special needs populations have the right to live in a home of their own, without any special rules or service requirements and in the most integrated setting possible. All tenants should have access to an array of individualized supportive services that help them keep their housing, such as case management, assistance with daily activities, conflict resolution, socialization, employment options, and crisis response.

Applicants are required to submit their supportive housing service plan, along with letters of service commitment from service providers and letters of referral commitment from agencies making referrals to the project. Please refer to the [QAP](#) for more information on the Nonprofit Supportive Housing Pool.

Project Funding Stages

All applicants requesting financing through KHC's funding process will be required to adhere to the following project funding stages. These stages are discussed in greater detail throughout this manual.

1. Initial Contact/Technical Assistance
2. [Development Team Capacity and Credit Review and Scoring](#)
3. [Application Submission and Scoring Review](#)
4. [Technical Submission Stage](#)
5. [Pre-Construction/Pre-Closing Stage](#)
6. [Closing and Construction Stage](#)
7. [Construction Completion/Placed-In-Service](#)

1. Initial Contact/Technical Assistance

KHC offers technical assistance opportunities to both new and seasoned developers to help ensure a project's success. Applicants are encouraged to contact KHC to obtain assistance with projects throughout the application and development process.

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 technical assistance. If more than three years has elapsed since its last KHC-funded multifamily project, the applicant/developer is strongly encouraged to attend a technical assistance meeting. At its discretion, KHC may require a technical assistance meeting prior to application submission for any developer.

Technical assistance takes new partners through the process of documentation requirements, scoring criteria, project underwriting, relocation requirements (if applicable), design and construction requirements, etc. A representative of the development entity, as well as the person on the development team who is responsible for the preparation and submission of the application and consultant (if applicable) must attend the technical assistance meeting. Because KHC's design and

construction requirements will be discussed at the meeting, it is highly recommended that the architect also attend. To schedule a technical assistance meeting, contact Andrew Hawes, Managing Director of Multifamily Programs, toll-free in Kentucky at (800) 633-8896 or (502) 546-7630, extension 326; TTY 711; e-mail ahawes@kyhousing.org.

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

2. Development Team Capacity Review

KHC will conduct a review of the experience and capacity of development team members **prior** to submission of applications. The result of the [development team capacity review](#) will determine whether an organization may participate in the upcoming program year and/or if any scoring issues may be present. If any of the parties participating in the project have outstanding fees or other payments due to KHC, those obligations must be satisfied prior to submitting a funding application.

In determining whether to award funds and how to score funding applications, KHC reserves the right to consider any and all issues it believes impact the applicant's ability to successfully complete the project or to properly expend KHC resources. These issues may or may not be addressed in the funding application, and KHC reserves the right to disqualify any applicant based upon any issue KHC deems to be of such significance as to negatively impact the project or the KHC funding.

KHC may solicit feedback from other states where the applicant or other members of the development team developed projects, as well as confirming through the System for Award Management website at www.sam.gov that no member of the development team has been debarred from doing business with the federal government.

3. Application Submission and Scoring Review

Applications will be scored on the capacity of the development team, project design and location, and financial design/ready to proceed. Projects will be reviewed on the basis of the information contained within the application and the submitted [attachments](#), including the underwriting model. It is the responsibility of the applicant to ensure all required documentation is submitted. The project will not meet the application threshold if required documents on the application checklist are not submitted. Projects will be ranked according to their final score. The highest scoring projects will receive funding until all KHC resources available in this round are utilized, provided the project meets all financial and market requirements.

All applications must achieve a minimum score of 60 percent of the points possible on the Capacity Scorecard in order to continue with the application submission process. In the full scoring of the project, Housing Credit projects must receive a total minimum score of **120** and non-Housing Credit applications must receive a total minimum score of **85** to be eligible for funding.

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.

Projects selected for funding will receive a preliminary approval letter that will detail additional pre-award documents that must be submitted to KHC before a conditional award letter will be issued. Refer to [Pre-Award Documentation](#) in Chapter 2 for more information. Additional documentation may be required on a case-by-case basis. All pre-award documents must be received at KHC within two weeks of the date of the preliminary approval letter or the approval may be withdrawn.

4. Technical Submission Stage

Once an applicant receives a preliminary approval letter from KHC, the application will then enter the [technical submission stage](#). Staff will work with applicants during this stage to ensure all guidelines and requirements are met. Additional evidentiary documentation will be required and will be outlined in a letter to the applicant, along with a [checklist of items](#) that must be submitted during this stage. All projects selected for funding will be held to certain submission [deadlines](#). If the deadlines are not met, the applicant will incur penalty fees or lose the funding associated with the project.

5. Pre-Construction/Pre-Closing Stage

When the technical submission stage is complete, all documents have been reviewed and approved, and the final underwriting is complete, the project is ready to proceed to loan closing. During the [pre-construction/pre-closing stage](#), there is a [checklist of items](#) for the loan closing and additional pre-construction documents that must be submitted prior to the start of construction; all documents are to be returned to KHC. Your assigned project specialist may require a pre-construction conference to discuss the inspection and draw request process.

6. Closing and Construction Stage

Once the project has had its applicable loan and equity closings and all required pre-construction and pre-closing items have been submitted, the project will be transferred from the project specialist to KHC's post-closing area. During the [closing and construction stage](#), all executed closing documents will be submitted to and reviewed by the post-closing area for accuracy and completeness. Post-closing staff will also oversee the project throughout the construction phase, monitor construction inspections, and process draw requests for KHC funds.

7. Construction Completion/Placed-In-Service

Upon completion of the project's construction or rehabilitation and issuance of the certificate(s) of occupancy, the project will be in the [construction completion/placed-in-service stage](#). At that time, additional completion documents must be submitted to KHC's post-closing staff. A final inspection will be conducted by a KHC construction specialist, as well as the contractor and architect, if applicable. Upon KHC's approval of the documents required on the [Construction Completion/Placed-In-Service Checklist](#), as well as the final inspection and resolution of any punch list items, the final 10 percent retainage of KHC funds may be requested. Housing Credit projects will also complete and submit the [Internal Revenue Service \(IRS\) Form 8609 request package](#) during this stage.

Fair Housing

KHC administers a variety of HUD programs and is required to affirmatively further the purposes and policies of the Fair Housing Act, which is Title VIII of the Civil Rights Act of 1968. The Fair Housing Act not only prohibits discrimination but, in conjunction with other statutes, directs KHC to take steps proactively to overcome historic patterns of segregation, promote fair housing choice, and foster inclusive communities for all.

As part of KHC's Consolidated Plan, KHC is required to undertake fair housing planning, which consists of the following: 1) an Analysis of Impediments (AI) to fair housing choice; 2) actions to cover the effects of the identified impediments; and 3) maintenance of records to support the affirmatively furthering fair housing certification.

Analysis of Impediments to Fair Housing Choice (AI)

KHC's AI is a review of impediments or barriers that affect the rights of fair housing choice covering public and private policies, practices, and procedures affecting housing choice. Impediments to fair housing choice are defined as any actions, omissions, or decisions that restrict, or have the effect of restricting, the availability of housing choices, based on race, color, religion, sex, disability, familial status or national origin. Conducting an analysis of impediments is a required component of certification and involves:

- An extensive review of a state or entitlement jurisdiction's laws, regulations, and administrative policies, procedures, and practices;
- An assessment of how those laws affect the location, availability, and accessibility of housing;
- An evaluation of conditions, both public and private, affecting fair housing choice for all protected classes; and
- An assessment of the availability of affordable, accessible housing in a range of unit sizes.

KHC's review of impediments revealed that impediments to fair housing choice exists within Qualified Census Tracts (QCT) as defined under section 42(d)(5)(B) of the Internal Revenue Code (IRC). Consequently, KHC is limiting new construction activities in QCTs. Please refer to [Chapter 9, Program Policies](#), for additional information.

Environmental Review

In the past, KHC has conducted the required environmental review for HOME and Risk-Sharing projects; however, beginning with the 2015 funding round, applicants for HOME and/or Risk-Sharing funds will be required to contract with a KHC-approved person or firm for performance of the required environmental review. KHC will conduct a Request for Qualifications process to obtain the list of approved persons or firms qualified to perform environmental reviews and applicants will be required to contract with a person or firm from this list, which will be published on KHC's website. Applicants will be responsible for payment of all associated costs of the environmental review; however, this is an eligible project expense and applicants should budget accordingly on the Sources and Uses page of the KHC underwriting model.

Once the funding application has been submitted to KHC, you cannot proceed with the purchase of the property, start any part of the construction or disturb the soil in any way until the environmental review is complete and an environmental clearance has been issued.

Applicants will be required to provide to KHC and the environmental contractor certain documents related to the environmental review, which are outlined in [Chapter 3, Technical Submission](#). The environmental contractor will use these documents to determine a project's impact on the environment. As the responsible entity, KHC is required to maintain copies of all documents relative to the completion of the environmental review; therefore, when the environmental review is complete and full environmental clearance has been achieved, the environmental contractor who performed the review must forward the entire package of all documents utilized during the review to KHC.

For questions regarding environmental reviews or the review process, please contact KHC's Jennifer Oberlin at joberlin@kyhousing.org or (502) 564-7630, extension 214.

CHAPTER 1: Application Process, Review, and Requirements

KHC's Multifamily Finance Department offers a competitive application for Housing Credit, AHTF, HOME, SMAL and Risk-Sharing funds. KHC staff will review and score each application submitted. Each application will be reviewed in accordance with required thresholds, capacity of the development team, project design, and financial feasibility, as well as adherence to the multifamily guidelines. Any issues that could delay the project must be resolved before submitting an application.

2015 Application Submission Dates

Capacity Review	Electronic Submission	Award Notification
Opens: September 12, 2014 Closes: November 7, 2014	December 12, 2014	February/March 2015

Application Preparation

The application is created and submitted through KHC's online Universal Funding Application (UFA) system. A complete application must be transmitted to KHC. KHC will send an e-mail notification to the applicant once the application has been transmitted successfully.

Applicants must consider and keep in mind the following:

- Applicants must list within their application the project amenities and unique marketable attributes that will be included in the project to enhance the tenant's accommodations and increase the marketability of the project. All amenities provided must be appropriate for the tenant population served.
- 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 uploaded to KHC's online system as part of the application submittal.
- Each application must be for an eligible project type and propose an eligible activity.
- All applicants must request all KHC funds required for the project in one application. Previously-funded projects cannot access additional funds, including Housing Credits, through the competitive application process.
- Applicants requesting HOME or Risk-Sharing funds must also submit to the Kentucky State Clearinghouse through the Department for Local Government's online system at <http://dlg.ky.gov/clearinghouse/>. Successful submission to the Clearinghouse system will generate a confirmation that includes the State Application Identification (SAI) number. A copy of this confirmation is a required checklist attachment for the KHC 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 comply 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.

Application Thresholds

KHC has established the following project requirements that must be met as a threshold to submit an application for funding. If any of the threshold requirements are not met, the application will not be reviewed or scored and will not be eligible for funding. KHC will notify the applicant if one or more of the thresholds are not met and the applicant will have three (3) days to appeal; however, no changes or additions to the original submission can be made to cure threshold deficiencies.

1. The application must be fully completed with adequate responses to all questions that are applicable to the project type and KHC resources requested.
2. All required attachments, including the Notice of Application for Funding and Letter of Support for Community Impact Pool applicants must be uploaded and provided on a disc or flash drive.
3. All projects requesting HOME funds must have a written commitment of HOME-eligible matching funds of at least 5 percent of the total HOME request.
4. The project's underwriting model, as submitted with the application, must meet KHC's cash flow and debt coverage ratio requirements.
5. The amounts budgeted in the underwriting model for total developer fee, general requirements, profit and overhead must not exceed KHC's maximum limits.
6. The project's total development cost must not exceed the applicable cost containment limit. If a waiver to the cost containment limits has been granted by KHC prior to application submission, the written waiver approval must be uploaded with the application.
7. The project must have site control on 100 percent of the project sites, including all scattered sites.
8. Scattered site projects must be located within a defined footprint or neighborhood and be of similar building design and unit type. Sites located in multiple counties or scattered throughout a county are not permitted except for Tax-Exempt Bond projects.
9. For new construction projects, all portions of the project site(s) essential to tenants (i.e., buildings, parking lots, entrance to the development) must not be located in a flood zone or waterway. Projects rehabilitating currently occupied rental housing may be located in a flood zone if the community participates in the National Flood Insurance Program (NFIP) and the property must have federal flood insurance in an amount sufficient to replace the existing improvements and fixtures in the event of a loss. KHC must be named as an insured on the policy, except for Housing Credit only projects. Rehabilitation of vacant structures in a floodplain is not permitted.
10. The project site(s) must be properly zoned. If no zoning exists, an evidentiary letter from the governing entity must be submitted.
11. All Housing Credit applicants for new construction, rehabilitation or adaptive reuse projects must submit KHC's Excel spreadsheet "[Capital Reserve Replacement Schedule](#)" (CRRS) from a qualified preparer. All rehabilitation and adaptive reuse projects, regardless of funding source, must also submit a physical capital needs assessment (PCNA) from a qualified preparer. KHC recommends that the PCNA incorporate the CRRS, but if not incorporated, the CRRS must still be consistent with the PCNA and be completed by a qualified preparer.
12. Preliminary building plans and outline specifications must be provided. The final plans and specs must meet all applicable KHC Minimum Design and Universal Design requirements.

Notification of Application for Funding

Projects of 12 or more units and all Housing Credit projects may not apply for any KHC resources unless the highest elected local government official (mayor, county judge/executive, or equivalent) and the state representative and state senator for the proposed project's location have been notified

and provided with a reasonable opportunity to comment on the proposed project. KHC will consider the responses of the local government and state officials in determining whether there is sufficient government support to ensure the success of the proposed project. Opposition to the funding of a project must provide the specific justification for the opposition and be supported by evidence and not be hypothetical or speculative. Opposition that appears to be discriminatory or violate fair housing laws (24 CFR 100) will not be grounds for failure of a project. A searchable database of Kentucky state legislators is available on the Kentucky Legislative Research Commission's website at www.lrc.ky.gov/legislators.htm.

Required Documents:

The applicant must submit, by certified mail or equivalent, the [Notification of Application for Funding](#) form and any documentation they wish to provide of its intent to develop affordable housing to the highest local elected office, to the state representative, and state senator in the community where the proposed project will be located. Copies of such information and the returned receipt from the certified mail or other acknowledgment of receipt documentation by the mayor or county judge executive, state representative, and state senator (or their designees) must be uploaded with the online application. Additionally, the applicant must submit the completed [Notification of Application for Funding](#) form (as provided to the local and state officials) with the development team capacity review documentation.

Universal Funding Application (UFA) Instructions

To access the Universal Funding Application (UFA), go to www.kyhousing.org, Housing Production; Multifamily Finance; Applications, Guidelines and Underwriting Models; [Multifamily Application Submission 2014 Forward](#) and follow the steps below.

Create a User Account:

All users are required to create an account before an application can be entered. This same account may be used to submit an application to any of KHC's housing production program areas, including multifamily finance, housing production management (single-family) or specialized housing resources.

1. Click "Register" and enter the following information:
 - a. First name
 - b. Last Name
 - c. Desired user name
 - d. Email address
 - e. Company name
 - f. Title
 - g. Desired password
 - h. Re-enter the password in the "password confirmation" field
2. Choose your role in the application process:
 - a. Select "Admin" if you will maintain all users for your organization.
 - b. Select "User" if you will not be responsible for maintaining all users for your organization.
3. Read the privacy policy and check "I agree to the privacy policy."
4. Click "Register" only if you agree with the policy and wish to continue.

Update Your Profile:

1. Click "Edit Profile."
2. Make your desired changes.
3. Click "Save Profile Changes."

Lost Password:

KHC staff does not have access to passwords. If you have lost your password, you may reset the password by clicking "Forgot Your Password" within the UFA system.

1. Enter the user name that was used to create your registration
2. Enter the email address associated with the user name.
3. Click "Request New Password."
4. You will receive an email with instructions to reset your password.

Manage Teams:

Use this function to establish a team of people that are authorized to create and manage applications for your organization.

To create a new team:

1. Admin or team lead login is required.
2. Click "Manage Team."
3. Click "Add a New Team."
4. Enter a team name.
5. Check the box for the product or products this team is authorized to access.
6. Click "Save."

To add members to a team:

1. Admin or team lead login is required.
2. Open the team name by clicking the "+" (plus sign).
3. Click "Add a New Team Member."
4. Enter the user name.
5. Select the role for the team member:
 - a. "Administrator" has access to all functionality
 - b. "Team Lead" can manage all application functions but cannot change teams.
 - c. "Team Member" is limited to application functionality only.

Create a New Application:

1. Click on the "Multifamily Production" tab.
2. Click "Create New Application." This option appears only when a funding round is open.
3. Click the funding round for which you are applying.
4. If you are a member of more than one team, you may be asked to "Select a Team" – choose the team that is working on the application to be submitted.
5. Click "Next."
6. Select the funding round for which you are creating the application.
7. Click "Next."
8. Enter the project name and click "Create Application." **Please enter the name of the project as it will be known upon completion.**

Rename an Application:

1. Click the “+” to open the application information panel.
2. Click the note icon to rename the application.
3. Change the project name.
4. Click “Rename Application” to save the change or click “Cancel” to abort the change.

Edit an Application:

1. Click the application you wish to edit. Edits may only be made to applications in progress. Applications that have been submitted cannot be recalled for further editing.
2. Make your desired changes.
3. Be sure to click the “Save” button to save your changes.

Delete an Application in Progress:

Only an application that is still in progress can be deleted. Once an application has been submitted, this option is no longer available.

1. Click the “+” to open the application information panel.
2. Click “X” for the application to be deleted.
3. Click “Delete Application” to confirm.

Submit an Application:

1. Click the “Submit” button.
2. Review the “Confirm Submission” statement.
3. Click “I Certify” if you agree with the statement; if not, click “Cancel” and the application will not be submitted.
4. If any required information is missing from the application, a list of the errors will appear.
5. Correct any errors and repeat the submission process.

Request to Recall an Application:

Use this function to make changes to an application that has been submitted. The “Request Recall” function is only available while the funding round is in progress; **applications may not be recalled after the application submission deadline has passed.**

1. Click the “Request Recall” button.
2. A message will be sent to KHC staff to approve the recall request.
3. Once the request is approved, you may edit the application.
4. After making your desired changes, follow the steps above to Submit an Application.

Print Application Functions:

1. Click “Print Application” to create a PDF file for your records.
2. Click “Print Checklist” to show the items that are required to be uploaded to the application.

Additional Application Information:

- All fields marked with a red asterisk are required fields and must contain a value in order for the application to be submitted.
 - If a particular required field or question is not applicable to your project, you may click the “N/A” button.
- For numeric fields that are not applicable to your project, enter a zero.

- The first section of the application that must be completed is the capacity of the development team members. When all of the team members have been entered, the Capacity Scorecard has been completed, and the applicable documents required for the capacity and credit review have been uploaded, you will then submit the capacity of the development team section for preliminary scoring.
 - Once the development team and all required documents have been submitted for review, the rest of the application can be completed. However, the capacity of the development team section is locked and cannot be changed unless a recall has been requested. At that time, KHC will have to release the development team back to the applicant to make changes. Any changes to the development team may result in adjustments to the capacity score.
- It is advised that as you complete each section that you click the “save” button to ensure that information entered is not lost before you move to the next section.
 - As a security feature, the application may “time out” after a period of inactivity. If the application times out, you will be returned to the login screen.
- When entering the funding information for KHC and non-KHC resources, the sources and amounts must match the KHC underwriting model that is uploaded with the application. For non-KHC resources, please identify the name of the provider of the funds.
- When all information is complete and you are ready to submit the application, click the “submit” button. Be sure that all information is complete and all attachments have been uploaded because you will not be able to make any further changes after the application has been submitted.

Uploading Documents:

All required documentation for each stage of the project must be uploaded through the Universal Funding Application portal. In addition, all required attachments at the application stage must be provided on a disc or flash drive.

If you choose, documents that will be shared among multiple funding applications (e.g., financial statements, organizational documents, etc.) can be stored in the Document Repository. Documents held in the Repository can be attached to any application by a team member.

- Adding documents to the Document Repository:
 1. Administrator login required.
 2. Click “Document Repository.”
 3. Click “Add New Document.”
 4. Click “Choose File” to locate the document.
 5. Click “Open.”
 6. Check the box marked “Private Document?” if the document contains personal or sensitive information that you do not wish to be viewable by other team members.
 7. Enter an expiration date if the document is only valid for a specific time frame.
 8. Click “Upload Document.”
 9. To remove a document, click “X” to delete the item and then click “Delete Document” to permanently remove it from the Document Repository.
- Naming the document files:
 - Name the file exactly as it appears on the checklist; e.g., “1. Nonprofit Application Fee.pdf”. If you wish to add the name of the project to the file name, please add it at the end of the file name.

- Uploading document files:
 - Each required checklist item must have a document uploaded, except for those documents that are not applicable to the project. For non-applicable documents, you may click the “N/A” button.
 - If you upload multiple versions of the same checklist item, be sure to delete all of them with the exception of the most current version. Otherwise, multiple copies will upload and KHC will be unable to determine the most current version.
 - The maximum file size for attachments is 12 megabytes. If an attachment exceeds 12 megabytes, it may be provided solely on the disc or flash drive; however, a sheet must be uploaded to the application system indicating the attachment is located on the disc or flash drive.
 - Examples of attachments that may exceed the file size limit are building plans, specifications, PCNA, appraisals, market studies and environmental reviews.
 - If possible, plans and specifications should be uploaded. Otherwise, the plans and specifications must be submitted on a disc or flash drive and received at KHC by the close of business on the application due date.
 - **Each electronic document, including building plans, must have all pages contained in a single file per document type.** For example, all pages of the plans must be in one document, all pages of the PCNA must be in one document, etc.
 - **Please do not break large documents into several smaller files for the purposes of uploading to the online portal.**
 - Cover sheets are not needed; please do not upload cover sheets with your documents.
 - Underwriting Model (UM) – be sure that you complete and upload the most current UM version and submit in Excel format.
 - After all checklist items have been uploaded and the application has been submitted, the user will receive an e-mail that the items have been successfully uploaded and received.
 - To mitigate any potential problems with uploading documents due to system overload or other technical issues, it is recommended that you do not wait until the last day to upload the application attachments.
 - **For additional assistance with the online application, please contact KHC’s Annamaria Budzinski at abudzinski@kyhousing.org or (502) 564-7630, ext. 458.**

The disc or flash drive must be identified with the project name, developer name and application number. **Documentation not provided may result in the application not meeting scoring requirements.** The disc or flash drive must be received by **5:00 p.m. Eastern time on Monday, December 15, 2014** at:

**Kentucky Housing Corporation
Multifamily Finance Department
1231 Louisville Road, Frankfort, KY 40601**

It is the applicant’s responsibility to plan enough time for mail, overnight, or hand delivery to ensure the disc or flash drive is received at KHC by 5 p.m. on December 16, 2014. The online application will close at **5 p.m., ET, on Friday, December 12, 2014**. Time is of the essence for application submission, and applicants are encouraged to not wait until the last few minutes to upload additional information or to submit their application. KHC’s systems experience a high volume of activity as the application due date and time nears, which may cause for slower submission times.

For the application to be complete, the most current version of the KHC underwriting model (Excel version) must be uploaded via the online application. The application attachments must be identified with the exact checklist name of the attachment. Developers submitting multiple applications are only required to submit one copy of their financial information; however, the developer must clearly identify within each application that the financials have been submitted.

Application Scoring and Review Process

Funding is based on a three-step process. Applications must pass all three steps before funding can be determined. Failure to meet the requirements of any step 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. In addition, KHC may reject any application that is incomplete or 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.

Stage I: Scoring Criteria – Applications will be scored based upon capacity of the development team, project design and location, and financial design. All applications must achieve a minimum score as referenced in the score sheet 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 based on the information contained within the application and supporting attachments. KHC will review and score each application based on the information presented and, at its discretion, may contact applicants only to clarify information submitted with the application. If KHC experiences difficulties retrieving attachments that were uploaded to the online application system, staff will look to the disc or flash drive provided. If KHC is still unable to open an attachment, KHC will contact the applicant to have paper copies provided.

Ties in scoring will be resolved in accordance with the following priorities:

1. Projects with the highest percentage of total development cost attributed to acquisition and hard costs. The percentage will be carried out two decimal places.
2. Lower amount of Housing Credits per unit (Housing Credit projects) or lower amount of KHC resources (non-credit projects).

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 agree. **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 is required to be submitted with the 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 and are only valid for one year from the date of the study/analysis.

Development Team Capacity and Credit Review

KHC will conduct a review of the experience and capacity of development team members **prior** to application submission. The result of this review will determine whether an organization may participate in the upcoming program year and/or if any scoring issues are present. If any of the parties participating in the project have outstanding fees or other payments due to KHC, those obligations must be satisfied prior to submitting a funding application.

All applicants must complete the Capacity Scorecard contained within the Universal Funding Application (UFA). The scorecard will assess the capacity and experience of the members of the development team, monitoring history, financial management, and past performance. KHC will review the applicant's self-score and will complete its own capacity assessment and assign a score, which will be returned to the applicant. A minimum of 60 percent of the possible points on the scorecard must be achieved in order to continue with the application process.

Full Disclosure

KHC requires full disclosure of who is involved in a proposed development, including all entities and individuals in the development team organizational structure. The following are the rules of disclosure:

1. Each project participant must include in the application a statement concerning all criminal convictions, indictments, and pending criminal investigations of all members of the development team and must provide dates and details of each circumstance, unless otherwise prohibited by court order, statute or regulation. KHC may perform a full criminal, employment, and credit investigation of all development team participants to verify credit and criminal history.
2. Any relationship between individuals or entities of the development team that could constitute a conflict of interest or identity of interest between the parties must be disclosed.
3. Complete organizational charts must be submitted for the owner and developer entity that clearly show all principals down to individuals involved in the ownership and development of the project. Please note that no change to the project owner/developer structure can be made without the express consent of KHC.
4. **All** development fee sharing arrangements must be disclosed. KHC considers all individuals or entities that receive a portion of the development fee to be part of the development structure.
5. **All** guarantor agreements must be disclosed. KHC may determine that a guarantor is actually a real party in interest to either the General Partner and/or Developer entities.
6. **All** consulting agreements, whether direct or indirect, paid or unpaid, shall be disclosed. KHC will review the amount of consulting fee to determine if a consultant is a real party in interest to either the general partner and/or developer entities.
7. **All** pending litigation that could result in suspension or debarment as defined in KHC's policy.
8. Significant non-performance in a government housing program (including Fannie Mae, Freddie Mac, and Federal Home Loan Bank programs) must be disclosed.
9. Any development team member that has an adverse credit history including but not limited to a default in the payment of any commercial or personal loan must disclose that information.

Organizational and Credit Documents

All applicant/developers, owners/general partner(s), and guarantors (other than individual guarantors) must submit the following documentation based on its organizational structure. If the ownership entity is yet to be formed, this documentation is not required with capacity review submission.

Corporation:

- Articles of Incorporation, and any amendments
- Bylaws, and any amendments
- Kentucky Secretary of State Certificate of Existence
- Current Financial Statements – 2 years' Balance Sheet, Profit & Loss and Cash Flow Statements
- Business Credit Report Authorization
- Most recent one year business tax return
- Corporation's Tax Identification Number

Nonprofit Corporation:

- Articles of Incorporation and any amendments
- Bylaws, and any amendments
- Kentucky Secretary of State Certificate of Existence
- IRS 501(c)(3) status letter
- Current financial statements – 2 years' Balance Sheet, Profit & Loss and Cash Flow Statements
- A current listing of the Board of Directors and their current occupations.
- A resolution from the nonprofit's Board of Directors that authorizes:
 - The application being made for specific KHC Multifamily Finance funding (e.g. tax-exempt bonds, Housing Credits, HOME, AHTF, or other KHC resources that may be available),
 - The amount of ownership interest the nonprofit has in the venture;
 - The nonprofit's specific liabilities in the development; and
 - The anticipated percentage of the developer fee the nonprofit will receive and the percentage that will be shared with another entity
- Business Credit Report Authorization
- Most recent IRS Form 990
- Nonprofit Questionnaire
- Note: nonprofit organizations are required to have the provision of affordable housing listed as one of their designated purposes in the Articles of Incorporation and/or Bylaws.**

Limited Liability Company:

- Operating Agreement, and any amendments
- Articles of Organization, and any amendments
- Manager Managed or Member Managed (indicate where in Articles or attach)
- Kentucky Secretary of State Certificate of Existence
- Current Financial Statements – 2 years' Balance Sheet, Profit/Loss & Cash Flow Statements
 - Note: A new LLC will require individual members' financial reports and credit reports
- Business Credit Report Authorization
- Most recent one year business tax return
- LLC's Tax Identification Number

Government Entity:

- Resolution from Appointing Authority
- Bylaws, and any amendments
- Current financial statements – 2 years' Balance Sheet, Profit & Loss and Cash Flow Statements

Partnership:

- Partnership Agreement (General and/or Limited) and any amendments (need Certificate of Limited Partnership for LPs)
- Kentucky Secretary of State Certificate of Existence
- Current credit report(s) for general partner(s) reflecting recent transactions
- Current financial statements (2 years' Balance Sheet, Profit & Loss and Cash Flow Statements)
- Business Credit Report Authorization
- Personal Credit Report Authorization
- Partnership's Tax Identification Number
 - Note: A new Partnership will require individual partners' financial reports and credit reports

Foreign Entity:

- In addition to the above, all foreign entities must provide copies of their qualification to do business in the Commonwealth of Kentucky.

Capacity and Credit Review Attachments

The following items must be uploaded with the online application for KHC to complete the capacity and credit review:

1. Organizational and Credit Documents

Dependent on their organizational structure, the organizational documents as outlined above must be provided for all applicant/developers, owners/general partner(s), and guarantors (other than individual guarantors). If the ownership entity is yet to be formed, this documentation is not required with capacity review submission, but must be provided at Technical Submission.

2. Description of Affordable Housing Experience

A brief narrative must be provided that describes the experience of the organization with regard to the development of subsidized affordable housing, including the number of projects and units that have been completed and placed into service.

3. Out-of-State Development Verification

All applicants/developers (both in state and out-of-state) and management companies must submit a copy of the Housing Finance Agency (HFA) review for projects financed with HFA resources in other states. This form can be located on KHC's website. KHC will evaluate each state's response and may contact a state HFA directly to obtain additional information, as well as request additional information from a developer regarding its activities in another state. Each state's development verification form is due to KHC by **December 12, 2014**. It is strongly encouraged that the applicant/developer provide this form to the other state HFAs as early as possible to allow them adequate time to complete the form and return to KHC by this deadline.

4. CHDO Certification Application

Nonprofit applicants applying for HOME funds from the CHDO set-aside are required to also apply for certification as a Community Housing Development Organization (CHDO), even if the nonprofit was previously certified as a CHDO. The CHDO certification application, which is available on KHC's website, must be completed and submitted with the capacity review documents prior to submission of the full application. The CHDO certification process must be completed each time the nonprofit agency applies for HOME funding from the CHDO set-aside.

5. Notification of Application for Funding

As a threshold item, all projects of 12 or more units and all Housing Credit projects must submit the completed form to evidence that the local mayor/county judge executive and State Representative and State Senator have been notified of the proposed project and have had an opportunity to provide comments. This form can be located on KHC's website.

6. Nonprofit Questionnaire

This form must be completed by all nonprofits with any ownership interest in the development and that wish to compete in the nonprofit set-aside. This form is located on KHC's website and must be uploaded with the online application attachments.

7. Project Summary

Developers must submit a spreadsheet summary of all projects under construction in any state (in any stage of completion), including their status and expected completion date.

8. Organizational Chart

A full organizational chart, staff roster, and resumes of key development staff within the organization, focusing on their affordable housing development experience (required for **Applicant/Developer, Consultant, Nonprofit and Management Company**).

9. Accessibility/Energy Certifications

Development teams are required to have at least one or more members (developer, architect, contractor, third-party inspector, etc.) that have passed the accessibility exam and one or both of the energy exams below and provide copies of the applicable certifications:

- International Code Council, Accessibility Inspector/Plans Examiner-21 exam, **and**
- International Code Council, Residential Energy Inspector/Plans Examiner-79 exam, and/or
- Commercial Energy Plans Examiner with ASHRAE 90.1 exam

If no member of the development team has the required accessibility/energy certifications, the applicant must provide a written commitment that the certifications will be obtained by at least one member of the development prior to the start of construction. The applicable certifications may then be submitted at the Pre-Construction/Pre-Closing Stage.

10. Identity of Interest/Conflict of Interest

A narrative identifying any identity of interest or conflict of interest that may exist, the parties involved, and their role in the development.

11. Project Narrative

A narrative that explains the proposed application for the current funding round, including:

- The allocation pools in which the single application will compete.
- The roles that the various organization(s) will play in the project.

12. Individual Guarantor Documentation

- a) Three years' personal tax returns
- b) Current personal financial statement
- c) Current bank statements
- d) Personal Credit Report Certification/Authorization Form
- e) KHC Personal Financial Statement (Must be prepared electronically and printed. Form is located on KHC's website at www.kyhousing.org).

Credit Review Documentation

Credit review documentation must be submitted for both the developer and general partner(s) of the ownership entity of the project. If no general partners are known at the time of application submission, the credit review documentation must be submitted for the developer entity at a minimum. Failure to submit credit review documents will result in KHC denying the application. KHC reserves the right to request additional financial information as required to conduct this review.

Developers or general partner(s) submitting multiple applications are only required to provide credit review documentation once; however, each application submitted must clearly identify where the submitted documentation can be located if included with a different application.

KHC may require a guarantor for projects allocated KHC resources (excluding Housing Credit only projects). The guarantor may be any entity or individual, other than the borrower (if the borrower is a single asset entity) and general partner(s)/managing member of the ownership entity, which has adequate financial resources and capacity to accept liability for completion of the project or repayment of all KHC resources in the event of default or termination of the project. Guarantees to KHC must be effective for the life of the loan. Individual guarantors must submit the documentation identified in the capacity and credit review attachment checklist above.

All business financial statements must be compilation statements or audited financial statements prepared in accordance with Generally Accepted Accounting Principles (GAAP). If submitting compilation statements, there must be a certification contained with the statements certifying that they meet the requirements for a compilation statement.

KHC will order a business credit report from Equifax on all developers, general partner(s), and guarantors where applicable.

Development Team Creditworthiness

KHC may perform a credit investigation on all development team members (owner, developer, management company, consultants) for a project which an application is submitted. In order to be eligible to participate, development team members must be current in all outstanding fees owed to KHC, including but not limited to compliance monitoring fees and Housing Credit allocation fees.

Project participants that are deemed ineligible as a result of KHC's [suspension and debarment policy](#) may not participate in any project that receives KHC resources.

If an entity is determined to be ineligible to compete for KHC resources, the principals of that entity will also be ineligible. A disqualification under this subsection will result in the individual or entity involved not being allowed to participate in the 2015 competitive cycle or the tax-exempt bonds 4 percent tax credits and removal from consideration for any application where they are identified.

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, 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 handles all financial information in a confidential manner and never shares it with any other entities.

2015 Capacity Review Time Frames and Response Period

- Developers will identify the development team when they first access the online application. This system will be available on **Friday, September 12, 2014** for the current funding 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 within two weeks of receipt of the capacity review documents.
- To ensure the highest possible standard of accuracy and thoroughness, applicants will have five business days 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 capacity score within two (2) weeks of submittal.
- Applications entered after **Friday, November 7, 2014** will be reviewed for capacity, but **will not** have the ability to submit a written response for consideration. Any changes to the development team must be made in the capacity of the development team section of the online application. KHC will not consider any changes to the development team that do not follow this procedure.
- KHC reserves the right to modify capacity team scores if KHC receives information after the issuance of the preliminary capacity score which would result in a lower or higher score as determined by KHC at its sole discretion. In the event KHC modifies its capacity review score based on information received after issuance of the initial capacity score, applicants will have one week to provide a written response or appeal to the revised capacity score.
- Awards will be announced in February/March 2015.

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.

Scoring Response Period

Once all applications have been fully reviewed, underwritten and scored, KHC will make the preliminary project score sheet available to the appropriate contact for each application. Applicants will not be made aware how other applications have scored. KHC will establish a time by which applicants can review their initial scores and offer written feedback if they disagree with their preliminary score. This is not a cure period; therefore, applicants will not be able to submit any additional or revised documentation. The purpose of the scoring response period is to allow the applicant the opportunity to address any oversights or calculation errors by KHC staff. KHC will review the applicant's written responses and make any necessary scoring corrections, if KHC concurs with the applicant. KHC will make its final scoring decision and prepare a written response to the applicant. All funding decisions will be final and will not be subject to appeal after KHC has issued its final scoring decision.

Application Attachment Requirements

Based on the KHC funding source(s) requested, related documentation is required at application submission as indicated on the application checklist. If a required item is not submitted with the application, the project will not meet the threshold requirements and will not be reviewed or scored.

All checklist attachments must be uploaded and each document must be identified separately with the checklist item name as it appears below. If a checklist item does not apply, mark the "N/A" button in the Universal Funding Application. Following is a detailed description of items that are required at application:

1. **Nonprofit Application Fee**

- \$1,500 application fee per pool for nonprofit applicants (Housing Credit only)
- \$100 application fee for **non-credit** project submissions from nonprofit developers.
- \$2,500 per project for Tax-Exempt Bond projects.

2. **For-Profit Application Fee**

- \$2,500 application fee per pool for all for-profit applicants (Housing Credit only)
- \$500 application fee for **non-credit** project submissions from for-profit developers.
- \$2,500 per project for Tax-Exempt Bond projects.

The application fee must accompany each project submitted. If applying for two different Housing Credit 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 and all application fees (nonprofit and for-profit) are non-refundable. The application fee check must reference the project name and application number.

3. **Self-Scored Score Sheet**

Submit an Excel version of the score sheet completed with the developer's self-score. Do not submit a PDF version. Applicants are encouraged to use the comment sections of the score sheet to provide any explanations necessary.

4. **Application Training Certificate**

All applicants in the 2015 funding round are required to attend one of the application training sessions conducted by KHC staff in September 2014. Applicants must provide a copy of the application training certificate that was distributed at the trainings to evidence their attendance.

5. 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 or for applicants KHC has determined would benefit from a technical assistance meeting. Refer to the Introduction and General Information section for technical assistance requirements.

6. Letter of Support

(Housing Credit projects applying in the Community Impact Pool or lease-purchase projects)

As a threshold item, **all Housing Credit applications for the Community Impact Pool or lease-purchase projects** must include a letter 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.

The letter must:

- 1) detail the need for the project;
- 2) address the benefit the project will bring to the community;
- 3) address the local jurisdiction's level of participation in developing the scope of the project;
- 4) specifically identify how the project will meet an identified need in the community as defined in a local revitalization plan, or how the project will address a critical community need through the creation of new housing opportunities.

7. Local Revitalization Plan

Projects that are seeking scoring points for the creation of new affordable housing units that are recognized in a local community revitalization plan must submit a copy of the revitalization plan. The section(s) of the plan that specifically recognizes the proposed project must be clearly marked and identified within the plan.

8. Notification of Application for Funding

(Projects of 12 or more units and all Housing Credit projects)

All projects of 12 or more units and all Housing Credit projects must submit evidence that the completed form was received by the appropriate local and state officials; e.g., a registered mail receipt or other acknowledgement of receipt. A copy of the completed [Notification of Application for Funding](#) form as sent to the local and state officials must have been provided with the capacity review documentation prior to application submission.

9. IRS 501(c)(3) – Nonprofits Only

Include a copy of the IRS 501(c)(3) designation to verify the tax-exempt status of all nonprofit organizations participating in the development, ownership or management of the project.

10. Certificate of Existence

(Required for Kentucky-Based Companies)

A Certificate of Existence from the Kentucky Secretary of State (<http://sos.ky.gov>) must be provided for each Kentucky-based company pledged in the project. For members of the development team that are Kentucky-based, this documentation should have already been provided prior to application submission during the capacity review stage.

11. Executed Contract/Letter of Intent

(Required for Kentucky-Based Companies)

An executed contract or letter of intent is required for each Kentucky-based company pledged in the project. The contract/letter of intent must disclose the parties involved, their roles and responsibilities, and compensation. The proposed services must contribute to the project in a meaningful way (e.g., contractor, subcontractor, attorney, appraiser, market analyst, architect, etc.), with a minimum \$1,000 contract amount. The contract or letter of intent must be executed within three months of the application submission date.

12. Certification of Disadvantaged Business Entities

Certification is required for development team members or companies pledged in the application that are participating in the project and are qualified as a minority- or women-owned business enterprise (MBE/WBE), disadvantaged business enterprise (DBE), veteran-owned small business (VOSB), or service-disabled veteran-owned small business (SDVOSB). Refer to [Chapter 10, Scoring Criteria](#), for certification requirements.

13. Workforce Investment Plan

Applicants proposing to employ at least three individuals referred from a Kentucky One-Stop Career Center must submit a workforce investment plan that has been approved by a local workforce investment board. The individuals may be employed by a member of the development team, a contractor, subcontractor or any entity that is providing services to the project. The employment may be through an apprenticeship or other training program. To find local workforce investment contacts, see www.oet.ky.gov/des/wis/wfservices.htm or www.oet.ky.gov/des/documents/LWIAContacts2009.pdf.

14. Applicant/Developer Certification Form

The Applicant/Developer must certify that:

- The information in the application and supporting documentation is accurate.
- 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.
- They have read, understand and will comply with all policies and requirements of the KHC Multifamily Guidelines and Qualified Allocation Plan, as applicable.

15. Consultant and/or Administrative Contract

If a consultant or administrator is part of the development team, an executed copy of the contract is required and must detail the services provided, the consultant's role in the project and how they will be compensated.

16. Consultant Certification

The consultant must certify that the information within the application and supporting documentation is accurate and correct; that the project complies with applicable KHC design standards; and that they and the development team are in good standing with the Kentucky Secretary of State and the federal government.

17. **Management Certification**

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

18. **Kentucky Intergovernmental Review Process**

(Required if requesting HOME or Risk-Sharing funds)

Applicants requesting HOME or Risk-Sharing funds must submit to the State Clearinghouse through the Department for Local Government's online system at <https://kydlgweb.ky.gov/FederalGrants/eClearinghouse.cfm>. Successful submission to the online Clearinghouse system will generate a confirmation that includes the SAI number. A copy of this confirmation is a required checklist attachment.

19. **Tenant Selection Plan Preferences**

If the applicant/owner has committed to any of the following tenant preferences, a signed statement to this effect must be provided. All preferences must be reflected in the Tenant Selection Plan, which is required at the Technical Submission Stage.

- **Persons on the local public housing agency (PHA) waiting list:** In their written commitment, the applicant/owner must agree to notify the local PHA of property vacancies and to give preference to individuals on the local PHA waiting list.
- **Veterans housing:** The applicant/owner commits to give priority to U.S. military veterans. The tenant selection plan must identify the documentation required to verify the tenant is a qualified veteran.
- **Supportive housing (non-rental assisted units):** The applicant/owner commits to serve households up to 50 percent AMI utilizing Section 811 project-based voucher rental assistance and to set-aside up to 25 percent of the project's total non-rental assisted units for the purpose of providing integrated housing opportunities to a target population, which includes persons with serious mental illness exiting licensed personal care homes or psychiatric hospitals, persons with serious mental illness who are at risk of institutionalization, or populations under the Money Follows the Person program (individuals transitioning from Medicaid-funded long-term care settings). Refer to [Chapter 12, Basic Terms](#), for the definition of eligible Section 811 PRA tenants.

Note: if Section 811 rental assistance is not awarded, the commitment to serve 50 percent AMI households must remain.

OR

Supportive housing (rental-assisted units): The applicant/owner commits to give a leasing preference on up to 25 percent of the project's total rental-assisted units for the purpose of providing integrated housing opportunities to a target population, which includes persons with serious mental illness exiting licensed personal care homes or psychiatric hospitals, persons with serious mental illness who are at risk of institutionalization, or populations under the Money Follows the Person program (individuals transitioning from Medicaid-funded long-term care settings).

All projects providing supportive housing units must provide a supportive housing service plan, letters of service commitment and letters of referral commitment (see below).

20. Permanent Housing Plan

(Required for all transitional housing projects)

The plan must detail how tenants will progress from transitional to permanent housing, giving specific examples of housing options available to the participants, such as preference on a Section 8 waiting list, permanent units set aside at other affordable housing properties, etc.

21. Letter of Service Commitment

(Required for special needs, transitional housing and permanent supportive housing – includes projects giving a supportive housing preference)

A letter will be required from each agency providing services for special needs, permanent supportive housing, and transitional housing. The letter must be on agency letterhead and be signed by the executive director or their designee stating the agency's knowledge of, and support for the specific project that is being submitted for funding consideration and that the agency will provide supportive services of appropriate type and quantity to eligible project residents. The letter must state the agency's commitment to provide case management's services to project residents. A requirement to participate in these services **cannot** be a condition of the lease. **This letter can be combined with the Letter of Referral Commitment (below), if applicable.**

22. Letter of Referral Commitment

Required for special needs, transitional housing and permanent supportive housing – includes projects giving a supportive housing preference)

A letter will be required from each agency providing tenant referrals for special needs housing, permanent supportive housing, and transitional housing. The letter must be on agency letterhead and be signed by the executive director or their designee stating that eligible individuals in the special needs population targeted by the proposed project will be referred to the project and provide an estimate of the number of referrals on an annual basis.

23. Supportive Housing Service Plan

(Required for permanent supportive housing and projects with supportive housing preference)

The service plan must contain the following information:

- The supportive service needs of the targeted population and the experience of the service provider with providing these services to this special needs population. In particular, a description of the agency's ability to provide case management services.
- An explanation of how the services provided meet the target population's service needs.
- A description of how the efficacy of the supportive services will be evaluated; for example, objective measure of stable housing tenure and subjective evaluation by residents of their quality of life.
- A description of the target population's service needs not provided by the primary service provider and a listing of other agencies in the community that might provide these services, along with the methodology to be used to link individuals with these other agencies.
- The source of funding for the supportive services and an estimate of how long the services can be provided.

24. Scholar House Participation Letter

Scholar House projects must submit a letter from an official of the affiliated college(s) or university(s) that confirms their participation in the project and identifies their role and any commitment of funding to the project.

25. Proof the Compliance Period Ended

(Required for rehabilitation projects previously awarded Housing Credits)

Existing affordable housing projects previously assisted with Housing Credits must provide evidence that the initial 15-year compliance period has expired in order to be eligible to apply for additional Housing Credits. For example, a letter from KHC's Compliance Department, with the original KY#, stating the initial compliance period ending date; or a copy of the original 8609s indicating the buildings' placed-in-service dates; or a copy of the original LURA.

26. Preservation of Existing Project-Based Units

(Required for projects rehabilitating project-based units)

For projects proposing to rehabilitate units with existing Project-Based Rental Assistance from the U.S. Department of Housing and Urban Development (HUD) or USDA Rural Development (RD), a letter from the appropriate governmental agency must be provided detailing when the project was placed-in-service, the number of rental-assisted units, and whether or not the project has been substantially rehabilitated since its initial placed-in-service date. Projects with a KHC rental assistance contract will be verified in-house.

27. Relocation Plan

(Required on all rehabilitation projects involving current tenants)

A relocation plan must be provided if the project is rehabilitating existing rental units, even if no tenants are anticipated to be relocated. The plan must detail if permanent or temporary relocation will be involved, how the relocation will occur, who will pay for it, and how the tenant will be compensated. Anticipated relocation expenses must be budgeted in the underwriting model. Projects utilizing HOME and/or Risk-Sharing are required to follow the Universal Relocation Act (URA). Projects proposing AHTF only may refer to KHC's relocation requirements in [Chapter 7 Funding Sources and Requirements](#) of these guidelines.

28. Guideform Notice Disclosure to Seller

(Required for all HOME and Risk-Sharing projects)

A [Guideform Notice Disclosure to Seller](#) with Voluntary, Arm's Length Purchase Offer must be given to all sellers disclosing that the purchase offer is voluntary and an arm's length transaction, in addition to disclosing the estimated fair market value of the property and that the purchaser does not have the power of eminent domain. The notice is available on KHC's website, www.kyhousing.org, under Development; Multifamily; Applications, Guidelines and Scoring; [Application Attachments](#).

29. Guideform General Information Notice

(Required for all HOME and Risk-Sharing rehabilitation projects with current tenants)

This notice is required to be given to all current tenants advising them of the impending federally-assisted rehabilitation of their unit and of their rights under the Uniform Relocation Act. Tenants who move in to the property after submission of the HOME or Risk-Sharing application must be provided with the **Move-In Notice**.

30. Lead-Based Paint Determination Form

(Required on rehabilitation projects built prior to 1978)

Rehabilitation of projects built prior to 1978 must complete the [Lead-Based Paint Determination form](#) to identify the level of lead treatment required. This form is located on KHC's website at www.kyhousing.org, under Development; Multifamily; Applications, Guidelines and Scoring; [Application Attachments](#). Any anticipated expenditures related to lead-based paint assessment, abatement, and/or clearance must be budgeted in the underwriting model.

31. Location Map and Directions

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. For Housing Credit projects, the map must identify the location within the qualified census tract (QCT), if applicable. Please provide detailed directions from Frankfort, Kentucky to the site.

32. Rural Development (RD) Property Eligibility Determination

All applicants must provide a copy of the RD property eligibility determination to document the project's location as being either urban or rural. Applicants may access the [RD Property Eligibility website](#), click "Multi Family Housing" and then enter the property address. A printed copy of the eligibility determination must be uploaded as an application attachment.

33. Demand Response Transportation

(New construction/adaptive reuse projects only)

Applicants seeking points in the demand response transportation (DRT) scoring category must provide documentation from the DRT provider that identifies the hours/days of service, available destinations and cost to the user, if any.

34. Preliminary Plans (submit electronically)

Plans must be uploaded as one single PDF document. If the applicant is unable to upload the plans due to file size exceeding 12 megabytes, the plans may be submitted on a disc or flash drive as one single PDF document. All plans must clearly show the number of units.

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 applicable unit type**.

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.

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.
- Wallthickness, exterior finishes, doors, windows, cabinets, plumbing fixtures, closets, etc.
- Complete dimension of each typical unit so room sizes can be determined.

Wall Detail

- Foundation-to-roof wall detail showing [REScheck](#) values must be included in preliminary plans.

Elevations

Elevations must show all four sides of the building(s) and include 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 clearly showing elevations for all sides of the buildings may be submitted in lieu of elevation drawings with the application. **The minimum acceptable photograph size is 5-inch by 7-inch.** However, elevation drawings **will** be required during the Technical Submission Stage.*

Universal Design

Universal design is required for all projects receiving KHC financing 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.

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 website, www.kyhousing.org, under Development, [Design and Construction](#).

Minimum Design Standards

In specific circumstances, Minimum Design Standards apply to new construction, adaptive reuse and reconstruction of all multifamily homes constructed with any funding resource(s) from KHC, including Housing Credits. 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 website, www.kyhousing.org, under Housing Production, [Design and Construction](#).

Federal and State Accessibility Requirements - Section 504

New Construction of Housing Facilities: If a project is requesting HOME, Risk-Sharing, or Project-Based Section 8 (when available), 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 [Universal Federal Accessibility Standards](#). See 8.22, 24 CFR Chapter 8.

Alterations of Existing Housing Facilities: If a project 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.

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 website at www.fairhousingfirst.org.

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.

35. Work Write-Up Description

(Required for all rehabilitation projects)

Projects of 12 or more units: 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 Housing Credits and/or \$250,000 or more of funding from KHC, a PCNA will be required in addition to the work write-up. The work write-up can be incorporated in the PCNA 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 building.
- All exterior work to be performed and materials to be used in all outdoor common areas.

If commercial space is involved, all costs associated with its rehabilitation should be itemized separately. Any work 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 roof cost should be attributed to the commercial space. If the square footage were different, it should be done on a percentage of the total amount.

36. 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 manufacturers.

All documents that pertain to the contract for construction shall be included, if applicable. The specifications should include the following **23 divisions:**

Division 01- General Requirements	Division 13- Special Construction
Division 02- Existing Conditions	Division 14- Conveying Equipment
Division 03- Concrete	Division 21- Fire Suppression
Division 04- Masonry	Division 22- Plumbing
Division 05- Metals	Division 23- HVAC
Division 06- Carpentry	Division 26- Electrical
Division 07- Thermal & Moisture Protection	Division 27- Communications
Division 08- Door & Windows	Division 28- Electronic Safety & Security
Division 09- Finishes	Division 31- Earthwork
Division 10- Specialties	Division 32- Exterior Improvements
Division 11- Equipment	Division 33- Utilities
Division 12- Furnishings	

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

37. **Site Plan**

(Required for all projects types)

- 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 remaining structures 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 rights-of-way 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.

38. **Floodplain Map**

(Required for all project types)

For new construction projects, all portions of the project site essential to the use of the tenants (i.e., buildings, parking lots, entrance to the development), must be out of the floodplain. Any non-essential portions of the site that are in a floodplain must be deed restricted to prohibit their future development.

For rehabilitation of currently occupied rental housing in a floodplain, the project must be located in a community that participates in the National Flood Insurance Program (NFIP) and the property must have federal flood insurance in an amount sufficient to replace the existing improvements and fixtures in the event of a loss. KHC must be named as an insured on the policy. **Rehabilitation of vacant structures located in a floodplain is not eligible.**

One of the following must be submitted to demonstrate that the project structures and other portions of the site essential to the use of the tenants are not located in a floodplain:

1. A Federal Emergency Management Agency (FEMA) map showing that project structures and other essential portions of the site are not located in the 100-year floodplain and structure locations are clearly marked on the map.
 - Projects in which any portion of the property is located in the floodplain on a FEMA map must additionally submit a signed, stamped, and dated survey showing the location of the floodplain and all existing building structures.
 - Information or maps generated from a local jurisdiction database or similar alternative will not be accepted.
2. Flood Determination certificate indicating that project structures are not located in the 100-year floodplain. The certificate must be from a Flood Zone Determination Company listed by FEMA at <http://www.fema.gov/business/nfip/fzone1.shtm>.
3. A signed, stamped, and dated letter from a licensed surveyor stating the project structures are not located within a 100-year floodplain.

4. A licensed surveyor's report of reclassification and FEMA Letter of Map Alteration must be attached if the property was previously located in the floodplain but has been built up and is no longer in the floodplain. The report must clearly state all land to be utilized for project structures has been raised at least one foot above the floodplain.

39. Physical/Capital Needs Assessment (PCNA)

(Required for all rehabilitation and adaptive reuse projects)

A PCNA is a written report performed by a qualified inspector for the purpose of rehabilitation of an existing structure into housing units. The PCNA defines the necessary repairs required to provide safe, quality, and affordable housing. PCNAs are valid for a term of one year; beyond that, KHC requires a signed and dated certification from the licensed professional who compiled the original document attesting to its current accuracy and applicability.

All rehabilitation projects of **12 or more units and** total KHC funding of \$250,000 or more are required to submit a PCNA as an attachment to the application. **All applications requesting Housing Credit for rehabilitation and adaptive reuse will be required to submit a PCNA, regardless of project size.** Applicants are responsible for all associated fees.

***Note:** For projects funded by KHC and utilizing an RD loan, KHC will forward a copy of the PCNA to RD upon KHC's funding announcement for RD to begin its review process.*

A complete and thorough inspection shall be conducted to all existing structural components, appliances, mechanical, and electrical systems to determine the life expectancy, needed repairs, and/or replacement. The needs assessment inspector and appraiser shall work closely together to ensure consistency concerning areas of square footage, number of buildings, and bedrooms.

Physical/Capital Needs Inspector Qualifications:

- All inspectors and/or firms must be insured as directed by KHC.
- Inspectors must be experienced and possess sufficient background inspecting multifamily residential housing.
- Inspectors shall be licensed architects and/or engineers qualified to complete the assessment. The inspector may also consult with structural, mechanical, or electrical engineers to provide expert opinions as to the existing condition of a particular item. Outside consultants employed shall also meet all the requirements as set forth for an inspector including insurance.
- All PCNAs must be conducted by independent third parties.

Physical/Capital Needs Report Requirements:

(These specific items must be addressed in each report)

- The report shall describe, in detail, all rehabilitation work required including all respective related additional work. Separate estimates for both must be provided.
- A minimum of 25 percent of all units and at least one of each type must be inspected prior to preparation of the report.
- A cost estimate of all the repairs and/or replacements must be included.
- All write-ups should indicate the items and areas in need of immediate repair. A separate analysis should be completed on all components that will need repair or replacement within the next five years.

- Provide a report on all existing conditions or items in violation of applicable building codes or ordinances. Corrective measures required to bring all items into compliance must be thoroughly detailed.
- Any visible evidence of hazardous substances, including but not limited to: asbestos containing material, lead-based paint, petroleum bulk storage, polychlorinated biphenyls, and chlorofluorocarbons, must be noted.
- Cost estimates for any items requiring action due to market demand. These will be provided to the inspector by the appraiser or KHC.
- Deferred maintenance not performed on a normal operating basis, including estimates of corrective costs.
- 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. While not required, additional information may also need to be recorded on separate sheets and attached.
- Any corrections required by KHC must be addressed in the report.
- All reports must include an electronic version of KHC's Excel spreadsheet "Capital Reserve Replacement Schedule" as an integrated part of the report or as an addendum.

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 projection extending to or beyond the term of KHC's loan, or a 20-year term PCNA if the project is only requesting Housing Credits. KHC will also require a subsequent PCNA in year 15 and require the project to adjust the capital reserve replacement schedule accordingly for all projects obtaining KHC Risk-Sharing, HOME, or AHTF gap financing from KHC.

Adaptive reuse projects in which a complete interior demolition is proposed need only provide a physical/capital needs assessment, which addresses electrical and mechanical systems, building exterior, foundation, window, roof and all remaining structural components.

Projects that were unsuccessful in the most recent previous funding round may resubmit the PCNA that was provided in the previous funding round; however, if funded, the PCNA must be updated at technical submission. Applicants resubmitting a PCNA from a previous funding round must provide a letter or memo indicating that it is a resubmission.

40. Capital Reserve Replacement Schedule (CRRS)

(Required for all Housing Credit projects)

A [Capital Reserve Replacement Schedule](#) (CRRS) is a projection of the anticipated capital needs of the property. At this time, only Housing Credit projects are required to submit a CRRS; however, KHC may require a CRRS on non-credit projects in future funding rounds.

CRRS Preparer Qualifications:

Persons qualified to complete the CRRS are:

- The project's architect
- Any firm/person that would meet KHC's qualification requirements for a PCNA

CRRS Report Requirements:

(These specific items must be addressed in each report)

- The projection must use KHC's current version of the Excel spreadsheet "Capital Reserve Replacement Schedule."
- The CRRS must come with a transmittal from the report preparer identifying themselves and their qualifications.
- The schedule must list individual sets of major components that are anticipated to require replacement using the reserve account during the projection term.
- The CRRS must utilize the Fannie Mae Expected Useful Life (EUL) tables when inputting the EUL into the projection.
- CRRS projections are valid for a term of one year before an update is required.
- Future draw requests from the reserve account will be compared to the CRRS projection to verify it is an item planned to be covered by the schedule.
- Additional requirements are located in the instructions tab of the [CRRS spreadsheet](#).

41. Photographs (color or color copies) of existing rental structure(s)

Provide photographs of any existing rental or other structures on the project site, if applicable. Photos must be in color or color copies. Black and white copies are not acceptable.

42. 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.
 - In the event the county does not have zoning, a letter from the county judge or mayor must 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 site location must be clearly indicated on the map.**

43. Evidence of Site Control

(Required for all project types)

All projects must have site control on 100 percent of the project sites, including scattered sites. Documents submitted for evidence of site control must be fully executed and sufficiently identify the subject property. 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 (**The contract cannot contain seller's right of first refusal language.** If the contract expires prior to closing, then proof must be provided evidencing the means to purchase the property prior to closing.)
- Current Option to Purchase (**The option cannot contain seller's right of first refusal language.** It must be extended through announcement period and contain a clause for

renewal. If no renewal clause, then proof must be provided evidencing the means to purchase the property prior to closing.)

- Current Lease Agreement/Option to Lease (the lease period must be through entire affordability period.)

Note: For federally-funded projects (HOME and Risk-Sharing), the new owner may not take legal possession of the property until after environmental clearance has been achieved, unless the deed transfer or lease was executed prior to submission of the KHC funding application.

KHC will evaluate the legal interest directly owned or controlled by the applicant at the time of application. An applicant 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.

44. Deed Restrictions/Subdivision Restrictions

Provide a copy of any deed restrictions or subdivision restrictions currently on the subject property **or** a letter stating there are no deed restrictions. The letter must reference the project name and location and must be from the current owner, city/county official, or attorney.

45. REScheck/COMcheck Documentation

For new construction and adaptive reuse projects, the applicant must submit a [REScheck](#) or [COMcheck](#) calculation—free downloads from the U.S. Department of Energy—indicating the proposed design exceeds the 2012 Kentucky Energy Code. If a project is rehabilitation only, the architect or developer must provide documentation explaining how the design of the development will provide the most efficient insulation and heating system.

46. Underwriting Model

(Required on all projects)

KHC's underwriting model must be completed in Excel using the most current version for that year's funding round. The underwriting model can be found on KHC's website under Development; Multifamily; [Underwriting Resources](#).

The yellow input cells of the model are the only areas in which the applicant may enter information. **Please do not add formulas to any of the cells as this may interfere with KHC's underwriting of the project.** If an additional formula or other modifications to the model become necessary, please contact a KHC multifamily staff member.

The completed underwriting model must be uploaded with the application and included on the disc or flash drive. Scanned PDFs of the underwriting model are not acceptable. **Applicants are strongly encouraged to use the "Applicant Underwriting Notes to KHC" section** on the summary sheet of the underwriting model to provide any necessary explanations or additional information that will be helpful during the underwriting review.

47. Developer Underwriting Guidance Checklist

KHC has developed a guidance checklist to ensure that project developers have considered most of the major underwriting factors that will be reviewed by KHC. A copy of the completed checklist must be provided with the application as evidence that the developer has exercised due diligence in completing the underwriting model.

48. Novogradac Rent and Income Calculator

(Required on all Housing Credit projects; optional for non-Credit projects)

To verify rents proposed in the underwriting model are within the applicable program limits, print out the completed Rent and Income Calculator on the Novogradac website at www.novoco.com/products/rentincome.php.

49. Utility Allowance Chart

For projects proposing full or partial tenant-paid utilities, a utility allowance chart from KHC or the local PHA (in counties where KHC does not administer the Section 8 program) must be submitted with the application. KHC's utility charts are online under Development; Multifamily; [Underwriting Resources](#). For Project-Based Section 8 or RD-assisted properties, the current utility allowance must be provided from KHC, HUD, local PHA, or RD as applicable (the agency providing the rental assistance). **Historical utility usage data or base rate letters from the utility providers are not acceptable.** The [HUD utility schedule model](#) may be required on projects receiving HUD funding (e.g., HOME or other HUD loans).

50. Firm Commitments for All Non-KHC Resources

Applicants proposing other sources of construction or permanent financing (non-KHC funds) must submit a commitment letter from **all** outside funding source(s) identified in the KHC application and underwriting model, with the exception of deferred developer fee. The letter(s) must be specific as to the terms of the funding and must be on the funding source's letterhead, dated, and signed by an authorized representative of the entity providing the funds. All commitment letters must be dated within **three months** of the application submission date and identify the project name. If a rehabilitation project involves the assumption of existing debt as part of the ownership transfer, a letter from the lender evidencing the debt including the original loan amount, current balance, rate, terms, and payment amount must be provided.

Exceptions for firm commitment letters may be made for funds proposed from Federal Home Loan Bank or other governmental resources, such as Community Development Block Grant (CDBG), HOME, or funds provided by local or state jurisdictions, provided a copy of the application for these funds is submitted with the KHC application. However, firm commitments for such resources must be provided no later than **February 6, 2015**, if the applicant wishes to receive points in scoring for having firm commitments of these resources. Applicants providing written guarantees for unsecured funding sources as described above and include supporting documentation to evidence their financial ability to make such guarantees in the amount of the unsecured funding will also be eligible to receive scoring points for firm commitments.

Equity commitments must contain the specific terms for the purchase of credit (credit pricing, amount of annual credit anticipated, total equity investment, pay-in schedule, amounts of required fees, required reserve account amounts, etc.). The commitment must be on the equity provider's letterhead, identify the project name, and be dated and signed. If the project is utilizing a KHC bridge loan, the equity commitment must recognize the bridge loan and state the benefit of the delayed equity pay-in to the pricing structure and total equity investment.

Non-KHC funds that require a commitment letter may include private bank loans, developer/owner contributions, donations of cash, materials and land, Federal Home Loan Bank, HUD HOPE VI, HOME, or CDBG funds from a local government. Loan commitments must list the rate (actual and effective rate, if applicable), amortization term, and amount of the loan, as well as the expiration of the commitment, if applicable. Grant commitments must list

the grant amount and expiration, if applicable. Commitment letters may contain standard due diligence and verification requirements of the lender.

Note: Any contributions to the project by any member of the development team must be in writing, guaranteed by the contributor, and cannot be reduced after the conditional commitment of KHC resources have been awarded.

51. Guarantor's Evidence

KHC will accept evidence of an application for non-KHC resources along with a written guarantee from the owner/developer that if they are not awarded the funds for which they have applied, the owner/developer will contribute the same amount to the project. A bank statement will be required if a guarantor provides a guaranty for an non-KHC funding that is has applied for, but has not received, at the time of application. The bank statement must demonstrate sufficient liquidity to cover the guaranty of the full amount of funds for which the guarantor does not have a firm commitment.

52. Market Study / Needs Analysis

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 updated the list for 2014 through a Request for Qualification (RFQ). KHC announces the RFQ for market analysts in an eGram, as well as on KHC's website, 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.

If more than one project in a given county is awarded Housing Credits and/or other KHC resources, KHC reserves the right to require the lower scoring projects to update the project's market study to recognize and take into account the other projects funded in that county and any impact on the market's need for the units proposed in their project. Updated market studies must be submitted to KHC within 60 days of the preliminary award letter.

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 to provide KHC a basis for investment and loan underwriting decisions.

The needs analysis/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 market study is required for all projects; however, projects of four units or less may choose to submit a market needs analysis instead of a full market study. **A rent comparison study must be included in all market studies/analyses in order to determine the market rents, regardless of the project size.**

KHC reserves the right to request a market study or additional market information on **any project** or to waive the market analysis requirement for projects of four units or less if other supporting documentation, such as a waiting list, can be provided.

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.

If the applicant is seeking points in the “Availability of Public Transportation” or “Proximity to Important Destinations” scoring categories, the market study provided must identify the walking or driving distance from the entrance to the project site to the transit stop and/or destinations important to the course of daily living, as identified in the application.

A market study/needs analysis is only valid for one year from the date of the study/analysis. Projects that were unsuccessful in the most recent previous funding round may resubmit the market study that was provided in the previous funding round; however, if funded, the market study must be updated at technical submission. Applicants resubmitting a market study from a previous funding round must provide a letter or memo indicating that it is a resubmission.

53. Tenant Ownership Plan and Local Official Letter

(New construction lease-purchase projects, nonprofit urban pool applicants only)

For lease-purchase projects, the need for lease-purchase units must be included as part of the local jurisdiction’s overall revitalization plan. The applicant must provide a letter from the Mayor or County Judge Executive (or equivalent) certifying that the proposed project will meet the need identified in the revitalization plan. In addition, a tenant ownership plan must be provided. The plan must have a viable homeownership strategy for residents to purchase the units at the end of the 15-year compliance period. The plan must detail the applicant’s exit strategy and calculation of the estimated affordable purchase price for the unit and the pre-purchase counseling that will be required of the tenant. In addition, the plan must clearly show how the property will be managed during the compliance period and how the tenant’s down payment and closing cost obligation will be handled.

Note: the project must be 100 percent lease-purchase units and all units must be single-family dwellings on individual lots. The applicant must have ownership on all project sites; long-term leases are not allowed.

54. Part 1. Evaluation of National Register Status

(For projects proposing federal or state historic rehabilitation credit only)

Provide a copy of Part 1 of the preliminary application [“Evaluation of National Register Status”](#) as evidence of submission to the [State Historic Preservation Office \(SHPO\)](#).

55. Commitment Letter for Project-Based Rental Assistance

Projects proposing Project-Based Section 8, RD, or other Project-Based Rental Assistance must provide a copy of the current rental assistance contract or agreement. The contract or agreement may not be expired and must be currently in effect.

Projects with Project-Based Rental Assistance combined with other federal funding sources are required by HUD to complete a Subsidy Layering Review (SLR). The public housing

authority (PHA) that provides the Section 8 assistance must complete the SLR; however, if a local PHA wishes to have KHC complete the SLR, the PHA must submit a formal request to KHC in writing, along with additional documentation as required by HUD.

56. Current Approved Rent Schedule

(For rehabilitation projects with Project-Based Section 8, RD, or other rental assistance)

Rehabilitation projects currently receiving any type of Project-Based Rental Assistance must provide the current approved rent schedule. The schedule must clearly identify the effective dates of the rents, as well as the agency providing the rental assistance. If the rents listed on the underwriting model are different from those in the rent schedule, an explanation and justification for the inconsistency must be provided on the summary page of the underwriting model.

57. Commitment Letter(s) for Operating Subsidies

Commitment letter(s) or agreements for operating subsidies must be currently in effect and provide assurance of continuation through the applicable affordability or deed restriction period. If operating subsidies are temporary or subject to renewal, applicant must explain how operations will be funded if the subsidy is not renewed.

CHAPTER 2: Deadlines and Fees

All projects selected for funding will receive a preliminary approval letter and will be held to certain deadlines as outlined below. If the deadlines are not met, the applicant will incur penalties or lose the funding associated with the project.

Preliminary Approval Letter

KHC will send each successful applicant a preliminary approval letter indicating the initial reservation of Housing Credits and/or other KHC resources awarded. In determining the initial amount of credit and/or other KHC resources to be reserved, KHC will use the development costs, operating income and expenses submitted in the underwriting model, as determined by KHC to be reasonable. **The final amount of credit or other resources 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 preliminary approval letter, or the amount reflected in a Housing Credit carryover allocation.**

Deadlines and Fees

All fees outlined below are non-refundable, whether in whole or in part.

Housing Credit Reservation Fee

A reservation fee of 8 percent of the amount of Housing Credit reserved for a project will be charged and is due to KHC within two weeks from the date of the preliminary award of funding. Failure to pay the reservation fee within this time frame will result in the Housing Credit award being recaptured.

Risk-Sharing Application Fee

An application fee of \$3,000 for each Risk-Sharing project is due to KHC within two weeks from the date of the preliminary approval of funding. This fee is in addition to the standard application fees outlined in Chapter 1 and must be submitted as a separate check from the Housing Credit reservation fee. Refer to [Chapter 7](#) for additional fees relative to Risk-Sharing transactions.

Pre-Award Documentation

(Not applicable to projects requesting Housing Credits only)

If KHC is providing loan funds to the project, certain pre-award documentation, as outlined below, will be requested in the preliminary approval letter to assist KHC in preparation of the detailed conditional award letter. All requested documentation must be received **within two weeks** of the date of the preliminary approval letter. The preliminary approval may be withdrawn if the documentation is not received within this time frame. **This is not an all-inclusive list of items; additional documentation may be required.**

1. Preliminary title commitment
2. Preliminary survey (hard copy and electronic), if available
3. Organizational documents (if not already submitted with application)

Unless the organizational documents for the ownership entity were provided with the application, they must be submitted at the pre-award stage. If the ownership entity has not yet been formed, please provide these documents for the applicant entity. These documents will be used to verify the person authorized to sign the loan commitment on behalf of the organization. If the organizational documents do not provide this information or if the authorized signer is someone other than the person designated in the documents, a resolution stating the authorized signatory must be provided.

For Kentucky and foreign organizations (corporations, LLCs, partnerships):

(Choose as applicable; include any amendments to these documents)

- Articles of Incorporation
- Partnership Agreement
- Articles of Organization
- Bylaws
- Certificate of Partnership
- Operating Agreement
- Certificate of Authority to do business in Kentucky (foreign organizations only)

Technical Submission

Technical submission items for all 2015 projects will be due on August 3, 2015.

The applicant will receive a technical submission checklist outlining all required submission items. Projects may request up to three, 30-day extensions, but 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 only receiving HOME funding (no other KHC resources), an extension fee will be not charged. However, each extension provided may be considered for future funding capacity reviews. Extension fees must be paid prior to the expiration of the deadline. Please note: Firm commitments as noted in [Chapter 3, Technical Submission](#), must be submitted by the original August 3, 2015 technical submission deadline, and no extensions will be granted for submission of firm commitments for non-KHC resources.

Project Closing

Applicants have until **December 1, 2015**, to submit all pre-construction and pre-closing documents to KHC and to close on all KHC and non-KHC loans and Housing Credit equity. The applicant will receive a pre-construction/pre-closing checklist that will outline all outstanding or additional documentation needed.

A request for an extension may be made and, if KHC approves, the closing deadline may be extended an additional 45 days. The extension fee shall be payable to KHC on or before the expiration of the current closing deadline. **All requested extensions may be considered in the capacity scoring in future funding applications to KHC if the extension requests become excessive or routine for the development entity.**

The extension fee for non-credit projects is \$1,000 per extension. For projects only receiving HOME funding (no other KHC resources), an extension fee will not be charged due to HOME regulations.

The extension fee for Housing Credit projects is 1 percent of the preliminary credit award. KHC will increase the extension fee by ½ percent for each additional extension request.

Changes to Project Design

If a project owner finds it necessary to change the project design during development (e.g., site plan or location, pledged amenities, revisions to scope of work or materials, number of affordable units, etc.), KHC must be notified in writing and request approval prior to making any changes. This includes the substitution of one pledged amenity for another. For such changes in Housing Credit projects, **KHC will charge \$750 for each change request.** There will be no fee for non-Housing Credit projects; however, KHC still requires written notification of such changes.

Modifications to Legal Documents

If modifications are necessary to a project's KHC legal documents at any time after loan and/or equity closing and for any reason other than an error by KHC, the following fee structure will apply:

- First modification occurrence: \$1,000 fee
- Second modification occurrence: \$2,000 fee
- All subsequent modifications: \$4,000 fee each occurrence

For projects only receiving HOME funding (no other KHC resources), no modification fees will be charged due to HOME regulations; however, modifications to KHC legal documents may be considered in future capacity scoring on all projects.

CHAPTER 3: Technical Submission Stage and Requirements

Once an applicant receives a preliminary award letter from KHC, the application will then enter the technical submission stage. KHC staff will work with applicants during this stage in an effort to ensure all guidelines and requirements are met. Additional documentation will be required and will be outlined in a letter to the applicant.

Technical Submission Document Requirements

A checklist will be provided to the applicant detailing the due diligence documentation required during the technical submission stage. All technical submission documentation on the checklist must be uploaded. If a checklist item does not apply, you may check the “N/A” button in the Universal Funding Application (UFA). For documents that exceed the file size limit and are too large to upload as a single document, please place those documents on a CD or flash drive and mail them to your assigned program specialist by the technical submission deadline. **Please do not break large documents into several smaller files for the purposes of uploading to the online portal.**

If an applicant is new to KHC, your program specialist may request a meeting to provide training and assistance regarding the requirements of technical submission. Additional guidance and forms can be accessed on KHC’s website, www.kyhousing.org, under Development; Multifamily; Post-Award Resources; [Technical Submission](#).

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; your assigned program specialist may request additional documentation.** Please refer to the technical submission checklist for additional documentation that will be required.

To mitigate any potential problems with uploading documents due to system overload or other technical issues, it is recommended that you do not wait until the last day to submit the technical submission documents. All projects that do not successfully complete technical submission by 5:00 p.m. on the deadline date are subject to payment of an extension fee.

Also, please note, in order to expedite the review process, KHC requests that as soon as they are available, the State Clearinghouse letter, historic preservation letter, and Phase I/Phase II environmental report (as applicable) be emailed to your assigned project specialist and to the person or firm with whom you contracted to perform the environmental review. **All other technical submission items must be uploaded through the online application system as one submission.**

1. Tenant Selection Plan

(Required on all projects)

The tenant selection plan must be a written policy to ensure new tenants are selected in adherence to the owner’s policies and all applicable federal requirements. The plan must describe the criteria that will be used to identify eligible tenants. If the applicant has committed to notifying the local PHA of project vacancies in order to give priority to households on the PHA waiting list, this process and the preference for public housing residents must be identified in the tenant selection plan. Any other tenant selection preferences for which the applicant received scoring points must also be addressed in the tenant selection plan. Additional guidance can be accessed on KHC’s website, www.kyhousing.org, under Development; Multifamily; Post-Award Resources; [Technical Submission](#).

2. Sample Tenant Lease

(Required on all projects)

The lease between the tenant and owner must contain a provision indicating that “both the landlord and tenant agree to comply with the provisions of the [Uniform Residential Landlord Tenant Act](#), KRS 383.500-383.715 (URLTA)” and a copy of the URLTA must be attached as an addendum to the lease, with both landlord and tenant to initial each page of the addendum to signify their understanding and compliance. If the project is receiving HOME funds, the lease may not contain any of the prohibited lease provisions noted in the HOME regulations at [24 CFR 92.253](#). Any special provisions related to a lease-purchase project must also be included in the lease (e.g., a portion of the rent escrowed for the tenant’s down payment requirement).

3. Affirmative Fair Housing Marketing (AFHM) Plan

(Federal funds only, five units or more)

Each applicant is required to carry out an affirmative marketing program to attract prospective tenants of all minority and non-minority groups in the housing market area regardless of their race, color, religion, sex, sexual orientation, national origin, disability, or veteran 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 should also ensure that any group(s) of persons that are the **least likely** to apply for this housing without special outreach, know about the housing, feel welcome to apply, and have the opportunity to rent. The AFHM form can be found on KHC’s website, www.kyhousing.org, under Development; Multifamily; Technical Submission Documents; Fair Housing; [Affirmative Fair Housing Marketing Plan](#).

4. Fair Housing Plan

(Federal funds only)

Applicants requesting federal funds must submit a fair housing plan that ensures 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 website, www.kyhousing.org, under Housing Production, Multifamily Finance, [Reference Materials](#).

5. Title VI Self-Survey and Statement of Assurance

(Federal funds only)

Title VI of the Civil Rights Act of 1964 prohibits discrimination based on 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 website, www.kyhousing.org, under Development; Multifamily; Technical Submission Documents; [Fair Housing](#).

6. 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. **A person with disabilities or a representative from an agency that serves persons with disabilities must assist the applicant in completing the self-evaluation.** It is required that all recipients with 15 or more employees keep the evaluation on file for at least 3 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 used to make facilities accessible and 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 website, www.kyhousing.org under Development; Multifamily; Technical Submission Documents; [Section 504](#).

7. Drug-Free Workplace Certification

(Required for 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 Workplace Certification](#) form certifying 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 website, www.kyhousing.org, under Development; Multifamily; Technical Submission Documents; [Fair Housing](#).

8. Firm Commitment Letters for Match and Other Non-KHC Funding Sources

(Required for all projects. Must be submitted by the technical submission deadline, no extensions.)

KHC's HOME and AHTF funds require a 5 percent match of other funds. Any non-KHC financing source may be eligible; KHC funds may not be used as match for other KHC funds. Firm commitment letters for all match and other funding sources identified in the application and underwriting model must be provided. Please refer to [Chapter 8 Financial Requirements](#) for additional information regarding match requirements.

Firm commitment letters for all non-KHC sources must:

- 1) Be specific as to the terms of the funding, including:
 - a. The interest rate and term (if loan proceeds are involved).
 - b. The collateral for the project (if a loan is involved).
- 2) Be on the funding source's letterhead.
- 3) Be dated and signed by an authorized representative of the entity providing the funds.

- 4) Clearly identify the project name and description for which the commitment of funds is being made.

Commitment letters must be current and relative to the project seeking funding from KHC. The firm commitment letters may 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. Final underwriting will not be completed until all firm commitments are received.

If the firm commitment letters have not been submitted by the original August 3, 2015, technical submission deadline, the conditional commitment will expire **automatically**, and KHC will recapture all associated funding. **No extensions of the technical submission deadline for firm commitments will be granted.** Firm commitments from RD or HUD loan financing **are not** required to be submitted within this time frame; however, RD or HUD loan commitments must be provided to KHC as soon as they are available. Time is of the essence with respect to the conditional commitment and all time limitations therein. KHC will strictly enforce requirements imposed upon applicants. Applicants must agree to proceed diligently to closing.

Applicants applying to 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 preliminary award letter. KHC will forward the project's appraisal to RD. Applicants who do not provide a complete application to RD in a timely manner will risk not meeting the closing deadline. **Extensions to the closing deadline will not be given 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 original technical submission deadline.

9. Updated Underwriting Model

(Required for all projects)

An electronic (Excel) version of the project's updated underwriting model must be uploaded to the online application system or e-mailed to your program specialist. All updates must be made to the underwriting model version that was returned to the applicant after funding announcements. If **any** terms of non-KHC funding or other projections shown on the underwriting model (sources of funds, construction costs, rents, annual expenses, etc.) have changed since the initial application submission, the underwriting model must be updated to reflect these changes and appropriate supporting documentation must be provided. In addition, a response must be provided on the underwriting model to all comments or issues identified by the KHC underwriter. When all projections are firm and documented, KHC will issue a final underwriting model at the Pre-Construction/Pre-Closing stage.

10. Appraisal

An appraisal is required on projects where KHC's total loan amount (including due at maturity and forgivable at maturity loans) is \$250,000 or more or for projects requesting Housing Credit for acquisition. KHC reserves the right to request an appraisal on any project utilizing KHC funds. Appraisals must be received during the technical submission stage. Applicants are responsible for all costs associated with the completed appraisal.

Applicants with a KHC loan of \$250,000 or more **must** choose an appraisal firm or individual listed on [KHC's approved list](#) and the appraisal must meet [KHC's appraisal standards](#). The list of KHC-approved appraisers is available on KHC's website, www.kyhousing.org, under Development; Multifamily; Underwriting Resources; [Appraisals](#).

Housing Credit projects 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 basis determined by the required final cost certification. These appraisals do not need to meet KHC's appraisal guidelines or need to be ordered from KHC's contract appraisers; however, the appraisal must still provide a separate value for the land.

Please refer to [Chapter 8 Financial Requirements for all Funding Sources](#) for additional guidance on appraisal requirements.

11. Draft Final Partnership Agreement or Firm Commitment of Equity

Provide a copy of the draft partnership agreement or the firm commitment of equity if it was not provided at application. Equity commitments must contain the specific terms for the purchase of credit (credit pricing, amount of annual credit anticipated, total equity investment, pay-in schedule, required fees, reserve account requirements, etc.). The commitment must be on the equity provider's letterhead, identify the project name, and be dated and signed. Equity commitments must be current and relative to the project seeking funding from KHC. If the project is utilizing a KHC bridge loan, the equity commitment must recognize the bridge loan and state the benefit of the delayed equity pay-in to the pricing structure and total equity investment.

12. Owner and Architect Agreement

(Required for projects that have an architect involved and all projects of 12 units or more)

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

The architect and owner shall submit an executed 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 B141 Standard Form of Agreement between the owner and architect with the standard form of architect's services.

KHC cannot approve an open-ended contract that does not specify the total contractual amount for the services rendered.

13. ALTA Survey

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

The survey must include the following:

- Metes and bounds at a preferred scale of 1 inch equals 20 feet but no smaller than 1 inch equals 40 feet.
- Projects utilizing previously platted properties on record shall contain a legal description referencing the plat recording.
- Projects with properties not previously platted shall include a metes and bounds legal description of the property line, which should also indicate setback requirements if they exist. All easements and rights-of-way should also have the metes and bounds described in the description.
- All HOME and Risk-Sharing projects must include a metes and bounds legal description.
- The survey shall show all rights-of-way 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., must be included on site survey.

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 be dated and sealed with the architect's and engineer's stamp and signature.

Minimum final plan information and requirements:

- Building floor plans must be 1/8" = 1' scale.
- Individual unit plans must be at 1/4" = 1' 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 be incorporated in the final plans.
- Final comments shall be incorporated into the final drawings or amended by an addendum.
- Meet all applicable accessibility requirements (UFAS, Fair Housing, ANSI A117.1, 2010 ADA or KHC Universal Design, one or more as applicable).
- Address the issues identified in the PCNA (if applicable, for rehabilitation projects).

➤ **For projects containing 12 units or more**

The construction plans must contain:

- | | |
|------------------------|--|
| • Site plan | <input type="checkbox"/> Foundation plans |
| • Earthwork plans | <input type="checkbox"/> Elevations |
| • Landscaping plans | <input type="checkbox"/> Building sections or wall sections |
| • Floor plans | <input type="checkbox"/> Enlarged bathroom and kitchen plans |
| • Enlarged floor 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

For Technical Submission purposes, KHC will accept verification that the plans have been sent to the appropriate building code officials for review. KHC will not complete its 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 necessary corrections.

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 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. **Final plans including all approved alterations and additions must be submitted to KHC on a disc or flash drive prior to beginning construction. All pages must be included in order, under one single attachment.**

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.

Site Utility Plan

(Required for all projects, with the exception of projects of 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 must be indicated. Provide utility details, as required, to demonstrate all structures and/or improvements.

Existing Utilities

(Required for 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.

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.

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 are 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.

Floor Plans

*(Required for **all** projects)*

Floor plans should include the following, at a minimum:

- The entire building drawn at no less than 1/8-inch scale. Provide a plan for each different building type.
- Indication of 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.
- All window and door openings with door swings and a reference to a door and window schedule.
- Exterior wall finishes and section and plan details for each type of wall construction.
- 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 rehabilitation, the existing items shall be shown that will remain and those that will be demolished.

Enlarged Floor Plans

*(Required for **all** projects)*

Enlarged floor plans at a minimum should indicate the following.

- 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.
- Walls receiving insulation and the type of insulation.
- Location and sizes of all access panels.
- All doors and windows with their designation as to type.
- 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.

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.

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.

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.

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 HQS.

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 indicating all plumbing fixture type and manufacturer model numbers.
- Show riser diagrams for all piping to indicate size and direction of flow.

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 manufacturers' 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.

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.

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, fully describing 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.

15. **Final Specifications / Work Write-Up**

(Required for all projects, except rehabilitation projects of 11 units or less may submit a work write-up in lieu of specifications)

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 applicant will be notified of any additional changes or corrections that 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.

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 must address the issues identified in the Physical/Capital Needs Assessment if applicable for rehabilitation projects.

All documents that pertain to the contract for construction shall be included. The specifications must include the following **23 divisions**:

Division 01- General Requirements	Division 13- Special Construction
Division 02- Existing Conditions	Division 14- Conveying Equipment
Division 03- Concrete	Division 21- Fire Suppression
Division 04- Masonry	Division 22- Plumbing
Division 05- Metals	Division 23- HVAC
Division 06- Carpentry	Division 26- Electrical
Division 07- Thermal & Moisture Protection	Division 27- Communications
Division 08- Door & Windows	Division 28- Electronic Safety & Security
Division 09- Finishes	Division 31- Earthwork
Division 10- Specialties	Division 32- Exterior Improvements
Division 11- Equipment	Division 33- Utilities
Division 12- Furnishings	

The architect must 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 must be written to describe the means and methods to accomplish the work during bad weather conditions and must 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

Manufacturer's specifications are required for the following items:

- Heating and cooling products, including programmable thermostats
- Windows
- Clothes washers, dishwashers, refrigerators, and range hoods
- Ceiling fans, light fixtures, and ventilation fans
- Water heaters

Final Work Write-Up Description

(In lieu of final specifications; rehabilitation projects of 11 units or less)

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 applicant will be notified of any additional changes or corrections that need to be made.

16. Final Cost Estimate

*(Required for **all** projects)*

The final cost estimate may be altered after KHC has completed the technical submission review on final construction plans, outline specifications and final underwriting. The applicant will be notified 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 total amount of the final cost breakdown must match the total of all hard costs included in the KHC underwriting model.

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.

17. Evidence of Plan Submission to Local Building Permit Authority or Kentucky Department of Housing, Buildings, and Construction

(Required for all projects; attach with plans)

If no local authority exists in which plans were reviewed by a licensed local code enforcement official, a letter of approval from the Kentucky Department of Housing, Buildings, and Construction will be required.

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 building inspector, 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).

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

18. 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 all applicable accessibility requirements to include the Fair Housing Act of 1988, KHC Minimum and Universal Design Standards, Uniform Federal Accessibility Standards, Section 504 of the Rehabilitation Act of 1973, 2010 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 website under Development; Multifamily; [Technical Submission Documents](#); Design and Construction.

19. 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 website under Development; Multifamily; [Technical Submission Documents](#); Design and Construction.

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 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 Renovation,

Repair, and Painting Rule (RRP). No paid job can disturb painted surfaces in pre-1978 homes or child care facilities unless the firm that 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.

20. Davis-Bacon Wage Rate Request

The following project types are subject to Davis-Bacon wage rates:

- HOME-funded projects of 12 or more HOME-assisted units
- Projects in which 9 or more units have KHC project-based Section 8 voucher assistance; not applicable to projects that received rental assistance through the Performance-Based Contract Administration (PBCA) program
- 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 website, www.kyhousing.org, under Development; Multifamily; [Technical Submission Documents](#); Davis-Bacon Wage Rate Requirements.

21. Utility Letter(s)

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 utility companies must clearly

state utilities are present and any upgrades, additions, or 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.

22. Subsurface Soils Investigation Report

Required on:

- Projects requesting Risk-Sharing funds
- New construction projects of 12 or more units or rehabilitation projects with new construction
- As deemed necessary per site visit by a KHC 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.

23. 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 the Project Review Agreement, which can be found on KHC's website, www.kyhousing.org, under Development; [Design and Construction](#).

24. Project Set-up Report

(HOME projects only)

HUD requires that all HOME funds allocated to a project be reserved at the Treasury using the Integrated Disbursement and Information System. 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 website, www.kyhousing.org, under Development; Multifamily; [Technical Submission Documents](#); HOME Documents.

25. Authorized Signature Form

(Required for all projects with KHC funds)

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 (e.g., board chair, CEO, mayor, etc.). This [form](#) can be found on KHC's website, www.kyhousing.org, under Development; Multifamily; [Technical Submission Documents](#); Miscellaneous Material. Please contact your assigned program specialist for further guidance.

26. Site and Neighborhood Standards Questionnaire

(HOME projects only)

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 website, www.kyhousing.org, under Development; Multifamily; [Technical Submission Documents](#); HOME Documents.

27. Housing Credit Reservation Fee

(Housing Credit projects only)

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. **The reservation fee is due to KHC within two weeks of the date of the preliminary award letter.** Please refer to the [QAP](#) for further information.

28. Tax Attorney Opinion Letter indicating eligibility for acquisition credit

(Required on Housing Credit rehabilitation projects requesting acquisition credit)

A letter from the applicant’s tax attorney must be provided to document that the project is eligible for acquisition credits.

29. Internal Revenue Service waiver for troubled projects

(Required for Housing Credit projects – if applicable)

If an existing project has been designated a “troubled project” by HUD or RD, the project may request a waiver from the IRS to the ten-year holding period requirement. If a project has received this waiver, a copy of the waiver letter must be submitted to KHC.

30. Organizational Documents

(Not applicable to projects requesting Housing Credits only)

If not provided earlier in the application process, the following organizational documents must be provided for the **borrowing entity** on all projects requesting KHC funding, as applicable:

For a Kentucky corporation:

- Articles of Incorporation (and any amendments)
- Bylaws (and any amendments)

For a foreign corporation:

- Articles of Incorporation (and any amendments)
- Bylaws (and any amendments)
- Certificate of Authority to do business in Kentucky

For a Kentucky partnership (both general and limited):

- Partnership Agreement (and any amendments)
- Certificate of Partnership (and any amendments)

For a foreign partnership:

- Partnership Agreement (and any amendments)
- Certificate of Partnership (and any amendments)
- Certificate of Authority to do business in Kentucky

For a Kentucky limited liability company:

- Articles of Organization (and any amendments)
- Operating Agreement (and any amendments)

For a foreign limited liability company:

- Articles of Organization (and any amendments)
- Operating Agreement (and any amendments)
- Certificate of Authority to do business in Kentucky

Note: Nonprofit organizations are required to have affordable housing listed as one of their designated purposes in the Articles of Incorporation and/or Bylaws.

Minority- and women-owned businesses must demonstrate that the entity is 51 percent owned and controlled by a minority or female.

31. Baseline Active Partners Performance System (APPS) or HUD Previous Participation Certification Process (HUD-2530) Completed

(Required for Risk-Sharing only)

Submit proof of completion of the [Baseline APPS](#) or the completed [HUD-2530 form](#). KHC will forward the completed HUD-2530 to HUD during the review of the final underwriting. These can be found on HUD's website, www.hud.gov or on KHC's website under Development; Multifamily; [Technical Submission Documents](#); Risk-Sharing Documents.

32. Identification and Certification of Eligible Limited Liability Investor Entities

(Required for Risk-Sharing projects with Housing Credit)

The [certification form](#) is part of HUD's previous participation requirement and must be completed by the equity investor and/or syndicator. KHC will forward this form to the local HUD office during review of the final underwriting. This [form](#) can be found on KHC's website, www.kyhousing.org, under Development; Multifamily; [Technical Submission Documents](#); Risk-Sharing Documents.

Environmental Review Documents

If items 33 – 38 are applicable to your project, please submit those items to your environmental contractor AND your assigned KHC project specialist **as soon you receive them**, even if it is prior to sending in the rest of your Technical Submission items. This enables the environmental review process to begin in a timely manner and KHC and your environmental contractor to determine if further measures must be taken. Not providing these documents in a timely manner could delay the project, since you cannot proceed with the purchase of the property, start any part of the construction or disturb the soil in any way until the environmental review is complete and an environmental clearance has been issued.

33. Lead-Based Paint Inspection and Assessment -OR- Proof of Abatement

(Rehabilitation projects constructed prior to 1978 and receiving HOME, Project-Based Section 8, or Risk-Sharing are subject to the lead-based paint regulations of 24 CFR 35)

Projects built prior to 1978 must provide the lead-based paint inspection and assessment conducted by a certified lead hazard inspector. Proof of prior abatement must be provided if the project has had prior abatement of lead-based paint.

34. A-95 Clearinghouse Letter

(Required for HOME and/or Risk-Sharing projects—submit as soon as available)

If applicable, applicants must submit the Clearinghouse letter provided by the Kentucky Department for Local Government (DLG) stating 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 the DLG State Clearinghouse through the Kentucky Intergovernmental Review Process during the application stage and will provide information regarding further inspections or documentation that may be required.

The Kentucky Intergovernmental Review process is located at <http://dlg.ky.gov/clearinghouse/>. The project's environmental review cannot be completed until the Clearinghouse letter has been submitted.

Note: It is very important you read the comments received from Clearinghouse. This letter serves as the opportunity for many state and federal agencies to identify any additional requirements they may have for your project. For example, the comments from State Historic Preservation Office/Kentucky Heritage Council may require you to send them additional information and failure to do so can cause project delays.

35. Historic Preservation Letter

(Required for historic preservation projects—submit as soon as available)

Applicants proposing rehabilitation of historic properties must obtain a historic preservation clearance letter from the Kentucky Heritage Council's SHPO. Plans and specifications must still meet all KHC Design and Construction requirements.

For federally funded projects, if the Kentucky Heritage Council has commented in their response in the Clearinghouse letter that an archeological survey is necessary or that the structure to be rehabilitated appears to be over 50 years of age or in a district that is, or is eligible to be, recognized as a Historic District, you must contact the SHPO at the Kentucky Heritage Council regarding your requirements under the Section 106 process.

36. Phase I Environmental Site Assessment

(Please submit as soon as available)

A Phase I Environmental Site Assessment, which conforms to proper ASTM standards, is **required for all new construction** projects consisting of more than four units with HOME, Risk-Sharing and/or Project-Based Section 8 as **any** portion of funding.

The environmental site assessment determines whether a parcel of land or real estate has the 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 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. The environmental contractor will need the Phase I to be able to proceed with the HUD environmental review that is required and you cannot receive a commitment of these federal funds until the HUD environmental is complete.

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

37. Phase II Environmental Assessment

(May be required on projects of 12 units or more—submit as soon as available)

If a Phase II environmental assessment is required, it will be noted in the Phase I assessment. A Phase II assessment is only required when there is an item of concern discovered during the Phase I, requiring additional action to further investigate or remedy the problem.

38. Archeological Survey

(If requested by SHPO—submit as soon as available)

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 SHPO can provide a list of agencies that are approved to provide these services. If the project is not able to move forward or KHC decides to not 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-profits 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, the developer is responsible for payment of the archeological survey, if one is required, and cannot receive reimbursement from HOME administration funds; however, payment can be absorbed through soft costs already included in total project costs.

Housing Credit Carryover Documentation

Projects receiving a reservation of Housing Credit must submit additional documentation in order to carry over the credit into the following year. KHC's Housing Credit administrator will send a reminder letter identifying the documents that must be submitted for carryover:

1. 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 (include number of buildings).

2. Draft syndication agreement or letter of intent including syndication proceeds

Applicant/developer receiving Housing Credits must submit a copy of the draft syndication agreement including 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.

3. Partnership Agreement and Certificate of Limited Partnership

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.

4. 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).

5. Updated project completion schedule

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

6. 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 website, www.kyhousing.org, under Development; Multifamily; [Post-Award Resources](#); Additional Housing Credit Reference Materials.

7. 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 the credits were allocated or they must submit a carryover request. If the project will not be placed in service prior to 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** submit a written carryover request for an additional 12 months.

8. Gross Rent Floor Election

The 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 website, www.kyhousing.org, under Development; Multifamily; [Post-Award Resources](#); Additional Housing Credit Reference Materials.

Housing Credit Rate Lock-In

Project owners are permitted by IRC Section 42 to “lock-in” the floating credit rates associated with the Low Income Housing Tax Credit during the month in which a commitment for a future credit allocation is made. This “binding agreement” must meet the requirements of IRC Section 42(b)(2). The monthly credit rate percentages are announced by the IRS in a Revenue Bulletin on their website www.irs.gov/irb.

The owner must submit to KHC a binding agreement that meets the definition of IRC Section 42(b)(2). The credit rate lock-in request must:

1. Be in writing.
2. Be signed and dated by the taxpayer and KHC during the month of the intended lock in.
3. Specify the LIHTC dollar amount to be allocated to the building.
4. Specify the type(s) of building(s) to which the allocation applies (i.e., new construction, existing building, or substantial rehabilitation).
5. Constitute a binding contract under state law.
6. Be binding on all successors in interest to the taxpayer.
7. Be notarized.

The credit percentage election must be made no later than the fifth day after the close of the month during which the binding allocation agreement is entered into.

CHAPTER 4: Pre-Construction / Pre-Closing Stage

All loan closings and execution of funding agreements occur after successful completion of the technical submission phase and final underwriting. Additional documentation noted below must be submitted for final underwriting and other documents will be required prior to loan closing and the commencement of construction. In addition to the items required below, projects with Risk-Sharing funds may need to provide supplemental documentation in order to close. KHC may request further information as needed.

Documents Required for Final Underwriting

1. Operating Deficit Reserve / Reserve for Replacement / Tax & Insurance Escrow Certification

All applicants must certify that Operating Deficit Reserve and Reserve for Replacement accounts have been or will be established and identify the amount of the reserve accounts. The applicant must also identify the financial institution where the reserve accounts and the tax and insurance escrow accounts will be held. This [form](#) is located on KHC's website, www.kyhousing.org, under Development; Multifamily; [Pre-Construction/Closing Submission](#).

2. Notice of Intent to Draw Funds at Closing

If the applicant will be requesting KHC funds for acquisition costs or reimbursement of pre-development costs, the applicant must notify the program specialist by e-mail or letter that funds will be required at closing. A completed Universal Draw Request Form must be submitted, along with appropriate supporting documentation for the amounts requested, no later than two weeks prior to the closing date.

3. Owner's Employer Identification Number (EIN)

Provide evidence of issuance of the ownership entity's employer identification number from the Internal Revenue Service.

4. Owner's DUNS Number and Proof of Registration

(Required for all projects)

All projects must provide the project owner's DUNS number before any funds may be disbursed. A DUNS number can be obtained from Dun and Bradstreet at their website, www.dnb.com. In addition, the DUNS number must be registered on the new federal System for Award Management website at www.sam.gov and proof of registration must be provided to KHC. The registration must be kept current and updated annually.

5. Final Draft Limited Partnership Agreement

(Housing Credit projects only)

A draft of the final limited partnership agreement must be provided so that KHC may verify the assumptions in the final underwriting model are correct prior to the equity and loan closings, as applicable. Unless otherwise approved, KHC will not issue a final credit reservation letter without having first reviewed the final draft of the limited partnership agreement. A fully executed copy of the final limited partnership agreement must be provided to KHC within one week of the equity closing.

6. Closing Attorney/Title Attorney Contact Information

(Required if not utilizing Risk-Sharing funds)

The contact information for the closing attorney, including the attorney's name, mailing address, e-mail address, and phone number must be provided. If a separate title attorney will be utilized, their contact information must be provided as well. This information is required for all projects involving a loan closing. Risk-Sharing loans will be closed by KHC's Legal Department.

7. Incumbency and Signatory Certificate or Resolution of Authorized Signatories

An Incumbency and Signatory Certificate or Resolution of Authorized Signatories is required to confirm the identities, titles, and authority of the signing officers of the borrowing entity to execute all necessary legal documents.

8. Organizational Documents

If the borrower is a newly formed entity or amended its organizational documents after their initial submission to KHC, copies of the organizational documents and any amendments are required.

9. Title Commitment and Insured Closing Letter

If the title insurance commitment provided to KHC during the pre-commitment stage is more than 30 days old, an updated commitment is required for closing. If KHC funds will be disbursed at closing, KHC also requires that an Insured Closing Letter be issued in its favor by the title insurance company who will be issuing the policy.

10. Final Survey

If any changes were made to the initial ALTA survey submitted during technical submission, a signed, stamped and dated copy of the final version of the survey, certified to KHC, must be submitted.

If the project will be receiving Risk-Sharing funds, seven copies of the survey will be required. The survey must be dated within 120 days of the closing. The survey is to show all easements, rights-of-way, encroachments, set-backs, etc. It must be accurate and the metes and bounds must agree with the legal description.

11. Surveyor's Report

(Required for 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 under Forms.

12. Verification of Site Control

Proof the borrower still maintains site control of the property must be provided prior to closing.

- For owned property, if the borrower took title to the property by deed prior to the closing of the loan, KHC must be provided with a copy of the recorded deed.
- For leasehold property, if the borrower signed a lease for the property prior to the closing of the loan, KHC must be provided with a copy of the executed lease (and any amendments).

- **Note:** For federally-funded projects (HOME and Risk-Sharing), the new owner may not take legal possession of the property until after environmental clearance has been achieved, unless the deed transfer or lease was executed prior to submission of the application to KHC for funding.

13. Wiring or Electronic Funds Transfer Authorization

Wiring and/or Electronic Funds Transfer (EFT) authorizations are required for projects requesting funds at the closing and/or if funds will be drawn during construction from KHC.

All loan proceeds to be disbursed at closing must be deposited into the closing attorney's escrow account either by wire or check. If funds are to be sent by wire, KHC's wiring instructions form, completed by the closing attorney, must be provided.

If an applicant plans to receive construction draws via a wire or EFT, a wiring or EFT instruction form, providing the owner's bank information and authorizing KHC to complete such a transaction, must be provided. The wiring and EFT forms can be found on KHC's website, www.kyhousing.org, under Development; Multifamily; [Pre-Construction/Closing Submission](#).

Documents Required Prior to the Start of Construction

(All documents must be reviewed and approved prior to construction start)

14. 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 match the total cost identified on the final cost estimate as well as the hard costs shown on KHC's underwriting model. The applicant can utilize either the AIA document or HUD's Construction Contract Form.

The contract must 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.
- Any liquidated damages 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.

15. Assurance of Completion

KHC requires an Assurance of Completion for all projects when KHC has committed a total of \$100,000 or more of KHC funds. An assurance of completion is required for projects wherein KHC funds are drawn during the construction phase of the development. If KHC is only providing permanent financing with funds disbursed at project completion, an assurance of completion will not be required. **The determination of adequacy and sufficiency of assurances of completion shall rest solely with KHC.**

Assurances of completion shall be in one of three forms:

- a) 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. Bonds must be issued by an insurance company licensed in the Commonwealth of Kentucky and must be signed by an authorized representative of the insurance company. KHC must be named as an additional insured on the bond. If KHC is providing a bridge or construction loan, or for Risk-Sharing projects in which insured advances are provided, a payment and performance bond is required.
- b) Irrevocable On-Sight Demand Letter of Credit: The Letter of Credit must be in an amount equal to or greater than 30 percent of the total amount of KHC funds. KHC must be the only named beneficiary of the letter of credit; having multiple beneficiaries to the letter of credit is not acceptable. The Letter of Credit may be drawn upon by KHC in accordance with its terms and conditions.
- c) Cash deposited with KHC in the sum equal to or greater than 30 percent of the total amount of KHC funds.

16. Evidence of Proper Insurance

(Required on all projects)

The contractor must provide evidence of proper insurance. The insurance policy must provide evidence of worker's compensation, builder's risk, and general liability. The insurance shall be carried during the length of the contract. **KHC must be listed as the primary Certificate Holder or Additional Insured on all insurance certificates when KHC has provided a loan to the project.**

17. Building Permit

(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, such as the mayor or county judge, must submit a letter verifying this information.

18. Approval letter from the Department of Housing, Buildings, and Construction

(If applicable)

If the local jurisdiction where the project is located does not issue building permits, plans must be submitted to the Kentucky Department of Housing, Buildings, and Construction, which will issue a letter authorizing the start of construction.

19. Accessibility/Energy Efficiency Certification(s)

(Required for all projects)

If not previously submitted at capacity review, all projects must provide copies of the applicable certifications evidencing that one or more members of the development team (architect, developer, contractor, third-party inspector, etc.) have passed the accessibility exam and one or both of the energy exams below:

- International Code Council, Accessibility Inspector/Plans Examiner-21 exam, **and**
- International Code Council, Residential Energy Inspector/Plans Examiner-79 exam, and/or
- Commercial Energy Plans Examiner with ASHRAE 90.1 exam

20. **Inspection Fee**

(Housing Credit projects only)

A one-time inspection fee equal to 0.5 percent of the annual Housing Credit allocation amount must be paid and submitted prior to construction.

21. **Construction Schedule**

The construction schedule must outline the anticipated completion benchmarks and targeted placed-in-service date of the project. Ideally, the benchmarks will be measured in terms of weeks/months from the date of loan/equity closing (e.g., 25 percent completion within 3 months of loan closing, placed-in-service within 12 months of loan closing, etc.)

22. **Copy of Deed**

(Required for all projects)

A copy of the deed must be provided prior to construction start. If the property will transfer ownership, the deed must show the transfer and be executed and recorded. **Note:** For federally-funded projects (HOME and Risk-Sharing), the new owner may not take legal possession of the property until after environmental clearance has been achieved, unless the deed transfer or lease was executed prior to submission of the application to KHC for funding.

Pre-Construction Conference

A pre-construction conference is required on **all projects**. The purpose of the pre-construction conference is to outline the 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 specialist in conjunction with the program specialist assigned to the project.

For developers who have not previously used KHC resources to construct or rehabilitate a rental project, a full pre-construction conference will be required; however, for developers experienced with KHC's multifamily programs, a more limited pre-construction conference may be conducted. The decision to hold a full or limited pre-construction conference will be at the discretion of KHC's construction specialist and project specialist. Dependent on the type of project and the developer's experience with KHC, the pre-construction conference will occur either at KHC's offices or at the project site. **It is the developer's responsibility to contact the appropriate KHC construction specialist to schedule the pre-construction conference no later than two weeks before the requested meeting date.**

Individuals involved with the construction of the development should attend the pre-construction conference. These individuals include the developer/applicant, contractor, site superintendent, and architect, if applicable. The following topics will be discussed during the meeting:

- | | |
|---|--|
| <input type="checkbox"/> Construction inspection schedule | <input type="checkbox"/> Draw request process |
| <input type="checkbox"/> Final cost estimate | <input type="checkbox"/> Change order process |
| <input type="checkbox"/> Requirements for safety fencing | <input type="checkbox"/> The duties and responsibilities of the owner, architect, and contractor |
| <input type="checkbox"/> Requirements for job safety | <input type="checkbox"/> The notice to proceed |
| <input type="checkbox"/> Project signage requirements | |
| <input type="checkbox"/> Davis-Bacon wage rates, if applicable | |
| <input type="checkbox"/> | |

Notice to Proceed

At the pre-construction conference, the developer will be required to provide the KHC [Pre-Construction Conference form](#), which will be signed by the developer, contractor and KHC construction specialist. The developer may indicate their desired date for the start of construction; however, KHC will notify the developer when all conditions have been satisfied and construction is authorized to begin. This is the developer's Notice to Proceed.

KHC will not issue a Notice to Proceed with construction until the following conditions have been met:

- Pre-construction conference has been conducted.
- All pre-construction and closing documents have been received and approved.
- All applicable loan and equity closings have occurred.

Once these conditions have been satisfied, KHC will return the Pre-Construction Conference form to the developer, signed and dated by the KHC project specialist. **No construction of any kind may begin until the fully executed form is returned to the developer, which serves as the developer's Notice to Proceed.** After receipt of the Notice to Proceed, the developer is required to notify the KHC construction specialist and the project specialist of the actual date construction will begin.

Construction may not start on a project before the closing without prior written permission from KHC. Starting construction early without KHC's permission may affect capacity scoring on future applications, as well as withholding of KHC funds from the project.

Early Start of Construction

In **unique circumstances**, KHC may consider, on a case-by-case basis, allowing the developer to begin limited construction activities prior to closing. Developers must work with their assigned project specialist for early start authorization.

A developer seeking an early start of construction must provide a written request detailing the unique circumstances that make an early start necessary as well as the scope of the work they intend to undertake prior to closing. A pre-construction conference must be conducted prior to the start of any construction.

Before an early start request will be considered, the following documents, at a minimum, must be received and approved by KHC:

- Owner/contractor agreement
- Building permits
- Evidence of general liability, worker's compensation and builder's risk insurances, with KHC named as an additional insured
- Assurance of completion (irrevocable letter of credit or payment and performance bond)

Projects receiving federal funds must also have full environmental clearance prior to the start of construction.

If the early start request is approved, the project specialist will send an authorization letter to the developer, which must be signed and returned to KHC. Any approval for an early start of construction will be at the owner/developer's **own risk**, independent of any commitment of financing by KHC.

CHAPTER 5: Closing and Construction Stage

After all the pre-construction and pre-closing documentation has been received, reviewed, and approved, KHC's Legal Department will begin to prepare the closing documents for all KHC loans approved during final underwriting. Any costs associated with the closing, including recording and legal fees, are the responsibility of the borrower.

Risk-Sharing loan closings will be conducted by KHC's Legal Department staff. There are three different types of closings that can occur on a Risk-Sharing loan.

- Initial Closing: If Risk-Sharing funds will be used during construction, there will be a separate closing of the construction loan.
- Final Closing (Insured Advance): Once construction of a project that had an initial closing is complete, there will be a final closing to convert the construction loan to a permanent loan.
- Insured Upon Completion: When a project will only use Risk-Sharing funds as a permanent loan source, the permanent closing will occur after construction is complete.

All the different closings listed above have separate checklists of the documentation needed for the closing. KHC's Multifamily Finance staff will work with you to ensure that the required documentation is submitted and will work closely with the owner during the entire closing process. **Please note that at this time, KHC will only offer Risk-Sharing funds as a permanent loan.**

When the loan documents are finalized and are satisfactory to both parties, KHC's Legal Department staff will request a copy of the updated title insurance commitment, which is required if KHC is providing funding in the form of a loan. A commitment of title insurance is provided by the applicant's closing attorney after a title search has been completed. The title insurance provided is for the protection of KHC as the lien holder. The original closing documents will not be sent to the applicant's counsel until the title commitment has been received.

Funds requested at loan closing will not be disbursed until receipt of copies of the executed loan documents. The closing draw must include all closing fees due to KHC that were not received prior to closing (e.g., loan origination fee, processing fees, etc.). For subsequent draw requests, the original recorded documents must have been returned to KHC. Construction **cannot occur** until the original signed and recorded closing documents have been returned to KHC, unless an "early start" has been previously authorized by KHC.

Loan Closing Information

KHC's Legal Department will prepare a draft of the closing documents, which are reviewed by the Multifamily Finance Department staff for accuracy. Once this review has been completed and any necessary revisions have been made, information regarding KHC's closing procedures is sent to the owner's counsel, along with a draft of the closing documents, a Form of Opinion of Borrower's Counsel, and the marked-up title commitment. KHC's multifamily specialist must be notified if the owner prefers to review the draft documents prior to the closing attorney.

KHC's legal staff will work with owner's counsel on any additional revisions to the closing documents that may be needed. Once a final version is agreed upon by all parties and all conditions to closing have been met, KHC's legal staff will send a closing instruction letter, along with execution drafts of the closing documents, to the owner's counsel.

The closing may not occur until KHC has received and approved a draft of the Opinion of Borrower's Counsel and the agreement of owner's counsel to issue the title policy, or if owner's counsel is not issuing the title policy, the agreement of the title agent issuing the policy that the policy will be issued in conformance with the marked-up title commitment for title insurance provided to owner's counsel.

After the closing has occurred, executed originals of all loan documents and copies of all documents sent for recording should be delivered to KHC **within 48 hours of closing**. Original recorded documents, including a copy of the recorded deed, should be delivered to KHC **within two weeks** of closing along with the original of the loan policy of title insurance. **No disbursement of loan proceeds, other than amounts pre-approved by KHC for property acquisition, will be made until these conditions are met.**

All post-closing deliveries should be addressed to KHC's Multifamily Finance Department—Post-Closing, 1231 Louisville Road, Frankfort, KY 40601. Construction cannot start until a copy of the recorded deed has been received by KHC, unless an early start has been approved by KHC in advance.

Draw Request Process for Funds at Closing

If the applicant will be requesting KHC funds for acquisition costs or reimbursement of pre-development soft costs, your Multifamily Finance specialist must be notified during the pre-construction/pre-closing stage. At least two weeks prior to the intended closing date, the completed [Universal Draw Request form](#) must be submitted, with appropriate documentation supporting the amount(s) requested.

Funds requested at loan closing will not be released until KHC receives copies of the executed loan documents and has approved the executed closing statement.

The closing draw must include all closing fees due to KHC that were not received prior to closing (e.g., loan origination fee, processing fees, etc.). For subsequent draw requests, the original recorded documents must have been returned to KHC. Construction **cannot occur** until the original signed and recorded closing documents have been returned to KHC.

Construction Inspections

Once the project has closed on all funding sources and/or Housing Credit equity and the notice of construction start has been received, KHC's construction specialist will begin making regular visits to the project to review progress and ensure the project conforms to all KHC funding requirements. A copy of all KHC-approved plans and specifications must be available at the project site during inspections. Inspection visits will occur at least once a month; however, KHC reserves the right to conduct inspections at any time.

As outlined in the Project Review Agreement, which is signed and returned to KHC during the technical submission stage, KHC's construction specialist must be notified to complete the inspection of the following:

- Inspection of all footers prior to pouring.
- Inspection of rough-in on all units when mechanicals are installed and prior to drywall.
- Final Inspection when the unit is complete and ready for occupancy.

KHC's construction specialist will complete an inspection report for each visit listing the project status and any issues noted during their visit. This report will be e-mailed to the developer and anyone who is responsible for ensuring all issues and deficiencies are corrected.

Construction Draw Requests

During construction, KHC's construction specialist will inspect the work progress and conduct regular monthly inspections. At a minimum, projects will be reviewed prior to footer placement, before drywall installation, and at final inspection. The second stage occurs midway through construction and the final stage occurs at construction completion. The number of inspections conducted will be determined at the discretion of KHC's Design and Construction Department. The construction specialist will also inspect for pledged amenities made at application submission.

For projects using KHC funds for construction, during the monthly inspection, the construction specialist will review the requested construction costs and will sign the KHC [draw request](#) approving only the hard costs. All other costs will be approved by KHC staff person reviewing the draw request. 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.

In projects where KHC has awarded both amortizing and deferred or forgiven loan funds, the amortizing loan funds must be disbursed first, taking priority over deferred or forgiven loan funds.

KHC will disburse up to 40 percent of the developer fee up front. 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 KHC's 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 and approved. Projects that use KHC's HOME funds may draw down all but 5 percent of the HOME funds once all closeout documents, except the project completion report, have been submitted. The final 5 percent of HOME funds may be drawn after the project completion report has been submitted. **All HOME projects must submit a draw request for HOME funds at a minimum of once every 12 months, otherwise the project will be deemed inactive by HUD.**

If funds are to be provided by EFT or wire transfer, the applicant must submit original EFT or wiring instructions. Please use the appropriate EFT or wiring instructions form located on KHC's website.

Construction Draw Policies:

1. All draw requests must be e-mailed to KHC along with any applicable supporting documentation.
2. All draw requests must be submitted on a fully executed and completed [KHC Universal Draw Request Form](#). The applicant is certifying that all funds will be disbursed within five business days of the receipt of funds. The architect (if applicable) is certifying that all work, labor, and materials are satisfactory and in accordance with approved plans and specifications.
3. Each project is limited to one draw request per month.
4. A [pre-construction conference](#) must be held at KHC's offices prior to the start of any construction activities. At KHC's discretion, the pre-construction conference may be waived or may be conducted on the project site by the KHC construction specialist.
5. The [Pre-Construction Conference form](#) must be fully executed by the developer, the contractor, and KHC's construction specialist. It must also contain the KHC project specialist's signature as the Notice to Proceed with construction.

6. KHC construction specialists must approve all construction [draw requests](#). Typically, the approval is provided by signing the draw request the day of inspection. The construction specialist will approve all hard cost line items. The construction specialist may modify draws for hard costs at the time of inspection by notating the reason for the change and initialing the change. KHC program staff will review all requests for soft costs.
7. An updated Title Endorsement must accompany each draw request. It must reflect the actual amount of the proposed disbursement and the total amount disbursed to date. If the title endorsement is prepared prior to inspection and the draw amount is revised, the title endorsement must be revised to reflect the new amount before any funds will be released. An endorsement is only good for ten days. The following documentation is required for each [draw request](#):
 - ✓ KHC [Universal Draw Request form](#).
 - ✓ Title Endorsement to Title Policy (KHC will accept a faxed or e-mailed copy).
 - ✓ Builder's or Contractor's Affidavit of lien waiver (must be submitted with every draw).
 - ✓ AIA form G-702 and G-703 (if using an architect), or KHC Payment Request Form.
 - ✓ Copies of invoices, receipts, etc., for payment of soft costs (and hard costs if an architect is not involved).

Each draw request for payment associated with projects for which KHC 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 draw requests, 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 Schedule 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."*

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. Please note that title endorsements are only valid for ten days from the date of issuance.

[Change Orders](#)

All change orders to the approved final plans and specifications must be submitted to KHC for review and approval at the time the change is needed. **Change orders submitted after completion of the work to be changed will not be approved, unless prior authorization is given by KHC in writing.** 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 before submittal to KHC for approval. If KHC is providing funds to the project, the draw requesting contingency funds needed for the change order will not be processed until the change order has been approved by Design and Construction. **Unless previously approved, change orders are processed as a draw against the budgeted contingency funds. The balance of any unused contingency funds will be deducted from the final retainage budget and the applicable loan modifications will be prepared.**

Please note: For Housing Credit-only projects, KHC also requires that any change orders be reviewed and approved.

CHAPTER 6: Construction Completion/Placed-In-Service Stage

All projects are required to submit final close out documentation, which may include project completion reports, certificates of occupancy, and final draws. If Risk-Sharing funds are being utilized, there will be a final closing for an insured-upon-completion loan, and additional documentation may be required. When necessary, certain documents may be forwarded to an outside agency (e.g., HUD) for approval before the funds for the final draw can be released.

A 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 final punch list of items still needing completion will be submitted by the construction specialist. A follow-up inspection will be conducted to verify all punch list items have been addressed and completed. The 10 percent retainage held during the construction phase will **not** be released until a final inspection report has been received showing all punch list items have been completed and all project completion documents are received and approved. Risk-Sharing projects are also required to be inspected one year after construction completion. This inspection will be completed by a KHC construction specialist.

Required Documents

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 and/or issue the IRS Form(s) 8609, as applicable.

1. Final As-built Survey

(Required on projects utilizing Risk-Sharing funds only)

A surveyor licensed in the State of Kentucky must prepare the survey. The survey shall show all conditions as they exist after construction is 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. Certificate of Substantial Completion

(Required on projects of 12 units or more, or if an architect was involved)

The architect shall issue a Certificate of Substantial Completion after making a final inspection and to ensure 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.

3. 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.

4. Termite Certificate

*(Required on all **new construction** projects)*

A termite certificate issued by a licensed pest control company must be provided as evidence the building(s) and surrounding foundation(s) were treated to prevent termite infestation.

5. Termite Inspection Report

(Required on all rehabilitation and adaptive reuse construction projects)

A termite inspection report must be provided as evidence the building(s) were inspected by a licensed pest control company for the presence of termites. The report must indicate whether termites were present or not. If evidence of termites was found the report should indicate the building(s) were treated for termite infestation.

6. Proof of Lead-Based Paint Abatement and Clearance

(Required for projects built prior to 1978 and funded with HOME, Risk-Sharing, and Project-Based Section 8)

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

7. Project Completion Report (PCR)

(HOME projects only)

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. It is completed when all HOME units have been leased up. Only the HOME units are shown on the report. The total activity cost must match the total project cost on the Final Funds Expenditure Statement.

The final retainage of HOME funds will not be released until the [PCR](#) and [Final Funds Expenditure Statement](#) are received and complete. All documents needed to complete the PCR can be found on KHC's website, www.kyhousing.org, under Development; Multifamily; [Construction Completion/Placed-In-Service](#); HOME Project Completion Packet.

8. Final Funds Expenditure Statement

(HOME projects only)

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.

9. Section 3 Report

(Federally funded 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 website, www.kyhousing.org, under under Development; Multifamily; [Construction Completion/Placed-In-Service](#).

10. Minority Business Enterprise/Women Business Enterprise (MBE/WBE) Report

(Required on projects funded with HOME or Risk-Sharing)

The [MBE/WBE report](#) identifies the contracts awarded to minority and female businesses. The MBE section reports the racial classification and number of contracts and the associated amount awarded to minority contractors and subcontractors. The WBE section reports the gender classifications and number of contracts and their associated amount awarded to contractors and subcontractors.

11. Equal Employment Opportunities Commission (EEOC) Certificate

(Required for Housing Credit Projects only)

The EEOC certificate is a report certifying the contracts awarded to minority and female owned businesses. In addition, developers are required to report their efforts to hire minority- and women-owned businesses.

The MBE (Minority Business Enterprises) section reports the racial classification and the number of contracts and their associated amount awarded to minority contractors and subcontractors

The WBE (Women Business Enterprises) section reports the gender classifications and number of contracts and their associated amount awarded to contractors and subcontractors.

12. Kentucky-Based and Disadvantaged Business Participation Certification

Applicants who pledged the participation in the project of Kentucky-based and/or disadvantaged businesses (e.g., minority- or women-owned businesses (MBE/WBE), disadvantaged businesses (DBE), veteran-owned small businesses (VOSB) or service-disabled veteran-owned small businesses (SDVOSB)), must complete and submit the certification form for each business that participated in the project, along with an executed copy of the contract or invoice from the business evidencing that their participation in the project was for at least \$1,000 in materials or services. If the business was not previously identified at the time of application, a copy of the appropriate certifications must also be provided with the completed form(s).

13. Final Draw

When all final completion documentation has been submitted and approved, a [final draw](#) for the remaining retainage of KHC funds can be requested. 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.

14. Copy of Most Recent Property Tax Bill

(Required if KHC will be escrowing for taxes)

KHC requires a copy of the most recent property tax bill, which will be used to establish the amount to be collected and placed in the escrow account for future property tax bills.

15. Proof of Final Property Insurance

Declaration page from the final property insurance policy is required if KHC has a mortgage on the property or will be escrowing for insurance. The annual premium amount will be used to establish the amount that needs to be collected and placed in the escrow account for future insurance bills. KHC must be listed as an additional insured on the policy.

16. CP 575 D (Notice of New Employer Identification Number) or W-9 form

(Required for projects with KHC loan funds)

This is required for all projects with loans to for-profit and nonprofit entities that are not tax exempt. 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 website, www.kyhousing.org, under Development; Multifamily; [Construction Completion/Placed-In-Service](#).

17. Copy of Management Contract

(For projects utilizing a management company)

A copy of the management contract between the owner and the management company is required for compliance monitoring purposes.

18. Operating Deficit Reserve/Reserve for Replacement/Tax and Insurance Escrow Certification

If the certification was not submitted at the technical submission stage or if it has changed since the original submission, an updated copy must be provided at project completion. All applicants must certify that Operating Deficit Reserve and Reserve for Replacement accounts have been or will be established and identify the banking institution and amount of the reserve accounts. The applicant must also identify where the tax and insurance escrow accounts will be held. This [form](#) can be found on KHC's website, www.kyhousing.org, under Development; Multifamily; [Pre-Construction/Closing Submission](#).

19. Final Cost Certification

(Required on projects utilizing Risk-Sharing or Housing Credits)

A Certified Public Accounting firm shall prepare the cost certification immediately upon completion of construction. It should contain all costs associated with the construction of the project. KHC staff shall determine its acceptability. The cost certification must include a cost breakdown by building and a sources and uses of funds statement.

For Risk-Sharing projects, the cost certification will be used to determine the maximum insurable mortgage. A closing date will not be scheduled until the cost certification has been approved.

Housing Credit Documentation

To obtain the Land Use Restriction Agreement (LURA), or extended use agreement, as well as the IRS Form 8609, additional information must be submitted. This information will be submitted as one package to KHC's Tax Credit administrator. The LURA will be prepared and mailed to the owner for signature and recording. Once it is returned, the original IRS Form 8609 will be mailed to the owner for both the 4 percent and 9 percent credit allocated to each building. Please note, issuance of the 8609s may be delayed if all required project completion documents have not been submitted and approved, and/or if the project has not successfully passed a final inspection by KHC.

Following is a list of the documents required to obtain the LURA and the IRS Form 8609.

1. Exact name, address and federal tax ID number for the owner as it will appear on the IRS Form 8609, and as shown on the Kentucky Secretary of State's website and the executed partnership agreement.
2. Project owner's signature block for the LURA, provided by the owner's attorney
3. Exact street address including zip code for all the buildings in the project.
4. Application for Issuance of Certification of Allocation Form 8609.

A completed [Request for Issuance of Low Income Housing Tax Credit Allocation and Certification \(IRS Form 8609\)](#) packet must be sent to KHC's Tax Credit administrator. The application for Issuance of Certification of Allocation Form can be found on KHC's website, www.kyhousing.org. The following documentation must be submitted as part of this request form:

- Final Cost Certification with Sources and Uses of Funds statement (certification must be provided by an independent Certified Public Accountant).
- [Certification of the project sources and uses](#) by the owner and investor. This form is located on KHC's website under Development; Multifamily; [Post-Award Resources](#).
- Certificate of Occupancy for each building or for rehabilitation projects a letter from owner certifying the buildings' placed-in-service date.
- Copy of Title Policy.
- Copy of Final Syndication Agreement.
- Completed [Owner Certification of Federal, State and Local Subsidy Form](#). This form is located on KHC's website under Development; Multifamily; [Post-Award Resources](#).
- [IRS Form 8821](#), Tax Information Authorization. This form is located on KHC's website under Development; Multifamily; [Post-Award Resources](#).

The information received in this packet will be used by KHC's Tax Credit administrator in the preparation of the LURA and IRS Form 8609. The LURA will be mailed to the owner to be signed and recorded. The IRS Form 8609 will be mailed to the owner once the executed LURA has been received by KHC.

CHAPTER 7: 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 specialist with any questions.

Special notes applicable to all KHC funding sources:

- All projects involving current tenants (regardless of whether or not the tenants will be relocated) must submit a relocation plan.
- Each KHC funding source may require a separate deed restriction to be recorded against the property. The terms of the deed restriction(s) may vary by funding source.
- With the exception of Risk-Sharing loans, KHC funds may not be used to pay any fees, interest, loan balances, or other amounts due to KHC.

Small Multifamily Affordable Loan (SMAL) Program

- Eligible applicants may be nonprofit organizations, for-profit entities, and units of local government.
- SMAL 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 120 percent of the Section 8 area median income (AMI) limits.
- 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 HOME, Affordable Housing Trust Fund, Project-Based Section 8, and Housing Credit. SMAL may also blend with many sources of funding outside KHC.
- When combining SMAL funds with other KHC loan funds, the amount of the SMAL loan may not be less than the amount of the HOME or AHTF loan, as applicable. The maximum HOME and AHTF loan requirements still apply.

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 1.20 DCR in year one (whichever is lower). The DCR must remain at or above a 1.0 throughout the affordability period.
- Interest rate requested cannot be lower than 3.5 percent but will be determined based on what the project can support.

- Interest-only payments will be due during the term of the construction period.
- The term of the loan shall not exceed 30 years.
- A deed restriction will be recorded against the property for the life of the loan. If the SMAL loan is paid off early, the deed restriction will remain in effect for the original term of the loan.
- 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.
- If the project is not placed-in-service by the deadline noted in the SMAL commitment, a 30-day extension may be requested by payment of a construction extension fee of .00375 percent (3/8 of one percent) of the SMAL loan amount. Up to three 30-day extensions may be requested; however, each extension will incur the extension fee.
- 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:	SMAL requested:	\$500,000	
	Total project cost:	÷ <u>\$800,000</u>	
	SMAL percentage:	62.5%	
	Total rental units:	11	
	SMAL Percentage:	x <u>62.5%</u>	
	SMAL units:	=	6.875 (always round up)

The number of required SMAL units would be seven.

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 website, www.kyhousing.org, under Development; Multifamily; [Underwriting Resources](#).

SMAL Compliance Requirements

(Please refer to KHC’s website, www.kyhousing.org, under [Asset Management](#) for additional requirements).

Annual compiled financial statements, on the project only, must 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 certified public accountant in accordance with generally accepted auditing standards and government auditing standards. New multifamily projects that have been placed-in-service must provide periodic reports as required by Asset Management.

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 only if it is advantageous to KHC to do so.

- Eligible applicants for HOME funds are nonprofit and for-profit entities.

- The following local jurisdictions receive a direct allocation of HOME funds. Projects located in these areas are not eligible to apply for KHC-administered state HOME funds and should apply to the applicable local jurisdiction for HOME funds.
 - City of Owensboro
 - Merged governments of Lexington/Fayette County
 - Merged governments of Louisville/Jefferson County
 - The consortia of the cities of Bellevue, Covington, Dayton, Ludlow and Newport.
- HOME projects must be completed within the time frames outlined in the closing documents.**
- HOME rental units must be leased in a timely manner, within 3 to 6 months of project completion. If the HOME units are not leased within this time frame, the project owner and/or management agent will be required to provide documentation of their marketing efforts to lease the units. Per a HUD mandate, any HOME units not leased after 18 months will be subject to termination and repayment of all HOME funds invested.
- 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, operating deficit reserves, 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.
- The minimum affordability period requirements for this program are as follows.

○ Rehabilitation < \$15,000 per HOME unit	5 years
○ Rehabilitation > \$15,000 - \$40,000 per HOME unit	10 years
○ Rehabilitation > \$40,000 per HOME unit	15 years
○ New construction or acquisition	20 years
- A deed restriction securing the applicable affordability period, as shown above, will be recorded against the assisted property. Even if the HOME loan is paid off early, the deed restriction will remain in effect for the applicable term.
- 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, deferred loan (due at maturity), or a forgivable loan (forgiven at maturity). Forgivable loans will only be considered for projects with nonprofit owners that demonstrate the need for such a loan and cannot support any debt service. 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, but may not be more than 30 years. 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, or if the funds are requested as a deferred or forgivable loan, the HOME funds will be considered as a KHC subsidy for scoring purposes.
- Projects utilizing HOME funds must adhere to the lease provisions of 24 CFR 92.253 and leases cannot contain the prohibited lease terms contained therein nor require tenants to accept supportive services as a condition of tenancy. Owners are required to give tenants a minimum 30-day notice of lease termination or non-renewal, and only for serious or repeated violation of the terms and conditions of the lease; violation of applicable federal, state or local law; or for other good cause.
- **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.

HOME Financial Requirements

- HOME loans (deferred, forgiven or 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 HOME-eligible match of the total HOME funds requested. Match information can be found in [Chapter 8 Financial Requirements for All Funding Sources, Match](#).
- 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 AMI. 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 AMI.
- 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: HOME amount requested: \$300,000
 Divided by total project cost: ÷ \$2,000,000
 HOME percentage: 15%

Total rental units 30 units
 HOME percentage: x 15%
 HOME units: = 4.5 (always round up)

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.

Total HOME units 5 units
 x 20%
 Total low HOME units: = 1.00
 (Any fraction of one unit must be rounded to one unit)

In this instance, the project must have **at least one unit** rented at the low-HOME 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: HOME subsidy limit: 1BR \$ 90,796
 2 BR \$110,407
 Requested subsidy: \$300,000
 Located in Frankfort
 2 (1BR) units X \$ 90,796 = \$181,592
 3 (3BR) units X \$110,407 = \$331,221
 Total allowable subsidy \$512,813

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 are therefore 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 website, www.kyhousing.org, under Development; Multifamily; [Underwriting Resources](#) for the HOME maximum [rent](#) and [income](#) limits.

HOME Relocation Requirements

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** (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 specialist if considering a project that involves acquisition of real property or the permanent or temporary relocation of individuals or households. All projects involving current tenants (regardless of whether or not the tenants will be relocated) must submit a relocation plan.

Detailed information on complying with the relocation and acquisition requirements can be found on the HUD Real Estate Acquisition Web page at <http://www.hud.gov/offices/cpd/library/relocation>.

Conflict of Interest

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.

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 (must not include other agency funds/activities, the project would have its own balance sheet, income statement, and cash flow statement) 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. 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. **Failure to submit the required annual financial statements will be considered by KHC in future funding proposals.**
- Separate from the KHC requirements, 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. Any agency that has a finding in such audit must submit a copy of that audit to KHC and provide evidence that the finding has been corrected or is being corrected.
- Each HOME-assisted unit must remain in compliance with 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 HOME-assisted rental unit 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 AMI 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 AMI 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 AMI and charged the low HOME rent or FMR, whichever is less. KHC will update its Multifamily Finance web page each year with the new releases for rent and income limits.
- In some instances, residents of 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:
 - 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, 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.
- 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.
- New multifamily projects placed-in-service must provide periodic reports as required by KHC's Asset Management Department.

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.

Nonprofit 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 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 **nonprofit organizations**.
- The nonprofit organization must be at least 51 percent of the ownership entity and materially participate in the project for the term of the loan.
- 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) if combining AHTF with Housing Credits.
- Eligible activities include acquisition/new construction, acquisition with rehabilitation, and/or new construction of very low-income rental developments. There are three priorities with this funding:
 1. New construction projects.
 2. Projects using existing privately-owned housing stock.
 3. Projects using existing publicly-owned housing stock.

- The affordability period for rental projects is 30 years.
- KHC shall require at least 40 percent of all AHTF funds to be used for rural areas of the Commonwealth, as defined by the U.S. Department of Agriculture Rural Development (RD). Applicants can determine if the property is in a rural area by accessing the [RD Property Eligibility Site](#), “Multi Family Housing” and then enter the property address.
- 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 funds are provided in the form of an amortizing loan, deferred loan (due at maturity) or a forgivable loan (forgiven at maturity). Forgivable loans will only be considered for projects with nonprofit owners that demonstrate the need for such a loan and cannot support any debt service. Interest rates on loans are flexible and the loan term will be 30 years. Interest will not be charged during the construction period of the loan.
- If AHTF 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 or if the funds are requested as a deferred or forgivable loan, the AHTF funds will be considered as a KHC subsidy for scoring purposes.
- A 30-year deed restriction will be recorded against the property to secure the affordability period. If the AHTF loan is paid off early, the deed restriction will remain in effect.
- The AHTF closing documents must be executed in the eligible applicant’s name.
- Preference will be given to projects serving households below 30 percent of the AMI. However, AHTF may serve households up to 60 percent of the AMI. 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 website, www.kyhousing.org, under Development; Multifamily; [Underwriting Resources](#).
- While there are no published rent limits for AHTF, the proposed rents should be proportionate with the income level being served, unless some form of rental assistance is being provided. Since there are no published AHTF rent limits, the HOME rent chart should be used as a guide.
- AHTF can be blended with other KHC funds, such as HOME, SMAL, Project-Based Section 8, and Housing Credits. If AHTF is allocated to a Housing Credit project, the AHTF award must be made to a nonprofit agency who is the majority owner of the partnership. The nonprofit will then loan the AHTF funds to the project with an assignment to KHC. The nonprofit will be responsible for continued compliance as well as the developer.

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. In the event displaced persons are eligible for federal relocation benefits, no additional relocation benefits are required as a result of this policy. All projects involving current tenants (regardless of whether or not the tenants will be relocated) must submit a relocation plan.

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 7.5 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.

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 certified public accountant 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 that have been placed in service must provide periodic reports as required by KHC's Asset Management Department.

Risk-Sharing

As a directive of Section 542 of the Housing and Community Development Act of 1992, HUD authorized qualified state and local housing finance agencies to participate in the Risk-Sharing Program. As a result, KHC is authorized by HUD to process and underwrite Risk-Sharing loans. Risk-Sharing is a mortgage insurance program in which the risk is shared between KHC and HUD. There are two approval levels. As a Level I participant, KHC would share in 50 percent of the risk with HUD. As a Level II participant, KHC would share in 25 percent of the risk with HUD.

Requirements for the Risk-Sharing Program are:

- Risk-Sharing provides financing for multifamily projects of five units or more.
- At this time, Risk-Sharing funds may only be used for permanent loans.
- For the 2015 funding year, the amount requested for a project cannot exceed \$2,000,000.
- Risk-Sharing funds must be used in conjunction with the Low Income Housing Tax Credit Program.
- Eligible applicants for this program are nonprofit and for-profit entities.

- Eligible rental activities are limited to new construction, acquisition with new construction, acquisition with substantial rehabilitation, substantial rehabilitation, and adaptive reuse.
- The ownership must be in the form of a single-asset entity. Each principal, as defined in [Chapter 4 of the HUD Handbook 4590.01 REV-1](#), must disclose all past participation in HUD-FHA programs (except single family home mortgages) and the nature of their proposed project. Principals must disclose their previous participation by completing the [HUD 2530 form](#) (PDF version) or through the [Active Partners Performance System \(APPS\)](#). Limited liability investor entities associated with the project must complete the [Identification and Certification of Eligible Limited Liability Investors](#) form and upload with the project's technical submission documents.
- All projects must qualify as affordable residential rental housing. To be considered as such, the project must meet the following requirements:
 - A project in which 20 percent or more of the units are both rent-restricted and occupied by persons whose income is 50 percent or less of the [AMI as determined by HUD](#), with adjustments for household size.
 - A project in which 40 percent or more of the units are both rent-restricted and occupied by persons whose income is 60 percent or less of the [AMI as determined by HUD](#), with adjustments for household size.
- “Rent-restricted” means that gross rent for a unit does not exceed 30 percent of the imputed limitation applicable to such unit.
 - Because the Risk-Sharing Program does not have published rent and income limits, the Housing Credit rent and income limits are used to determine the maximum rent and income limits for each unit type.
- The affordability period shall be equal to the term of the original first mortgage loan.
- A deed restriction equal to the term of the loan will be recorded against the property for the affordability period. If the Risk-Sharing loan is paid off early, the deed restriction will remain in effect.
- An environmental review is required and shall be carried out following the National Environmental Policy Act of 1969 and related laws and authorities in accordance with 24 Code of Federal Regulations (CFR) Part 58. KHC’s environmental specialist will conduct this review.
- The Federal Davis-Bacon Act wage rate requirements apply to new construction and substantial rehabilitation projects of 12 or more units when the Risk-Sharing Program is used for construction financing. Davis-Bacon requirements do not apply when the Risk-Sharing funds are utilized solely for permanent financing. 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 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.

Risk-Sharing Financial Requirements

- The maximum loan amount cannot exceed \$2,000,000.
- The loan term may be up to 40 years.
- Loans must be amortized over the term of the mortgage.
- The mortgage must be in first lien position on the property.
- Risk-Sharing loans are non-recourse loans.
- The maximum loan amount requested cannot exceed 90 percent loan to value, which will be determined by the appraisal during the technical submission stage.
- Risk-Sharing loans are required to have a minimum debt coverage ratio of 1.25 in year one and must remain positive through year 15.
- 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 used.
- Risk-Sharing funds may not be used to pay any portion of the developer fee.
- A monthly Mortgage Insurance Premium (MIP) of 0.5 percent is required for loans under this program and will automatically be calculated in the underwriting model.
- Applicants should assume a taxable interest loan rate, exclusive of MIP. This rate is for underwriting purposes and is subject to change as the market changes. Current rates are posted on KHC's multifamily Web page at www.kyhousing.org, under Development; Multifamily; [Risk-Sharing Program](#).
- The following fees are associated with Risk-Sharing funding. These fees should be included in the Sources and Uses.
 - ✓ Application Fee of \$3,000 due with the Housing Credit reservation fee.

The following fees are due at the time of closing:

- ✓ Commitment fee of 3 percent of the loan amount.
- ✓ Upfront MIP equal to 0.5 percent of the loan amount will be due at the closing of the permanent mortgage. There is also a monthly MIP of 0.5 percent.
- ✓ Closing fee of \$5,000. The title policy cost is not included in the closing fee.

Risk-Sharing Compliance Requirements

- Risk-Sharing requires all projects to be audited annually in conformance with the HUD Consolidated Audit Guide. Audits must be submitted to KHC no later than April 1 of the following year.
- All Risk-Sharing loan documents will include a regulatory agreement which, among other things, states, "Owners shall not without prior written approval...assign, transfer, dispose of, or encumber any personal property of the project, including rents, or pay out any funds except from surplus cash, except for reasonable operating expenses and necessary repairs."
 - "Reasonable operating expenses and necessary repairs," for the purpose of this section, include reasonable expenses necessary to operate and repair the physical project, including normal property management fees. However, it would not include related-party

fees that are not critical to keep the project operating on a daily basis. Examples would include partnership management fees, asset management fees, incentive management fees, etc. Any such fees that would result in an assignment, transfer, disposal of, or encumbrance of any personal property of the project prior to determining the money available through the normal surplus cash calculation, would first need to receive specific written approval from KHC.

- Risk-Sharing projects must adhere to all compliance monitoring procedures.
- If **HOME funds** were utilized in the project, records must be retained for five years after the project completion date.

CHAPTER 8: Financial Requirements for All Funding Sources

Requirements for Underwriting

Following is a summary of some of the criteria KHC will consider when underwriting the project. This list is not intended to be all-inclusive and KHC may review and require documentation on any factor from any funding source that may have an impact on the project's budget and financial performance, as determined by the KHC underwriter.

1. **ALL** amortizing, permanent loans shall have monthly debt service payments. HOME and AHTF loans do not accrue interest during the construction period.
2. SMAL and Risk-Sharing loans will be amortizing loans.
3. HOME and AHTF may be structured as amortizing loans or deferred, due-at-maturity loans.
4. Forgivable HOME and/or AHTF loans will only be considered for projects with nonprofit owners that demonstrate the need for such a loan and cannot support any debt service.
5. KHC funds will be in first lien position unless approved otherwise prior to closing.
6. The maximum combined loan to value (CLTV) ratio may not exceed 100 percent for all permanent loans associated with the project. The project's investment value will be determined in the appraisal.
7. In order to ensure that governmental assistance is provided only in an amount to make the project financially viable, a subsidy layering/financial review will be required on all projects when there is a combination of any of the following funding sources: HOME, Risk-Sharing, Housing Credits, or Project-Based Section 8.
8. The construction contingency may not exceed 10 percent of total construction hard costs. When calculating contingency, acquisition of the property should not be included as hard costs. If no contingency is being requested, the applicant must explain the rationale as to why none is required. Furthermore, if no contingency is requested and change orders occur during construction, the applicant is responsible for all such costs. For new construction projects, contingency should always be less than 10 percent (in most cases generally less than 5 percent). 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.
9. **The construction contingency is set aside for unforeseen cost overruns.** 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. **Soft cost contingencies are not allowed.**
10. The required DCR in year one must be a minimum of 1.20, except for Risk-Sharing projects which must achieve a minimum 1.25 DCR in year one. **All projects must maintain a DCR of 1.0 or greater (positive cash flow) through year 15.** Projects requesting Housing Credit only must adhere to the DCR requirements established by an investor or governmental entity if the investor or governmental entity accepts a lower DCR. All required DCRs, if lower than

KHC's minimum, must be reflected in either the syndication agreement or documentation from the governmental entity. In addition, the investor or governmental entity must provide its 15-year proforma. **Projects requesting KHC funds must maintain positive cash flow through the applicable term of affordability for the funds requested.**

11. 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. If no documentation is submitted, then the project will not meet the financial requirements and will not be approved for funding.
12. For all Housing Credit projects, the maximum amount of credit for which the project is eligible is the lesser of the equity gap test, the credit per unit test, or the qualified basis test, as calculated on the "Housing Credit" tab of the KHC underwriting model.
13. For Housing Credit projects proposing a Community Service Facility (CSF), the project must be located in a Qualified Census Tract (QCT). The eligible basis attributable to the CSF cannot exceed 25 percent of the project's total eligible basis (without any basis boost) and the total project development cost cannot exceed \$15 million. The costs associated with the CSF must be itemized on a separate uses statement contained within KHC's underwriting model and those costs will not be considered in the cost containment calculation. No additional credit is awarded for the CSF because the eligible basis attributed to the CSF costs is included in the project's total eligible basis.
14. Projects that contain commercial space must itemize the associated commercial space costs on a separate uses statement contained within KHC's underwriting model and those costs will not be considered in the cost containment calculation.
15. Any project-related fees or soft costs associated with a CSF or commercial space must be allocated on a pro-rata basis, or the actual amount of the soft cost, if it is specific to the space. A disproportionate share of fees and soft costs may not be allocated to the CSF or commercial space for the purposes of adhering to the cost containment limits.
16. KHC has published online the past three years' historical operating expense data by county, for projects in KHC's portfolio. The proposed operating expenses of a project must be supported and generally should fall between \$2,500 - \$4,500 per unit, per year (*including* utilities) **AND** fall within \$1,000 +/- of KHC's 2013 historical per unit, per year calculation (*excluding* utilities) for the county in which the project is located. If the project's annual expenses are outside of either of these ranges, provide a justification for the difference in the corresponding question in the Financial Design Section of the application. If the county in which the project is located does not have historical data, use the data of a similar neighboring county. Applicants must enter the county utilized and the amount of the 2013 historical expense data, *excluding* utilities, on the expenses page of the underwriting model.
17. 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, must justify a higher percentage.
18. **Recovery Kentucky projects will be charged an annual project oversight administrative fee by KHC.** The annual fee will be \$7,500 for projects with KHC-administered vouchers and \$4,000 for projects with non-KHC administered vouchers. KHC reserves the right to periodically increase this fee at its discretion.

Match

HOME and AHTF funds provided by KHC will require a minimum 5 percent match. For **AHTF funds**, any non-KHC financing source may be eligible. This includes, but is not limited to:

- Private bank financing
- Donated materials, labor, or services
- Waived or reduced fees or taxes
- Gap financing from any non-KHC source
- Other federal funds
- Owner equity

KHC funds, or funds administered by KHC, cannot be used to meet the match requirement.

The HOME program imposes more stringent match eligibility requirements. For applicants requesting **HOME funds**, eligible match sources must be permanent, non-federal contributions as follows:

- Cash contributions.* Excludes proceeds from Housing Credits and any other owner equity.
- Donated real property.* To document the value of donated property, it must be appraised by an independent, certified appraiser in conformance with established and generally recognized appraisal practices and procedures. If the 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 and must be documented with a copy of the appraisal and a copy of the purchase contract. A statement must be attached from the owner/seller stating that the property was donated or sold for below-market value as a contribution to affordable housing.
- Donated construction materials.* The letter of commitment must include the method of calculating the value of donated materials and documentation of its actual cost.
- Volunteer labor.* Valued at \$10 per hour unless classified as professional/skilled labor, 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 and actual hours worked must be documented. Volunteer labor from the owner, or related parties of the owner, is not eligible.
- Waived fees and taxes.* If a project participant (other than the developer/owner) or local jurisdiction agrees to waive or reduce a customary fee or tax associated with the project, the developer may secure a letter from the provider that identifies the customary amount of the fee or tax and the amount to be waived or reduced. If a local property valuation assessor (PVA) agrees to reduce the property taxes based on the restricted rents versus the market value, the net present value of the tax reduction is match eligible. The PVA must provide a letter stating what the market rate taxes would be and what the reduced tax bill will be based on the restricted rents, along with a calculation of the net present value of the tax savings. The net present value of the difference between the tax rates may be counted as match.

Donations of equity, cash, real property, goods, materials, labor, services, fees, or any other contributions that originate from the project owner, or any entity in which the owner (or any member of the ownership entity) has an identity of interest, is not match eligible for HOME-funded projects. Potential match contributions that are paid for or reimbursed by a federal funding source are also ineligible. Please refer to HUD CPD Notice 97-03 for more detailed information on HOME match requirements.

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 applicants to identify eligible sources of match early in the project development process. However, in unique circumstances, KHC will reserve the right to waive the match requirement if no eligible match can be secured and the developer can document their efforts to secure eligible match.

Subsidy Layering Review

A subsidy layering/financial review will be required on all projects that receive, either directly or indirectly, financial assistance from the U.S. Department of Agriculture Rural Development (RD) or HUD. KHC is required to follow guidelines established by RD and HUD with respect to the review of the financial assistance provided to the project.

The subsidy layering review will include a review of the amount of other governmental assistance, the amount of equity capital contributed to a project by investors and a review of project costs including developer's fees, consultant fees, contractor's profit, syndication costs and rates, etc.

Appraisals

An appraisal ordered for KHC from a KHC-approved appraiser that meets KHC's appraisal standards is 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. Applicants are responsible for all costs associated with the completed appraisal.

Applicants that have a KHC loan or combined loans of \$250,000 or more **must** choose an appraisal firm or individual listed on KHC's approved list and the appraisal must meet the standards outlined in KHC's appraisal requirements, including recognition of the favorable financing value of any below-market subsidy financing. KHC's [appraisal requirements](#), as well as the list of [KHC-approved appraisers](#), are available on KHC's website, www.kyhousing.org, under Development; Multifamily; [Underwriting Resources](#).

Appraisals ordered for another lender or from a non-KHC approved appraiser are not acceptable; however, the KHC appraisal may authorize another user of the KHC appraisal.

Housing Credit projects not requesting KHC loan funds but that 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 basis determined by the required final cost certification. These appraisals do not need to meet KHC's appraisal guidelines or need to be ordered from KHC's contract appraisers; however, the appraisal must still provide a separate value for the land.

For rehabilitation and preservation developments that qualify for acquisition Housing Credit, a developer's fee will be allowed on a portion of the acquisition cost that is basis eligible, unless there is an identity of interest between the seller and buyer, in which case none of the land acquisition cost and only 5 percent of the building acquisition costs will be included in the developer fee calculation. In cases where there is an identity of interest between the seller and buyer of vacant land, KHC will require evidence of the original purchase price. If the acquisition cost of the land is higher than the original purchase price and is

not substantiated in the appraisal, KHC may require the use of the original purchase price. The maximum acquisition cost that will be recognized in determining the developer's fee will be the lesser of the actual amount paid for the building or the Member of the Appraisal Institute appraised value.

Applicants will enter into a contract for services directly with the appraiser and, with the exception of questions about KHC standards and/or requirements, the applicant shall be responsible for handling all issues related to the appraisal. Applicants contracting with appraisers for the benefit of KHC shall be responsible for negotiating the price of the contracted work. If the applicant is planning to use KHC's appraisal to meet a Housing Credit syndicator's requirement, the syndicator's guidelines must be provided to the appraiser and cost negotiations will occur at the time of first contact.

Although the applicant is responsible for engaging the appraiser, the report shall identify KHC as the intended user for the purpose of providing KHC a basis for investment and loan underwriting decisions. Developers may request the lending institution to be listed as an authorized user of the appraisal in addition to KHC to prevent two appraisals from being conducted. If two appraisals are obtained, then KHC must receive a copy of the second appraisal for comparison. The developer will need to have large discrepancies addressed by both appraisers.

For a complete description of KHC's [appraisal requirements](#), please refer to KHC's website, www.kyhousing.org, under Development; Multifamily; [Underwriting Resources](#).

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.

The applicant must enter the applicable cost containment limit in the underwriting model. You can find KHC's cost containment limits on KHC's website, www.kyhousing.org, under Development; Multifamily; [Underwriting Resources](#).

The total development cost must not exceed the applicable cost containment limit. For example:

- 11 unit elderly new construction, non-elevator project located in Franklin County
- 5 one-bedroom units and 6 two-bedroom units
- Total development cost of \$950,000

Cost containment limits: 1BR = \$105,872; 2BR = \$127,684

Therefore: Five 1-BR X \$105,872 = \$ 529,360

 Six 2-BR X \$127,684 = \$ 766,104

Maximum cost containment limit: \$1,295,464

The total development cost of \$950,000 is below the cost containment limit of \$1,295,464.

Note: Costs associated with commercial space or a Community Service Facility in a Housing Credit project located in a Qualified Census Tract will not be considered in the cost containment calculation.

Maximum Allowable Fees

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:

General requirements ÷ (Total Hard Cost - 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:

Builder's Overhead ÷ (Total Hard Cost - Construction Contingency)

Builder's profit equals:

Builder's Profit ÷ (Total Hard Cost - Construction Contingency)

Maximum allowable fees are based on the total development cost as shown below:

Total Development Cost	General Requirements	Builder's Overhead	Builder's Profit
\$250,000 and less	6%	7%	12%
\$251,000 - \$750,000	5%	6%	8%
\$751,000 and greater	6%	2%	6%

Developer Fee

The allowable fees for developers are based on the total development cost (TDC) of the project, less excluded costs. Unless otherwise approved by KHC's Board of Directors, the developer fee on any project may not exceed 15 percent.

The amount of developer fee (including any fees for consulting services) paid for with AHTF funds cannot exceed 7.5 percent of the total AHTF award for the project.

For the purposes of the calculation, "developer fee" means the actual developer fee, consulting fees, and anything resembling developer or consulting fees. The developer fee (as a percentage) is calculated as a maximum of 15 percent of the total development cost (20 percent for Tax-Exempt Bond projects), minus the following deductions:

- Developer fee
- Consultant fee
- Any fees resembling developer or consultant fees
- Project reserves (not including any upfront deposit to the Reserve for Replacement)

For projects where there is an **identity of interest** or the appearance of an identity of interest between the developer, consultant, contractor/builder, architect, attorney, nonprofit, or buyer and seller of real estate, KHC expects increased transparency and accountability. Dependent on the type of identity of interest, the following exclusions to the developer fee calculation will apply:

- Contractor/Builder – contractor profit excluded
- Architect – architect fee excluded
- Attorney – attorney fee excluded

If an identity of interest exists between the developer and two or more of the development team members identified above, then the developer fee will be limited to 10 percent of the total development cost, minus the developer fee deductions noted above. When an identity of interest exists between the buyer and seller of real estate, the developer fee calculation will exclude the land acquisition cost and the developer fee for buildings will be limited to 5 percent of the building acquisition cost.

Please 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. Refer to KHC's [identity of interest policy](#).*

Deferred Developer Fee

In order to serve the greatest number of units with the limited supply of subsidy dollars, Housing Credit applicants requesting HOME or AHTF funds from KHC must first defer a minimum of 25 percent of the developer fee prior to determining the need for such funds.

In Housing Credit projects, if the developer is deferring a portion of the developer fee to be paid from project income after it has been placed-in-service, the deferred portion must be able to be repaid within the first ten years of operation. The pro forma of KHC's underwriting model will calculate the amount of deferred developer fee to be repaid each year from available project cash flow. Any amount not repaid at the end of the tenth year must be deducted from the project's eligible basis. KHC may consider, on a case-by-case basis, allowing projects to extend the repayment period for deferred developer fee up to the maximum 15 years allowed by the IRS.

Reserve for Replacement (R4R) and Replacement Reserve Analysis

All applicants are required to establish an R4R account. KHC will hold the account unless otherwise required by the equity provider or another lender in the project with a superior lien position. The R4R annual deposit shall increase at 3 percent annually or as prescribed by KHC.

KHC's minimum required R4R is the greater of \$400 per unit, per year or the amount required by the Physical Capital Needs Assessment (PCNA) or Capital Reserve Replacement Schedule (CRRS), as applicable. If the equity provider or another financing source has a higher reserve requirement, KHC will defer to the higher amount. For projects requesting Housing Credit only, KHC may accept a lower minimum R4R amount if the syndicator or equity investor allows a lower minimum amount and it is documented in the partnership agreement.

Replacement Reserve Analysis:

The CRRS projected account balance must, at a minimum, be positive at the beginning of the 15th year.

- New construction projects requesting HOME must be positive at the beginning of year 20.
- Projects requesting Housing Credit only may be allowed a lower minimum as described above.
- Risk-Sharing projects will be evaluated on a case-by-case basis due to their higher risk levels.

Projects may be required to make an initial deposit to the R4R account as part of the upfront funding of the project. This will be determined on a case-by-case basis and determined by the PCNA/CRRS. Projects that are required to make an upfront deposit into the replacement reserve must show this amount on KHC's underwriting model.

All PCNA and CRRS studies must provide projections extending to, or beyond, the term of the KHC loan that is being requested. All projects must also include an electronic submission of KHC's Excel spreadsheet "Capital Reserve Replacement Schedule."

All applicants must obtain as realistic a PCNA or CRRS as possible since they can affect the future ability of a project to make R4R draws. KHC has a long-standing policy of requiring a minimum account balance of two years' worth of deposits. KHC will continue to reserve the right to maintain two years' worth of deposits, but future draw approvals are anticipated to be based more upon an approved CRRS if one is available. For example, if after a few years it becomes clear that the project is having significant withdrawals that were not anticipated by the PCNA/CRRS then KHC could require the owner to cover those additional expenses from other sources. In such an instance, KHC also reserves the right to require a new PCNA/CRRS and revise the R4R deposit schedule based upon this new study. The CRRS will be used as a tool to help KHC determine if a draw is requesting eligible items as planned for in the CRRS.

For projects that KHC holds the R4R account, at the maturity date of any KHC HOME and/or AHTF loans, KHC will apply any unused R4R account balance to the remaining balances of the KHC HOME and/or AHTF loans. In addition, for projects in which the R4R account is held by another entity, the reserve account must be assigned to KHC at such time as the R4R account holder (equity investor/syndicator or superior lien holder) no longer has a security interest in the project. Any balance in the R4R account must be remitted to KHC at the end of the IRS 15-year compliance period for capitalization of such an account for the remainder of the HOME and/or AHTF affordability period, if applicable.

All Housing Credit projects will be required to submit a subsequent PCNA in year 15 and may require the project to adjust their capital reserve replacement schedule accordingly.

Operating Deficit Reserve Account (ODR)

All applicants will be required, at closing or no later than the project's placed-in-service date, to sign a certification stating that a separate operating deficit reserve (ODR) account has been established. **Projects with KHC loan funds must fully fund the reserve account at KHC's minimum required amount or such greater amount as required by another lender or equity provider no later than the first day of the month following the project's placed in service date.** The purpose of the ODR is to ensure that adequate funds are on hand should operating costs (e.g., utilities, maintenance costs, debt service obligations, etc.) exceed the project's ability to pay them with other funds. In addition to being a safeguard during the initial lease-up phase, the ODR is vital to ensuring the long-term financial stability of the project by increasing the project's ability to absorb or respond to temporary changes in circumstances, such as the unanticipated event of significant unbudgeted increases in operating expenses and/or losses in operating revenues.

KHC calculates the minimum ODR requirement as follows:

$$\begin{aligned} & \text{Six months of debt service payments} \\ & + \text{Six months of projected operating expenses} \\ & = \text{Minimum Operating Deficit Reserve Required} \end{aligned}$$

KHC will hold the ODR escrow unless otherwise required by another lender in the project. If KHC does not hold the ODR, KHC requires to be notified prior to any disbursements from the ODR account.

For ODR escrows held by KHC: KHC will require during the first two years that the ODR maintain a minimum balance of 75 percent of the original ODR amount. Requests for disbursements from the ODR account must be submitted to KHC's Asset Management Department on the appropriate form. Each written request must include a specified itemization of the operating expenses and include supporting documentation evidencing the actual cost of each expense.

If at any time during the initial two years the balance in the ODR is below the required minimum balance (75 percent of the original ODR), then a deposit must be made to replenish the ODR to the required minimum balance as cash flow permits; however, at no time may the replenishment take more than three months. The ODR will be replenished prior to making any disbursements to and any other payments to the owner or any party related to the owner.

The balance in the ODR may fall below the minimum required balance after the initial two years; however, the balance in the ODR will remain in place for the life of the loan, available for eligible disbursements, as needed.

If KHC is financing the ODR, the full amount is required to be drawn on the final draw. All applicants will be required to identify the funding source of the ODR on the underwriting model. HOME funds may not be used to fund an ODR.

For ODR escrows not held by KHC: All applicants will be required prior to closing to sign a certification stating that an ODR escrow account has been established. If the equity provider or another financing source has a higher reserve requirement and a more stringent ODR policy, KHC will defer to the higher amount and their ODR policy.

KHC reserves the right to waive or modify the ODR requirement on a case-by-case basis.

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. 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 must be deeded separately as a condominium regime.

CHAPTER 9: 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 website, www.kyhousing.org, under Resources; Data Library; [Consolidated Plan](#).

Funding Gaps/Substantial Change

If a funding gap due to increases in hard costs is identified prior to closing and the start of 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 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 Credits) or if the number of units increases or decreases by 10 percent or more, this will be viewed as a **substantial change**. In this case, the applicant either locates other funding or must forfeit their reservation of funds 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 is no guarantee that additional funds will be provided. The following information must be sent to the program 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: Any time a funding gap is identified, whether before or during construction, developer fee and/or construction contingency must be used to cover all funding shortfalls before additional funds are requested. **KHC will not consider requests for funding gaps due to increases in soft costs.**

New Construction in Qualified Census Tracts

A QCT is any census tract (or equivalent geographic area defined by the U.S. Census Bureau) in which at least 50 percent of households have an income less than 60 percent of the AMGI or where the poverty rate is at least 25 percent.

KHC's findings reflect that QCTs have benefited over the years with the creation of affordable housing developments with the Low Income Housing Tax Credit (Housing Credit) program under IRC section 42 and other public housing programs. Treasury regulation § 1.42-9(a) mandates compliance with HUD directives including Title VIII of the Civil Rights Act of 1968.

To meet the requirements of the Fair Housing Act and Treasury regulation §1.42-9(a), KHC has restricted the creation of new affordable housing units in QCTs. KHC will now require developments that propose the creation of new units in QCTs to undergo a thorough review and justification process prior to an application for funding being accepted. Developments must demonstrate one of the following to be eligible:

- 1) The creation of new affordable units in a QCT must be part of a written community revitalization plan that specifically identifies the proposed project. The community revitalization plan (or its equivalent) must have been in existence prior to an application for funding. The plan must be consistent with the Fair Housing Act; or
- 2) Developments that receive a certification from an entitlement jurisdiction in which the property is located. The certification must specifically identify the proposed development and state that the creation of new affordable units in a QCT is consistent with its AI and certification to HUD.
- 3) Developments proposing new affordable housing units in a QCT located in the state jurisdiction covered by KHC's AI will not be accepted. Developers may request a waiver of this requirement prior to seeking funding from KHC. Waivers will be granted on a case-by-case basis at KHC's sole and absolute discretion. All waiver requests must be sent to KHC's legal department and include detailed information on the project, existing affordable housing developments located within the QCT and within the market area as determined by a third party market analyst. Additionally, KHC will require letters from community officials and affordable housing organizations which discuss the community's existing affordable housing, the rationale for the creation of new units in a QCT and the availability of affordable rental housing in their community in locations outside of the QCT. KHC will reject waiver requests that appear to violate fair housing laws (24 CFR 100).

KHC will continue to allow Housing Credits in QCTs for the preservation of existing affordable housing developments that have been previously assisted by federal or state programs.

Inspections

All projects will be required to participate in a pre-construction conference ***before any construction activities begin***, unless waived by KHC due to significant prior experience. 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 specialist and program representative/specialist assigned to the project.

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 monthly inspections. For Housing Credit only projects, the construction specialist may choose to only inspect the project at three different stages. The first stage is when footers are poured. 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 Housing Credit only projects, KHC may, at its sole discretion, require and accept an alternative verification of inspection for the three stages of construction, by accepting a copy of an inspection report performed on behalf of the investor or other lender.

For projects requesting to draw other KHC funds during the monthly inspection, the construction specialist will approve the draw requests for construction costs. All other costs will be approved by the program specialist. 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 and must be signed by a KHC inspector. **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, there could be a pre-8609 inspection that 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.

Identity of Interest

An identity of interest relationship exists if any officer, director, board member, or authorized agent of any development team member (developer, consultant, general contractor, architect, attorney, management agent, nonprofit agency, seller of the project real estate, etc.):

1. is also an officer, director, board member, or authorized agent of any other development team member;
2. has any financial interest in any other development team member's firm or corporation;
3. is a business partner of an officer, director, board member, or authorized agent of any other development team member;
4. has a family relationship through blood, marriage or adoption with an officer, director, board member, or authorized agent of any other development team member or company providing services to the project; or
5. advances any funds or items of value to the sponsor/borrower.

All projects that include an identity of interest, as defined above, must indicate the specific identity of interest in the application for KHC resources.

Developer Fee Limitations

When an identity of interest exists between the developer, consultant, owner, architect, general contractor, and/or the buyer/seller of real estate, the developer fee will be subject to the exclusions as defined in KHC's [developer fee policy](#) in Chapter 8.

Failure to disclose required identities of interest will result in disciplinary action per KHC's [suspension and debarment policy](#).

Conflict of Interest

A conflict of interest exists in situations in which a public official or fiduciary who, contrary to the obligation and absolute duty to act for the benefit of the public or a designated individual, exploits the relationship for personal benefit, typically pecuniary.

In certain relationships, individuals place their trust and confidence in someone to act in their best interests. When an individual has the responsibility to represent another person—whether as administrator, attorney, appraiser, market analyst, consultant, government official, or trustee—a clash between professional obligations and personal interests arises if the individual tries to perform that duty while at the same time trying to achieve personal gain. The appearance of a conflict of interest is present if there is a potential for the personal interests of an individual to clash with fiduciary duties. KHC will not allow individuals or businesses to participate in or provide a service to the project that have a conflict of interest in the project.

Suspension and Debarment

In order to maintain the highest level of program integrity, KHC makes every attempt to ensure that the individuals, agencies or organizations that participate in KHC-administered programs operate in an honest and ethical manner. Therefore, parties may be subject to having funds or draw requests withheld for minor noncompliance with program guidelines or refusal to provide proper documentation. Any parties found to be in consistent noncompliance with program guidelines or that demonstrate flagrant or serious incident(s) of misuse of funds will not be allowed to participate in KHC programs.

Any person or agency that, except for good cause shown, shall have committed, or failed to perform, as the context may require, one or more of the acts or omissions identified in KHC's Suspension and Debarment Policy, may be subject to suspension and/or debarment by KHC and prohibited from doing further business with or entering into any contractual relationship with KHC. The [Suspension and Debarment Policy](#) is published on KHC's website at www.kyhousing.org.

Financial Statements

Any project for which KHC holds a mortgage, regardless of lien position, may be required to send financial statements to KHC on an annual basis. The exact type of financial statements required may vary with the funding situation but will be detailed in the legal agreements. Generally, the minimum requirement is a compilation prepared by an independent CPA. The audited financial statements for Risk-Sharing loans are to be submitted to KHC within 90 days of the project's fiscal year end. All other projects are required to submit financial statements within 120 days of the project's fiscal year end. KHC may impose a late fee if the audit and/or financials are not submitted on a timely basis.

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.

All projects receiving any type of funding through KHC's Multifamily Finance Department are required to submit annual performance report information through the online Tenant Data Collection System, which requires reporting the project's basic income and expense totals for the previous year.

Compliance Issues

(All funding sources, 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. Applicants 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 tenant's 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 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.
 - ✓ **Income calculation:** Include formula used to calculate income.
- KHC reserves the right to inspect each development for compliance with 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.

Uniform Residential Landlord Tenant Act

The Uniform Residential Landlord Tenant Act (URLTA) was enacted by the Kentucky legislature in 1984 in order to encourage property owners and tenants to maintain and improve the quality of rental housing and to make uniform residential agreements between property owners and tenants.

Despite the act's attempt to provide for uniformity in landlord/tenant relations, the law today is in force in only some jurisdictions across Kentucky. To date, URLTA has been adopted by: Barbourville, Bellevue, Bromley, Covington, Dayton, Florence, Lexington-Fayette County, Georgetown, Louisville-Jefferson County, Ludlow, Melbourne, Newport, Oldham County, Pulaski County, Shelbyville, Silver Grove, Southgate, Taylor Mill, and Woodlawn. While Fair Housing advocates continue to seek to increase the number of jurisdictions which have adopted URLTA, KHC's most recent Analysis of Impediments to Fair Housing found that one of the most significant impediments was that "only a small percentage of the state is protected by" URLTA. As a result, many renters are forced to live in substandard housing, an effect felt disproportionately by low-income and minority residents.

KHC has determined the best way to further both Fair Housing and the quality of rental housing stock across Kentucky is to require developers who receive funding or Housing Credits through KHC to develop standard rental housing projects must agree to adhere to the requirements of URLTA. Specialized or supportive housing projects will be exempt from this requirement as URLTA does not apply to housing incidental to the "provision of medical, geriatric, educational counseling, religious or similar service." KRS 383.535(1).

URLTA is codified at KRS 383.505-.715 and provides for protection of both the property owner and the tenant, as well as corresponding rights and duties of each party.

The landlord's duties are to: place any security deposits in a separate account in a regulated financial institution, adhere to building codes affecting health and safety, make required repairs to keep premises fit and habitable, keep the building systems and common areas safe and in good condition, and supply running water at all times and reasonable heat throughout the cold months of the year.

The landlord's rights are: to terminate the lease after 14 days written notice, to collect for damages, to evict from the unit, to enter the rental unit, and a right to know when the tenant will be absent for more than seven days.

Similar to the property owner, the tenant is required to adhere to building codes affecting health and safety and to keep the premises as clean and safe as practical. In addition, tenants are required to: dispose of waste safely, use electrical and all other appliances in a reasonable manner, not deliberately or negligently damage the unit or premises, conduct themselves in a way not to disturb neighbors, and not engage in unlawful activities within the premises.

The tenant has the right to: move in once the lease has been signed, to terminate the lease if the landlord fails to comply with its provisions or the URLTA, to deduct from the rent when the landlord fails to comply with the lease or URLTA in a manner which impacts the tenant's health or safety, have essential services, and to oppose the landlord's retaliation for complaining about the condition of the unit.

A sample copy of the lease between the owner and tenant must be provided to KHC at the technical submission stage. KHC's legal department will review the lease to ensure compliance with the provisions of URLTA and other KHC funding source requirements, as applicable.

CHAPTER 10: Scoring Criteria

The majority of the scoring guidelines and criteria have been incorporated into the project score sheet, which is included at the end of these guidelines. However, some scoring guidance required more detail than could be incorporated into the score sheets; therefore, additional information has been provided below. Please refer to the score sheet for more information pertaining to each scoring category.

Nonprofit, Disadvantaged and Kentucky-Based Business Participation

Applicants must submit certification, as described below, to document for-profit minority or female-controlled and managed entities 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/Women/Veteran-Owned Businesses and Disadvantaged Businesses

The Kentucky Finance and Administration Cabinet (FAC) maintains the Commonwealth of Kentucky's Minority and Women Business Enterprise (MBE/WBE) Certification. It has a comprehensive application and disclosure requirements on entities applying for certification. The FAC requirements include an on-site inspection of the applicant's business location and business records. Certifications issued through the FAC are good for three (3) years, at which time the certified entity will need to update its records for renewal. The FAC listing contains 160 qualified MBE/WBE entities.

The Kentucky Transportation Cabinet (KYTC) maintains the Commonwealth of Kentucky's Disadvantaged Business Entity (DBE) certification. The KYTC has a substantially similar application process and requirements for obtaining certification. The KYTC listing contains 371 qualified DBE entities. Eligibility criteria include:

1. Firms that are at least 51 percent owned and controlled by one or more socially and economically disadvantaged individuals in accordance with the provisions of 49 CFR Part 26.
2. Certification affords disadvantaged businesses and opportunity to participate in the performance of contracts and subcontracts financed in whole, or in part, with federal funds.
3. Socially and economically disadvantaged citizens or lawful permanent residents of the United States who are African American, Hispanic American, Native American, Asian-Pacific American, Asian-Indian American or women, and any other individual determined to be socially and economically disadvantaged by the Small Business Administration.

The Department of Veteran Affairs (VA) has a listing of businesses which Veteran business owners. The core requirements for a company to become verified are:

1. The veteran owner(s) have direct, unconditional ownership of at least 51 percent of the company (38 CFR 74.3) and have full decision making authority (38 CFR 74.4(g));
2. Veterans are required to manage the company on both a strategic policy and a day-to-day basis (38 CFR 74.4);
3. The veteran holds the highest officer position (38 CFR 74.4(c)(2));
4. The veteran should be the highest compensated employee;
5. The veteran has the managerial experience of the extent and complexity needed to manage the company.

The veteran must apply for renewal every two years to maintain their eligibility to be listed as a Veteran Business owner. The VA maintains a listing of 66 companies in Kentucky which are certified as Veteran-Owned businesses.

Entities recognized for scoring preferences

Minority Business Enterprise (MBE), Women Business Enterprise (WBE), Federal Disadvantaged Business Enterprise (DBE) Participation, Veteran-Owned Small Business (VOSB), Service Disabled Veteran Owned Small Business (SDVOSB) which are “owned and controlled” by a qualifying individual or organization may qualify for scoring preferences in KHC’s competitive multifamily applications.

Minority Business Enterprise and Women Business Enterprise means as an individual, partnership, corporation, or joint venture of any kind that is owned and controlled by one or more persons who are: (a) United States Citizens and (b) Members of a racial minority group or female in gender as evidenced by certification from the Kentucky Finance and Administration Cabinet Minority & Women’s Business Certification Program.

Disadvantaged Business Enterprise (DBE)’s are for-profit small business owned or controlled by socially and economically disadvantaged individuals own at least a 51 percent interest and also control management and daily business operations. The Kentucky Transportation Cabinet (KYTC) is the sole certifying agency for the Kentucky DBE Program.

The Center for Veteran Enterprise (CVE) maintains the Department of Veterans Affairs (VA) database of service-disabled veteran owned small businesses (SDVOSB) and veteran-owned small businesses (VOSB) called the Vendor Information Pages (VIP). The VIP database is accessed via www.VetBiz.gov. CVE performs the verification process for small businesses that self-represent themselves as veteran owned and controlled called the VA VOSB Verification Program.

“Owned and controlled” means:

1. For owners and developers having:
 - a) ownership of at least 51 percent of the enterprise (stock of a corporation; interest in a limited liability company; or general partner of a limited partnership);
 - b) control over the management and active in the day to day operation of the business;
 - c) an interest in the capital, assets and profits and losses of the business proportional to the percentage of ownership; and
 - d) materially participates in the development or management of the development; or
2. For contractors and management entities having:
 - a) ownership of at least 51 percent of the enterprise (stock of a corporation; interest in a limited liability company; or general partner of a limited partnership);

- b) control over the management and active in the day to day operation of the business; and
- c) an interest in the capital, assets and profits and losses of the business proportional to the percentage of ownership.

Eligible Certifications

Certification	Certifying Agency	Website
MBE/WBE	Kentucky Finance Administration and Cabinet	http://mwbe.ky.gov/Pages/default.aspx
DBE	Kentucky Transportation Cabinet	http://transportation.ky.gov/Civil-Rights-and-Small-Business-Development/Pages/SmallBusinessHome.aspx
VOSB	U.S. Department of Veterans Affairs	http://www.va.gov/osdbu/
SDVOSB	U.S. Department of Veterans Affairs	http://www.va.gov/osdbu/

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 that is:

- Described in §501(c)(3) or (4) of the IRS 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 or managing member's interest of the project's ownership entity.
- Receives at least 30 percent of the total project developer fee.

Please note that nonprofit organizations are required to have the provision of affordable housing listed as one of their designated purposes in the articles of incorporation and/or bylaws.

CHAPTER 11: Transitional Housing Guidelines (Non-Housing Credit)

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 \$300,000 of 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, up to three duplexes are allowed. If building three-bedroom, single-family homes, up to two homes are allowed.
- 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 transitional housing tenants are moved into permanent housing within the allowable two-year time frame 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 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.

Only transitional housing projects meeting the requirements noted above may apply for funding under this set-aside. KHC is developing an additional program using AHTF funds for transitional housing projects not meeting the above requirements. This program will be administered by KHC's Specialized Housing Resources Department. Information on this new initiative, including application due dates, is forthcoming.

CHAPTER 12: 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 available to the public (including non-tenants) usable 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). **The CSF must be located in a Qualified Census Tract (QCT).**

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

Contiguous Sites: Sites 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 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 (Rent-Up Reserve): Funds set aside in a reserve account to cover operating deficits until the project reaches sustaining occupancy. KHC calculates this reserve during the underwriting stage and must be, at a minimum, sufficient to cover six months of operating expenses and debt service. Please refer to KHC's ODR policy in [Chapter 8](#) of this manual.

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 projecting 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.

Section 811 Project Rental Assistance Eligible Tenants: Section 811 PRA vouchers may only be utilized for disabled households, of which at least one person must be an individual with a disability, 18 years of age or older and less than 62 years of age at the time of admission into the property. The person with the disability must be eligible for community-based, long-term services as provided through Medicaid waivers, Medicaid state plan options, state-funded services or other appropriate services related to the type of disability.

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.