



# Housing Contract Administration

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## GAP PROGRAM

A Program Funded By the Affordable Housing Trust Fund

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**JUNE 2016**

# COMPETITIVE APPLICATION GUIDELINES

# SINGLE-FAMILY PRODUCTION

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## Section I. Introduction

Kentucky Housing Corporation's (KHC) Gap Program is designed to provide a competitive funding resource to nonprofits and units of local government for single-family homebuyer new construction and single-family homeowner rehabilitation projects across Kentucky. Through this funding process, KHC provides financial resources and technical support to enable the development and rehabilitation of safe, quality, affordable housing to benefit Kentucky families throughout the Commonwealth. The primary goals of the competitive funding process are to ensure that the most viable projects are funded expeditiously and to enhance the state's capacity to create and preserve affordable housing by effectively blending resources.

This guide informs applicants on how to apply for Housing Contract Administration (HCA) resources through the KHC competitive funding process for single-family projects. This guide further explains program criteria and basic requirements, application expectations, and review processes. KHC reserves the right to amend these guidelines in order to fully implement and utilize the Affordable Housing Trust Fund (AHTF) resources and to administer the program as efficiently as possible.

When applying for AHTF Funds, applicants should refer to [KHC's HOME Policies Manual](#) for more detailed information that is also part of the application. Applicants are expected to be familiar with the information contained in the manual, as well as all applicable state and local requirements, AHTF administrative certifications, and to incorporate them into their project design and implementation procedures.

**If funded, single-family projects will be governed by the cumulative information contained in these guidelines, KHC's HOME Policies Manual, the applicant's application for funding, the grant agreement, the AHTF Administrative Certification, the Minimum Design Standards, Universal Design Standards, and federal and state legal requirements including those outlined in the Kentucky Affordable Housing Act at KRS 198A.700 to 198A.730.** Recipients of funds will be expected to be familiar with and adhere to the guidelines and project design requirements described in the aforementioned documents.

### **Pertinent Dates**

The following dates are applicable to the competitive funding round:

- June 13, 2016 - Capacity Scorecard Opens
- June 13, 2016 - Application Opens
- June 24, 2016 - Capacity Scorecard Closes
- July 1, 2016 - All Capacity Scorecard Notifications Due to Applicants
- July 15, 2016 - Application Closes at 5 p.m. ET

### **Program Purpose**

Through KHC's competitive application process, applicants may apply for funding from the AHTF which have specific purposes, and are explained below. When structuring a funding request, applicants are encouraged to review and consider how their request supports the purpose of the funds requested. The purpose of the Gap Program is to expand the supply of quality, affordable housing for very low-income (at or below 60 percent area median income) families. The Gap Program can be utilized to expand the supply of decent, safe, and sanitary housing

through either new construction or rehabilitation of existing structures to address local housing needs and priorities.

### **Affordable Housing Trust Fund (KRS 198A.700-730)**

The AHTF was established by the Kentucky State Legislature to provide housing for very low-income Kentuckians. The fund was created in response to economic conditions, federal housing policies, and declining resources, which adversely affected the ability of very low-income persons to obtain safe, quality, and affordable housing. State leaders decided it was in the public's interest to establish the AHTF to assist very low-income persons (at or below 60 percent area median income) in meeting their basic housing needs.

There are four priorities for use of AHTF financing:

- New construction projects for families (as defined in 24 CFR 5.403) submitted by nonprofits or local governments.
- Projects using existing, privately-owned housing stock.
- Project using existing, publicly-owned housing stock.
- Applications from local governments for projects that demonstrate effective zoning, conversion, or demolition controls for single-room occupancy units.

As noted in KRS 198A.720 (6), a minimum of 40 percent of all funds received is to be used for rural areas of the Commonwealth. Those areas are defined by the board of directors of KHC. KHC reserves the right to make funding decisions to meet this requirement. Projects must be located in areas defined as rural by USDA Rural Development (RD). Applicants can determine if the property is in a rural area by accessing the [RD Property Eligibility Site](#), "Single Family" and then enter the property address. **A copy of the eligibility determination must be provided with the project set-up.**

### **Public Information and Open Records Act Request**

Applicants are advised that materials contained in applications are subject to the requirements of the Kentucky open records laws at KRS 61.870-61.884 and the application materials may be viewed and copied by any member of the public. Applicants seeking to claim a statutory exemption to disclosure from open records requests, which may be made, must place all documents viewed as confidential in a sealed envelope marked "confidential." Applicants must be aware that if an open records request is made for any of the application materials, KHC will make an independent determination of confidentiality and may or may not agree with the applicant's determination regarding the confidentiality of the materials.

## **Section II. Minimum Thresholds**

### **AHTF Application Thresholds**

The following threshold restrictions will determine the applicant's eligibility to apply for Gap Program funding:

- Gap funds awarded in 2015 (project numbers beginning with GF15) must have 100 percent committed no later than the application submission deadline of July 15, 2016.
- A minimum **final** Capacity Scorecard score as determined by KHC of 60 percent.

Threshold waivers will be granted on a case-by case basis at KHC’s sole and absolute discretion. Agencies wishing to request a threshold waiver must complete the online [HCA Project Modification/Waiver Request](#) form prior to the application closing on July 15, 2016.

### Section III. Funding Sources Available

The following funding sources are available for the Gap Program through the competitive application process. Please note the amount of funds available is approximate.

<b>Funding Source:</b>	<b>Affordable Housing Trust Fund (AHTF)</b>
Amount Available:	\$850,000

#### **Maximum Funding Requests**

Applicants may submit multiple applications; however, **the total allocation any one applicant can receive for all applications is limited to \$120,000.** The maximum request is \$120,000 of Gap funds per agency, inclusive of administrative fees. KHC recommends applicants review their prior Gap expenditures and program activities to determine a manageable amount of funds to be requested.

KHC reserves the right to award lessor amounts than requested. This determination may be based on such factors as, but is not limited to, a project’s readiness to proceed, the number of applications received, geographic distribution of funds, applicant capacity, and any other factors that KHC deems appropriate and necessary.

Administrative fees are provided to recipients in the form of a grant and cannot exceed 7.5% of the total project costs.

#### **Program Match Requirement**

Applicants/grantees are required to match at least 10 percent of the requested Gap funds. For example: If an organization is requesting \$40,000 in Gap funding, it would be required to provide at least \$4,000 in matching resources.

#### **Eligible Forms of Matching Contributions**

Matching contributions may be in the form of one or more of the following, but not limited to:

- Cash contributions (includes cash from USDA 504 grant or loan program)
- Reasonable value of donated site-preparation and construction materials;
- Reasonable rental value of the donated use of site-preparation or construction equipment.
- Waived fees and taxes.
- Property donation or below-market sale.
- Housing Counseling Services. Counseling may not be valued at more than \$40 per hour.
- Reasonable value of donated or volunteer labor or professional services. Unskilled volunteer labor may not be valued at more than \$10 per hour; skilled volunteer labor may be valued at the documented going rate.

- Value of sweat equity may also be eligible if every assisted household is required to perform sweat equity. Sweat equity may not be valued at more than \$10 per hour.
- Cost of onsite or off-site infrastructure that is directly required.
- Proceeds from multifamily and single family affordable housing project bond financing issued by a state or local government, or an agency or instrumentality of a state or local government or a political subdivision of a state and repayable with revenues from the affordable housing project.
- In-Kind Administrative or Support Services
- Weatherization Funds

## State Clearinghouse Review

The Kentucky State Clearinghouse review is not applicable to the Gap Program.

## Section IV. Eligibility

### Eligible Gap Applicants

The Gap Program is available to nonprofits and units of local government that are eligible to receive funds from the Affordable Housing Trust Fund [KRS.198A.715(3)].

- Local governments;
- Local government housing authorities;
- Nonprofit organizations;
- Regional or statewide housing assistance organization;

### Ineligible Gap Applicants

Applicants who were awarded funds in the January 2016 HOME/AHTF Competitive Funding Application (HB16/HR16 projects) **are not** eligible to apply for the Gap Program.

### Eligible Activities

The minimum amount invested in an eligible project type must be \$10,000. The following project types are eligible for funding:

- New construction
- Site development, combined with new construction.
- Land acquisition
- Construction financing
- Rehabilitation and resale
- Permanent financing, when combined with new construction or acquisition/rehabilitation/resale activity
- Moderate Rehabilitation of owner occupied units – rehabilitation costs between \$10,000 to \$25,000 per unit
- Substantial Rehabilitation of owner occupied units – rehabilitation cost over \$25,000 per unit
- Demolition and Rebuild of owner occupied units
- Reasonable administrative and planning costs

## Eligible Households

Owner-occupied households eligible to receive assistance must be at or below 60 percent of the area median income for the participating county. The Project Set Up will include documentation for income eligibility of households. All funds will be provided in the form of a forgivable loan.

Owner-occupied property is defined as:

- Property owned by the family by Fee Simple Deed;
- Property owned in a Life Estate;
- Property owned through a recorded Contract for Deed which has been in effect for at least five (5) years, or
- Property that is leased with a recorded lease for a minimum term of 99 years.

## Maximum Subsidy per Unit

The maximum amount of subsidy per household shall comply with the following:

- Eligible homebuyer projects can receive up to \$40,000 to assist eligible homebuyers in direct subsidy.
- Eligible homeowner rehabilitation projects can receive up to \$60,000 to assist eligible homeowners in rehabilitation assistance.

The purchase price limits cannot exceed \$150,000.

## Terms of Affordability

AHTF funds must be provided in the form of a forgivable loan for funds awarded for the Gap Program. The funds must still be secured by a promissory note, mortgage, and deed restriction in favor of recipient with due-on-sale and refinance clauses to ensure repayment to KHC in the event of a transfer of ownership or refinance any time during the affordability period.

SOURCE OF FUNDS	ACTIVITY TYPE	DIRECT SUBSIDY INVESTED	AFFORDABILITY PERIOD
AHTF	Homebuyer and/or Homeowner Rehab Projects	\$10,000 - \$14,999	5 years
AHTF	Homebuyer and/or Homeowner Rehab Projects	\$15,000 - \$40,000	10 years
AHTF	Homeowner Rehab Projects	\$40,001 - \$60,000	15 years

The administrating agency is responsible for preparing the promissory note, mortgage, and deed restriction and for recording all documents in the county in which the property is located. Additionally, any costs associated with the recording of these documents will be the responsibility of the administering agency.

If the property is sold, leased, refinanced or no longer used as a primary residence of the assisted homeowner, the unforgiven portion of the loan is repayable to KHC as program income.

## **Insurance**

Applicants are responsible for ensuring that AHTF units are properly insured during the construction/rehab process. Applicant's mortgage document must contain provisions that require for assisted property to remain insured throughout the period of affordability. For all properties assisted with AHTF funds, the homeowner must maintain all risk, fire and extended coverage, in form and with companies acceptable to Applicant for each homeowner rehab or homebuyer activity in an amount not less than the AHTF investment in the property. Each policy must include appropriate loss payable clauses in favor of Applicant, as beneficiary, and without right of cancellation or change except upon thirty (30) days' written notice and agreement by Applicant. Homeowner will deliver proof of all insurance to Applicant prior to the investment of AHTF funds in the property.

## **Section V. Technical Assistance**

KHC offers technical assistance opportunities for both new and seasoned applicants. During technical assistance, KHC staff will assess the applicant's readiness to submit an application. KHC recommends that in addition to the grant writer, the individuals responsible for the day-to-day activities of the project administration and completion also attend the technical assistance session. KHC staff is available to review draft applications and answer general application questions until the day prior to application submission. Working with KHC staff provides applicants with helpful information regarding KHC program regulations and potential funding sources, as well as suggestions on how to enhance the information provided in the application.

**Please note:** Requesting or attending technical assistance does not guarantee the project will be awarded funds. For more information on technical assistance, contact Rosemary Lockett, manager of Program Quality, toll-free in Kentucky at 800-633-8896 or 502-564-7630, extension 317; TTY 711; or email [rlockett@kyhousing.org](mailto:rlockett@kyhousing.org).

## **Section VI. Competitive Application Process**

### **Capacity**

In an effort to create consistency and equity, KHC utilizes a "**Capacity Scorecard**" for all program areas that have competitive applications. The scorecard is used to determine the capacity of the agency to administer a program based on the knowledge and expertise of the agency, staff, and development team; the financial capacity of the agency; and its ability and willingness to meet the ongoing compliance requirements of the programs funded through KHC.

A minimum score of 60% will be required in order to be eligible for funding. Capacity scoring will be the first section of the Universal Funding Application (UFA) and is considered to be a minimum threshold. Once the applicant has completed this section, KHC staff will review the Capacity Scorecard and assign a score. Once KHC staff has completed the review, the KHC score will be visible to the applicant, so applicants will be able to identify potential areas of weakness prior to completing the entire application.

Applicants are encouraged to review the Capacity Scorecard questions and seek technical assistance from KHC staff if there are questions, or if there are opportunities to make changes that could improve scoring prior to submitting the capacity scorecard. For example, if there are outstanding Compliance Monitoring findings that can be resolved prior to submitting the capacity scorecard, it could improve the capacity score by clearing those outstanding items.

## **Application**

All applicants are required to submit applications for funding electronically via [KHC's Universal Funding Application](#) (UFA) system. KHC has enhanced the online application to allow applicants to upload required attachments. Each item must be individually attached in the section provided. The application focuses on the overall concept of the proposed project, as well as the more technical components, such as project design, program performance, community need, ready-to-proceed issues, and capacity to undertake the project, anticipated budget, and funding requests.

The application checklist should be used as a guide for the applicant to ensure that all required documentation is included with the application.

## **Application Preparation and Minimum Submission Requirements**

A complete application must be submitted through KHC's online application system. KHC will send an email notification to the applicant once the application has been transmitted successfully. The email only indicates that the application has been received. **If the application does not meet the minimum submission requirements, that applicant will be notified in a second email that the application will not be considered for funding.**

All applications must meet the following criteria:

- Be submitted to KHC by July 15, 2016, by 5 p.m., ET.
- Be submitted in the current application version and all applicable attachments must be uploaded to KHC's system as part of the application submittal.
- A minimum score of 60% on the final Capacity Scorecard
- Meet minimum thresholds
- Be limited to the applicable cap for funding.
- Not include funding from any previous KHC-approved HOME and /or AHTF projects, including awards made to any other applicant.
- All applicants must request all KHC funds required for the project in one application. Previously-funded projects cannot access additional funds through this competitive application process.
- For the application to be complete, the Cost Summary in Excel format must be uploaded to the electronic application. The application attachments must be identified with the file name of the attachment.
- In the event that contradictory statements appear in the application, KHC reserves the right to request clarification from the designated contact person.
- There is a \$100 non-refundable application fee for nonprofit organization and units of local governments, and a \$250 non-refundable application fee for for-profits applicants. KHC must **receive** the appropriate application fee, via check or money order, to the following address:

**Kentucky Housing Corporation  
Housing Contract Administration  
1231 Louisville Road  
Frankfort, KY 40601**

**Applicants are strongly encouraged to submit their application fee prior to submitting their application. KHC must receive the appropriate application fee no more than seven (7) days after the application deadline date. If the fee is not received, the application will be rejected.**

## **Section VII. Application Review Process**

### **Notice to Applicants**

It is the applicant's responsibility to submit all required documentation to adequately support its Application. Any material deficiency in the Application or omission from the mandatory submissions may result in an immediate rejection of the application. In addition, the application must meet all eligibility requirements set forth in the guidelines. Any application which does not contain sufficient information to be reviewed will be rejected.

KHC will seek to award funds to the highest scoring projects while making an KHC effort to see that funds are geographically distributed across the state. KHC reserves the right to allocate funds to lower scoring applications to ensure equitable allocation of resources in each congressional district throughout the state.

KHC may, at its discretion, request information from applicants to address and resolve issues identified during application review. The application will be reviewed and scored as submitted.

### **Single Family Application Review**

During this application round the following section will be reviewed and scored:

- Capacity Scorecard
  - Thresholds
- Project Summary
  - Number of units proposed
- Cost Summary
- Match Commitments
- Ready to Proceed
- Underwriting Criteria

### **Application Scoring Response Period**

Once all applications have been fully reviewed and scored, and prior to submission to the KHC Credit Committee, KHC will make the preliminary project score sheet available to the appropriate contact for each application. However, at this point in time, applicants will not be made aware of how other applications have scored. KHC will establish a time by which applicants can review their initial scores and offer a written response 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 oversight or calculation errors by KHC staff.

This reconsideration process is described in further detail in Section VIII below.

### **Conditional Approval Process**

Funding recommendations are made by the application review team within KHC's Housing Contract Administration Department. The recommendations are based on application review as submitted by the applicant with possible minor scoring adjustments.

Staff recommendations are presented to KHC's Credit Committee for conditional project approval. Once conditional approval is received, they will be sent through KHC's eGram system. Approved projects will receive a preliminary award letter based upon technical submission requirements. In order to be funded, the applicant will be required to comply with the terms and conditions. If conditional funding commitment is cancelled, the applicant may reapply in the next competitive funding round. Execution of the AHTF grant agreement will occur after the successful completion of the conditional commitment of funding and all terms and conditions are met.

## **Section VIII. Reconsideration Processes**

The processes described in this section are the exclusive means by which an applicant may request reconsideration of a decision by KHC regarding disqualification, scoring, or the award of KHC resources. Information submitted to KHC outside of these processes, whether in writing or otherwise, will not be considered.

### **Application Deficiency Decisions Review Request**

If KHC identifies a deficiency in an application during its review that results in the disqualification of an application or a reduction in the amount of requested KHC resources, KHC will issue a preliminary decision letter to the applicant identifying the grounds for the disqualification or reduction of requested KHC resources. The applicant may then provide a written response specifically identifying the reasons why the applicant believes the application should not be disqualified or why the amount of requested KHC resources should not be reduced. Written responses must be delivered via electronic mail, by hand delivery, or overnight mail, to the attention of the managing director of Housing Contract Administration, and received within five (5) business days of the date of the written preliminary decision letter

Only the application and documents already existing in KHC's file will be considered when reviewing the applicant's written response. No additional documentation will be accepted unless such documentation only serves to explain previously submitted documentation. The burden is on the applicant to demonstrate why the application should not be disqualified or the amount of KHC resources should not be reduced.

The managing director of Housing Contract Administration will forward the review request, along with the applicant's response, to KHC staff involved with the initial scoring of the application and to KHC's Credit Committee for review and decision. The Credit Committee shall consist of members of KHC's Executive Staff or as appointed by KHC's Executive Director.

The Credit Committee shall review the request and KHC's staff's response, if any. The Credit Committee may, in its sole discretion, request additional information or documentation or

conduct a meeting or conference with the applicant and KHC staff. After its review, the Credit Committee shall issue a written decision, to be delivered via electronic mail, by hand delivery, or overnight mail, and KHC will provide a copy of the written decision to the applicant. Applicants may request a meeting with KHC's Credit Committee or its representatives within five (5) business days of the date of the receipt of written decision; however, the Credit Committee will only consider the information that is in the project file at the time of the review. At the end of the five (5) day period, if no meeting request has been received, the Credit Committee's decision is deemed final. If a meeting request is received within the five (5) day period, the Credit Committee may modify or affirm its decision based on information presented at the meeting, at which point its decision is then deemed final.

### **Preliminary Scoring Decision Reconsideration Request**

Any applicant wishing to request a reconsideration of a preliminary scoring decision by KHC may do so in writing to the managing director of Housing Contract Administration. Applicants may **only** request reconsideration for applications in which they have an ownership interest. Requests must be sent via electronic mail, hand delivery or overnight mail and received within five (5) business days of the date of the written decision.

Reconsideration requests must specifically identify the basis for the reconsideration request. The burden is on the applicant to demonstrate any alleged errors in the review and/or scoring process.

KHC staff involved with the initial scoring will review the applicant's written responses and, if KHC concurs with the applicant, appropriate scoring corrections will be made. KHC's final scoring decision will be shared in writing with the applicant.

The final scoring decision will be shared with the KHC Credit Committee at the same time funding recommendations are made to the Committee for its review and approval.

If, during the scoring review process, applicants dispute their preliminary scoring and KHC does not concur, the applicant's written request along with KHC staff's written determination will be shared with the Credit Committee for their information and review as part of their consideration of the funding recommendations.

The Credit Committee may, in its sole discretion, request additional information or documentation or conduct a meeting or conference with the applicant and KHC staff.

The Credit Committee's decision regarding the reconsideration request will be provided in writing to the applicant.

Applicants may request a meeting with KHC's Credit Committee or its representatives within five (5) business days of the written decision; however, the Credit Committee will only consider the information that is in the project file at the time of the review. At the end of the five (5) day period, if no meeting request has been received, the Credit Committee's decision is deemed final. If a meeting request is received within the five (5) day period, the Credit Committee may modify or affirm its decision based on information presented at the meeting, at which point its decision is then deemed final.

## Communications with Credit Committee Members

Applicants, members of applicants' Development Teams, or other persons operating on behalf of Development Teams are expressly prohibited from having ex parte communications with KHC's Credit Committee regarding any reconsideration or review requests or any related topic, from the issuance of the preliminary scoring decision until KHC renders its final determination. Any violation of this prohibition may result in disqualification of the pending application and suspension from participation in the next competitive funding cycle for the applicant and all of its Development Team members and those operating on their behalf, regardless of which team member initiated the prohibited contact.

## Section IX. Program Policies

- KHC may, at its discretion, award an amount of funds less than that requested by the applicant. KHC reserves the right to reduce or limit professional fees, developer fees, or any fees that KHC deems excessive.
- No applicant will be allowed to change the type of activity for which they were funded.
- Applicants are responsible for retaining legal counsel on any legal matter pertaining to the administration of the project.
- **Construction must start within 12 months of commitment and expended within 12 months of the construction start.** Commitment means that the applicant must have a signed contract with the builder/contractor and homeowner. A set-up report must be submitted to KHC and entered into the Authority Data Management System (ADMS). All funds (AHTF) must be expended with required close-out documentation submitted to and approved by KHC within two years of the funding agreement date.

## Recapture of Funds

KHC reserves the right to:

- Withdraw its conditional funding commitment if items are not submitted by the applicant by the date referenced in the commitment letter.
- Recapture funds if funds are not committed and/or expended and construction completed by the date referenced in the funding agreement, or if the project substantially changes after funding commitment.
- Periodically review the applicant's progress toward timely commitment and expenditure of the AHTF allocation. If KHC determines that the project is no longer feasible or is not progressing timely so that the imposed deadlines will be met, funds may be recaptured.
- KHC will recapture funds for any applicant who becomes suspended or debarred in accordance with the KHC Suspension and Debarment Policy.

Other examples of situations that constitute recapture are included in the grant agreement. Applicants are advised to read those requirements carefully to avoid recapture of AHTF funds.

## **Project Completion**

If the project does not meet the commitment and/or expenditure deadlines noted in the funding agreement, any uncommitted or unexpended AHTF project funds are subject to recapture.

## **Section X. Construction Criteria**

### **Construction Standards**

All construction must comply with appropriate design and construction standards and building and residential codes adopted by the Commonwealth of Kentucky. Information for purchasing adopted codes and standards is available through the Kentucky Department of Housing, Buildings, and Construction web site at <http://dhbc.ky.gov/bce/bc/Pages/default.aspx>.

Applicants shall not begin construction on any unit until the project has been approved by a KHC contract management specialist. Any unit started (defined as any on-site construction activity) before approval by KHC shall be ineligible for KHC assistance.

### **Construction Management**

- Applicants must develop construction management procedures that outline contract provisions for the contractor and subcontractors, payment requests, forms to be completed, inspection procedures, and project completion procedures.
- Applicants must establish and maintain a current listing of qualified contractors based on experience (unless the applicant utilizes only in-house crews) who are interested in doing new construction and/or rehabilitation work financed through the Gap Program. At a minimum, agencies should annually advertise a request for qualifications. (*Not applicable to private developers.*)
- Every effort must be made to ensure that the bidding is fair and open.
- A full work write-up with line item cost estimates must be submitted to KHC prior to project set up. KHC will determine the feasibility and cost reasonableness of the project.
- All variances from KHC's design and construction standards must be submitted to KHC prior to project set up. KHC will determine the feasibility of the variance and issue a written response to any variance request.
- Rehabilitation projects must comply with applicable building and residential codes along with KHC's Minimum Design for Rehabilitated Single Family structures, which may be located on KHC's website, [www.kyhousing.org](http://www.kyhousing.org).
- For owner-occupied rehabilitation, there must be a written contract between the contractor and the owner/applicant. The contract should reference and include the work write-up, specifications, drawings, and appropriate code references.
- Contractors must submit a request for payment that is signed by the homeowner/buyer, along with lien waivers and affidavits to the applicant with each pay request. The applicant must inspect the property to determine that the work completed is valued at an amount equal to the progress payment requested. If the work completed is not in compliance, it is the responsibility of applicant agency staff to obtain appropriate corrective action from the contractor before requesting payment from KHC. The

contractor must be notified at the time of the inspection of any necessary corrective action to enable the agency to make a progress payment. This notification must be included in the case file.

- To notify KHC when construction will begin on a unit, the applicant must submit a construction start-up notice **at least three weeks prior to the start of construction**. A notice must be submitted for each unit. Failure to submit this notice in a timely manner may result in delays in accessing funds.
- Housing that is newly constructed with AHTF funds must be constructed as to mitigate the impact of potential disasters (e.g., earthquakes, floods, wildfires) in accordance with state and local laws.

## Single-Family Plan Review

Project set-ups will only be done on pre-approved plans and specifications. For details on the process obtaining plan approval, please check the procedures listed in “Design and construction” on KHC’s website at [www.kyhousing.org](http://www.kyhousing.org).

## Change Orders

Any changes in the approved plans and scope of work must be approved by a KHC construction specialist before the change of work scope occurs. Proposed changes should be submitted to KHC in the form of a detailed [Change Order](#) submitted on proper forms and executed by all parties. Change Orders must be approved by KHC prior to beginning the work and include the Change Order amount in the Draw Request.

## Inspections

Recipients of AHTF funds are required to have 100 percent of their units inspected by qualified staff or a third-party inspector. All units are to be inspected for code compliance as well as reviewed to meet all KHC design requirements. Inspection reports for all project units must be kept on file by the recipient. Recipients shall provide to KHC representatives the final inspection report with the close-out documentation.

Additionally, KHC will inspect approximately 20 percent of the total units in the project. However, KHC reserves the right to inspect a smaller or larger percentage of units. Examples of the criteria which might dictate that KHC inspect at least 20 percent of the units will include, but not be limited to:

- A new recipient of KHC funding;
- A new contractor with whom KHC has no previous experience;
- A history of deficiencies or other compliance issues.

The contract management specialist will determine whether the unit is subject to inspection by KHC. The contract management specialist will contact the applicant to give notification of upcoming projects requiring inspections. KHC may require more units to be inspected as a quality control measure.

New construction units selected by KHC for inspection will be inspected a minimum of three times each. For new construction these inspections will be at the following stages:

- Footing (after excavation of footings and before footing concrete is poured)
- Interim (any time between completion of wall insulation and hanging of drywall)
- Completion (100% complete including landscaping and site work and before move in)

Rehabilitation units selected for inspection will be inspected a minimum of one time each. Rehabilitation project units will, based on the work scope of the project, be inspected at the following stages as applicable:

- Under-roof/weatherization
- Interim (any time between completion of wall insulation and hanging of drywall)
- Completion (100% complete, including removal of waste materials)

**Please note:** The inspection stages and percentage of work completed may not directly correspond to the percentage of KHC funds that may be requested.

Units selected for inspection must have a representative from the applicant agency attend each inspection.

KHC will charge a "re-inspection fee" of \$200 under the following circumstances:

- Units that a KHC inspector must perform more than one final inspection due to the project not being 100% complete.
- Failure by the agency to provide an agency representative on the project site during the inspection to provide access.
- Unsuccessful attempts due to the agency not coordinating the inspection with homeowners or other involved parties which renders the unit inaccessible for inspection.
- A hazard exists on the project site at the time of inspection which endangers the welfare of the inspector. Examples: bed bug infestation, poisonous snake infestation, uncontrolled animals, etc.

The fee must be paid to KHC prior to any additional funds being drawn from KHC. This fee cannot be paid using AHTF funds. A re-inspection fee will not be charged for follow-up inspections to verify correction of deficiencies observed during any inspection.

## **Universal Design Standards**

Universal Design Standards is a building concept that incorporates products, general design layouts, and characteristics into residences to:

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

Universal Design is applicable to all single-family units whenever KHC is providing 10 percent or more of the funding based on the total construction cost per unit, including all hard and soft costs. It is also applicable to all modular and manufactured homes.

The goal of Universal Design is to build housing that meets the needs of the greatest possible 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 or household's changing needs.

KHC's Universal Design Standards are available on [KHC's Web site](#), under Housing Production, Design and Construction, Universal Design Standards.

### **Minimum Design Standards**

Minimum Design Standards apply to new construction and reconstruction of homes built with funds with AHTF.

Minimum Design Standards are required when funding from KHC is 10 percent or more of the cost per unit. Please Note: KHC's Minimum Design Standards are to be used as a guideline to meet and exceed all local, state, and national codes.

Minimum Design Standards also provide a way to enforce above-average construction and design for builders, contractors, and design professionals who wish to use KHC funding. Other methods of construction and design may be acceptable on a case-by-case basis. KHC's Minimum Design Standards are available on the KHC web site under Development, Design, and Construction, Minimum Design Standards. Select the appropriate type of housing.

### **Construction Code Standards**

All construction will comply with appropriate construction standards adopted by the State of Kentucky. Information for purchasing adopted codes and standards is available through the Kentucky Department of Housing, Buildings, and Construction website at <http://dhbc.ky.gov>.

### **New Construction and Reconstruction**

All newly-construction or reconstruction units must meet the requirements of the most current version of the Kentucky Residential Code.

### **Rehabilitation**

For all rehabilitation projects, construction contracts and others documentation must provide sufficient detail of the work being completed that inspections can be completed. Cost estimates must be reasonable for the type and extent of the work to be performed.

### **Minimum Design Standards for Rehabilitation and/or New Construction**

KHC's Minimum Design Standards for Rehabilitation of Single-Family Detached Dwelling Units are to be used as a guideline to assist in meeting or exceeding 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 use KHC funding.

Any AHTF funded unit, and units where KHC funding is over \$10,000 but less than \$30,000 must be constructed in accordance with KHC Minimum Design for Rehabilitation Standards (MDR),

the Kentucky Residential Code (KRC), and Local Ordinances, as applicable, regardless of what funding source is used when other funds are leveraged to complete the scope of work.

- KRC and MDR regulations and Local Ordinances shall apply to the construction, alteration, movement, enlargement, replacement, repair, equipment, use and occupancy, location, removal, and demolition of detached one- and two-family dwellings, and all rehabilitated single-family detached housing.
- Items identified in the work write-up and incorporated in the project shall comply with the correlating sections of the KRC, MDR, and Local Ordinances, and shall not require full compliance of the entire standard(s) unless specifically required by MDR, KRC, or Local Ordinances.
- Completed units shall not contain Health/Safety or Level 3 issues identified in the Federal Uniform Property Condition Standards, **Unit-Inspectable Items**, available at: <http://www.hud.gov/offices/reac/products/pass/PDFs/appendix2-finaldictionary.pdf>.

\*See website: <http://www.kyhousing.org>

Rehab projects exceeding \$30,000 in rehab costs (from all KHC funding sources), excluding acquisition costs, must ensure that the completed unit(s) meet the requirements of the Kentucky Residential Code (KRC) and Local Ordinances.

- Any structure requiring more than \$40,000 of total rehab construction costs in order to comply with MDR, or the adopted KRC, are encouraged to consider demolition/rebuild.
- KRC regulations shall apply to the construction, alteration, movement, enlargement, replacement, repair, equipment, use and occupancy, location, removal, and demolition of detached one- and two-family dwellings.
- Completed units shall not contain Health/Safety or Level 3 issues identified in the Federal Uniform Property Condition Standards, **Unit Inspectable Items**, available at: <http://www.hud.gov/offices/reac/products/pass/PDFs/appendix2-finaldictionary.pdf>

\*See website: <http://www.kyhousing.org>

## Quality of Work

All work completed must meet state and local government safety and sanitation standards and building codes. The participating organization, homeowner, and contractor must comply with all applicable local, state, and federal laws, including but not limited to lead-based paint abatement regulations. Inspections will include full scope of work write-up regardless of funds (Gap and/or matching contributions).

## Rehabilitation Standards

The total scope of work must meet the Kentucky Residential Code (KRC), and local zoning, residential, and building ordinances (Local Ordinances), in force at the time of funding, regardless of what funding source is used when other funds are leveraged/matched to complete the work. KRC regulations shall apply to the construction, alteration, movement, enlargement, replacement, repair, equipment, use and occupancy, location, removal, and demolition of detached one- and two-family dwellings.

## Section XI. Draw Requests

All draw requests must be submitted through the Program Funding Draw Management System (PFDMS).

To set-up an account, visit the [Program Funding Draw Management System](#) and follow these steps.

1. Register/Create an account.
2. Request access to project.
3. After project access approved, create and submit the draw request.

It is recommended to use Internet Explorer 10 or above, or the latest version of Firefox or Chrome when completing the registration.

If you have any questions or need assistance registering, please review the [FAQ](#) section of the System or contact KHC's [Help Desk](#).

Unless there are extenuating circumstances, KHC will allow a maximum of only three draw requests per unit for home buyer and homeowner rehabilitation projects. For units inspected by KHC, each draw request must be approved by KHC's construction specialist.

Draw amounts should be proportionate to the percent of completion of the unit. KHC reserves the right to reduce any draw that is requesting excessive funds compared to the construction completion of the unit.

At completion of each unit, the agency must submit a final draw to KHC. No funds will be paid by KHC on a unit deemed non-compliant of any applicable code or KHC standard by KHC's construction specialist or otherwise deemed deficient.

The final draw request must also include required closeout documentation. This includes a copy of the recorded mortgage, recorded promissory note, recorded deed restriction and a project completion report for AHTF projects. Inspection reports generated by qualified staff or other qualified third party inspectors must also be included for all AHTF project units.

## Section XII. Resources

Listed below are documents to be used for Recipients files, including eligibility determination, project set up packets, and project completion reports.

### **Recipient Files**

These are the documents to be reviewed and maintained at the agency. The agency is responsible for the collection, review, and approval for each document required, as applicable.

- AHTF Project Set Up/Construction Start Up Notice
- Application
- Development Plan (Work write up), for rehabilitation projects
- Proof of Ownership

- Insurance
- Promissory Note
- Mortgage
- Deed Restriction
- Other documents as required by KHC

### **Project Set Up Packet**

These are the documents to be sent to KHC once the agency has approved the family to receive Gap Program funds. A copy of these documents should also be maintained in the recipient files.

- AHTF Project Set Up and Construction Start Up Notice
- Development Plan (Work write up) – for Rehabilitation Projects only
- RD Property Determination Eligibility

### **Project Completion Report**

There are the documents to be sent to KHC with the Final Draw, when the Gap project has been completed. A copy of these documents should also be maintained in the recipient files.

- AHTF Close Out Form
- Copy of Recorded Mortgage
- Copy of Recorded Promissory Note
- Copy of Recorded Deed Restriction
- Copy of insurance
- Final Draw

### **Record Keeping**

Applicants are responsible for ensuring that above documentation is maintained for all AHTF assisted projects for a period of five (5) years after the project completion date.