

Chapter 1 - Introduction, General Information

Kentucky Housing Corporation (KHC) is pleased to offer an open-window funding process to create affordable housing, in conjunction with our partners, throughout the state. Applicants will be allowed to submit applications beginning February 19, 2010, at 8:30 a.m. EST, and may continue submitting applications until funds are no longer available. Through this funding process, KHC administers financial and technical support resources to enable development and rehabilitation of safe, quality, affordable housing to benefit Kentuckians. The primary goal of this funding cycle is to enhance the state's capacity to create and preserve affordable housing by effectively blending resources. KHC prefers to utilize funding through this process for permanent housing only; however, funding may be used to finance transitional housing. Various requirements may apply to such housing contingent upon the type of financing resources requested. Applicants proposing a transitional housing project must include a permanent housing component packet as well. This component must be detailed to include how tenants will move to permanent housing, including support services that will be offered.

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

RESOURCES AVAILABLE

The following resources are available for rental housing production.

Resource	Approximate Amount Available
HOME Investment Partnerships Program (HOME)	\$4,700,000
Community Housing Development Organizations (CHDO) only HOME	\$2,800,000
Affordable Housing Trust Fund (AHTF)	\$2,700,000
Small Multifamily Affordable Loan Program (SMAL)	\$750,000
Housing Credit (9 percent)	\$9,000,000
Risk-Sharing (taxable financing)	No Limit

If demand requires, KHC reserves the right to move available sources to be used as gap financing for Housing Credit projects. Likewise, if demand for resources for non

housing credit projects is high, KHC reserves the right to move available sources as needed. Dependent upon demand, KHC may close the window at any time and/or announce that the window remains open only for projects requesting certain sources of funds.

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

For non-housing credit projects, due to the limited supply of gap financing, KHC will limit the number of units that can be constructed/rehabilitated with either HOME and/or AHTF funds to no more than four units. The per unit HOME maximum is limited by the applicable 221(d)(3) limit. KHC will allow additional HOME subsidy, i.e., more than 4 HOME units, in SMAL projects if the need is documented.

The maximum allocation of AHTF per non-housing credit project may also not exceed \$300,000.

ELIGIBLE PROJECT TYPES

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

- Family Housing.
- Independent Elderly Housing.
- Frail Elderly Housing with Services (participation in services cannot be required to live there).
- Special Needs Housing.

APPLICATION STAGES

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

- Pre-Application Stage.
 - Initial Contact/Technical Assistance.
- Application Submission.
- Technical Submission.
- Pre-Construction/Closing Stage.
- Construction Completion/Placed-in-Service.

PRE-APPLICATION STAGE

Initial Contact/Technical Assistance Certification

KHC program representatives/specialists are available to assist applicants. In order to submit an application, a member of the development team must have developed, operated, or completed a project of at least ten units with KHC that is now in the affordability period. For new developers, proof must be provided that they have received technical assistance from KHC Rental Production staff. **Technical assistance may be requested at any time prior to application; however, the application may not be submitted until technical assistance has been provided. KHC will not be held responsible or liable for any delay to project submission due to failure to obtain this certification.**

The individual(s) who should attend the technical assistance meeting are those who will be responsible for the day-to-day administration and activities of the project, to include application submission, technical submission, construction, closing, and ensuring the project stays in compliance after the project is completed. **Receiving technical assistance does not guarantee a project will be awarded funding.**

Experienced applicants who choose not to participate in application technical assistance provided through KHC should contact their program representative/specialist prior to submission of the application packet with any questions.

APPLICABLE PROGRAM FEES

Fees applicable to the Housing Credit program are outlined in the current Qualified Action Plan (QAP).

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

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

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

Chapter 2 - Funding Sources and Requirements

The following program requirements are not intended to be an all-inclusive list of the requirements of each program but are provided for guidance and information for selecting funding sources. Contact a program representative/specialist for additional information.

HOME INVESTMENT PARTNERSHIPS (HOME) PROGRAM

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

- Eligible applicants for this source of funding are nonprofit and for-profit entities and units of local government.
- Projects within the following areas are not eligible to apply for state HOME funds, which are administered by KHC. These jurisdictions receive a direct allocation of HOME; projects located in these areas should apply to the local jurisdiction for HOME funds.)
 - City of Covington.
 - City of Owensboro
 - Louisville/Jefferson County.
 - Lexington/Fayette County.
 - The consortia consisting of the cities of Ludlow, Bromley, Newport, Bellevue, and Dayton.
- HOME projects have a 24-month expenditure requirement.** The 24 months includes 12 months to begin construction and 12 months to complete the project. Project completion is defined as all units constructed, certificates of occupancy issued, and an initial Project Completion Report packet submitted to KHC. Subsequent Project Completion Reports may be required if all HOME rental units have not been leased at the time of the final disbursement of HOME funds.
- 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.

- All HOME-funded acquisition and rehabilitation projects are subject to the requirements of the **Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970** (URA) (49 CFR, Part 24 and 42 U.S.C. 4201-4655). KHC requires certain documentation at application, technical submission, and at the Construction Completion/placed-in-Service stages to ensure compliance with the provisions of this act. Developers are strongly urged to review the requirements of URA and contact a program representative or KHC's environmental/relocation specialist if considering a project that involves acquisition of real property or the permanent or temporary relocation of individuals or households.
- Detailed information on complying with the relocation and acquisition requirements can be found on the U.S. Department of Housing and Urban Development (HUD)'s Real Estate Acquisition Web page, <http://www.hud.gov/offices/cpd/library/relocation>.
- The HOME Program may be blended with other KHC-funding sources including AHTF, Housing Credits, SMAL, Risk-Sharing, the Housing Development Fund, and Project-Based Section 8. HOME also has the potential to be blended with many non-KHC funding sources.

COMMUNITY HOUSING DEVELOPMENT ORGANIZATION (CHDO)

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

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

Procurement

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

Conflict of Interest

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

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

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

It is the responsibility of the recipient to identify conflicts of interest and to comply with the appropriate regulations.

Requirements for PJ's, State Recipients, and Sub-Recipients

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

Activities Covered by CFR Provisions

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

1. Require that no employee, officer, agent of the PJ, or its sub-recipients shall participate in the selection, award, or administration of a contract supported by HOME if a conflict of interest, either real or apparent, would be involved.
2. Require that the PJ or sub-recipient employees, officers, and agents not accept gratuities, favors, or anything of monetary value from contractors, potential contractors, or parties to sub-agreements.
3. Stipulate provisions for penalties, sanctions, or other disciplinary actions for violations of standards.

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

1. An employee, agent, or officer of the PJ or sub-recipient.

2. Any member of an employee's, agents, or officer's immediate family.
3. An employee's, agent's, or officer's partner.
4. An organization that employs or is about to employ an employee, agent, or officer of the PJ or sub-recipient.

Activities Covered by HOME Regulations

In cases not covered by 24 CFR 85.36 and 24 CFR 84.42, the HOME regulations at 24 CFR 92.356 governing conflict of interest apply. These provisions cover employees, agents, consultants, officers, and elected or appointed officials of the PJ, state recipient, or sub-recipient. The HOME regulations state that no covered person who exercises or has exercised any functions or responsibilities with respect to HOME activities or who is in a position to participate in decisions or gain inside information

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

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

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

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

Provisions for Nonprofit and For-Profit Owners, Developers, and Sponsors

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

1. An individual receiving HOME funds to acquire or rehabilitate his/her principal residence
or

2. 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 PJ on a case-by-case basis based on the following factors as set forth in the regulations:

1. 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.
2. 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.
3. Whether the tenant protection requirements of CFR 92.253 (prohibited lease terms, termination of tenancy, and tenant selection) are being observed.
4. Whether the affirmative marketing requirements are being observed and followed.
5. Any other factor relevant to the PJ's determination, including the timing of the requested exception.

HOME Financial Requirements

- HOME loans (deferred, amortizing) are recourse loans.
- For projects of 11 units or less, a vacancy rate of 10 percent should be projected, and for projects of 12 units or more, a 7 percent vacancy rate should be projected.
- If an applicant is proposing the rehabilitation of an existing rental project and can document that the project should utilize underwriting criteria contradictory to that of KHC, i.e., a lower vacancy rate, such documentation should be included. Likewise, if the applicant can document their ability to operate a project at a lesser per unit operating expense (based upon historical data of other similar projects owned by the applicant), such documentation should be included.
- All proposed developments requesting HOME funds are required to provide a minimum of five percent match of the total HOME funds requested. Match information can be found in the Funding Policies chapter.

- For projects utilizing HOME funds, KHC will hold at least half of the ten percent retainage until the Project Completion Report is submitted and complete.
- 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 his or her adjusted gross income toward rent. To achieve a greater cash flow, the Project-Based rents may be more advantageous. However, please note that this option does not apply to high-HOME units or to units receiving **Tenant-Based Rental Assistance**.
- HOME rental developments with less than five HOME-assisted units must have all HOME units occupied by households at-or-below 60 percent of the area median income. A project consisting of five or more HOME-assisted units must have at least 20 percent of the HOME units occupied by households at-or-below 50 percent of the area median income (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. Twenty percent of these HOME units (if five or more 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:

<i>HOME amount requested:</i>	<i>\$300,000</i>
<i>Total project cost:</i>	<i>/ \$2,000,000</i>
<i>HOME percentage:</i>	<u><i>15%</i></u>
<i>Total rental units</i>	<i>30 units</i>
<i>HOME percentage:</i>	<i>x <u>15%</u></i>
<i>HOME units:</i>	<i>= 4.5 (always round up)</i>

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.

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

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

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

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

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

$12 \times 15\% = 1.8$, therefore 2 (1BR) units
 $18 \times 15\% = 2.7$, 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 therefore are subject to HOME rent and occupancy requirements) are permanently designated and never change.
 - Floating: When HOME-assisted units are “floating,” the units that are designated as HOME units may change over time as long as the total number of HOME-assisted units in the project remains constant.

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

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

HOME Compliance Requirements

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

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

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

- KHC requires that 100 percent of all HOME-assisted rental units serve households at-or-below 60 percent of the area median income at the time the family moves in. If more than 5 units are assisted with HOME funds, 80 percent of the units must be reserved for households at-or-below 60 percent of the area median income and charged the high HOME rent or Fair Market Rent (FMR), whichever is less. The other 20 percent of the units must be reserved for households at-or-below 50 percent of the area median income and charged the low HOME rent or fair market rent (FMR), whichever is less. KHC will update its Rental Production Web page each year with the new releases for rent and income limits.

- In some instances, households residing in HOME rental units may be receiving Tenant-Based Section 8 rental assistance. Please note that the applicable HOME rent limit may be less than the Section 8 FMR. **At no time**

may the gross rent exceed the applicable HOME rent limit unless the unit is receiving Project-Based Section 8 rental assistance, the household makes 50 percent or less AMI, and is designated a low HOME unit.

- When leasing mixed funding projects, owners/managers must assure that:
 - A sufficient number of units are leased or held available for lease to HOME-eligible tenants in order to meet the low- and very-low income targeting requirements of the program

and

 - 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 (HC) and HOME funding, the tenant's rent may never exceed the HC program limits, regardless of the household's income.
- HOME rents may decrease. While project rent levels are not required to decrease below the HOME rent limits in effect at the time the HOME Funding Agreement is executed, a change in market conditions may force owners to reduce the HOME rents in order to retain tenants.
- The Annual Performance Report is required yearly for developments utilizing **HOME funds** once all funds have been drawn and construction is completed
- Nonprofits and local government applicants that have expended \$500,000 or more in aggregate of federal funds, including HOME funds, during its fiscal year must procure and have completed annual audits in the form of CPA-prepared financial statements with management letter within 120 days after the close of the applicant's fiscal year. These financial statements must include a balance sheet, operating statements, source and use of funds statement, Schedule of Expenditures of Federal Awards, and sufficient supporting schedules. Audits must also be conducted in accordance with the provisions of OMB Circular A-133 and the Single Audit Act of 1996. If the applicant has drawn \$500,000 or more of federal funds in their fiscal year, the audit must be submitted to the Audit Clearinghouse.
- Records must be retained for five years after the project completion date. Records of individual tenant income verifications, project rent, and project inspections must be retained for the most recent five-year period, until five years after expiration of the affordability period.

AFFORDABLE HOUSING TRUST FUND (AHTF)

AHTF funding is considered to be gap financing only. Applications submitted that request the entire development cost in AHTF funds will be considered only as a last resort and if it is advantageous to KHC to do so. AHTF funds must be utilized for permanent housing.

- Eligible applicants for this source of funding are nonprofits and units of local government. For-profit entities are not eligible to apply for this funding source.
- Eligible activities under the AHTF program include acquisition/new construction, acquisition with rehabilitation, and/or new construction of very low-income rental developments. There are four priorities with this funding.
 1. New construction projects submitted by nonprofits or units of local government.
 2. Projects using existing, privately-owned housing stock.
 3. Projects using existing, publicly-owned housing stock.
 4. Applications from units of local government for projects that demonstrate effective zoning, conversion, or demolition controls for single-room occupancy units.
- The affordability period for rental projects is 30 years, regardless of activity type.
- All very-low income persons (defined as 60 percent AMI and below for AHTF purposes) 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. The Residential Moving Cost Schedule can be found at <http://www.fhwa.dot.gov/realestate/fixsch96.htm>. In the event that the project includes HOME funds as well as AHTF funds, HOME federal requirements supersede AHTF requirements.
- **Note: KHC requires certain documentation at application, technical submission, and Construction/Placed-in-Service to ensure compliance with this AHTF relocation provision. This documentation is defined at each stage of the project via applicable checklist. Developers are strongly urged to contact a KHC representative/specialist or KHC's environmental/relocation specialist if considering a project that involves acquisition of an existing rental facility.**
- KHC requires at least forty percent (40%) of all AHTF funds to be used for rural areas of the Commonwealth. This excludes the following areas: Ashland,

Bowling Green, Covington, Henderson, Hopkinsville, Jefferson County (including Louisville), Fayette County (including Lexington), Owensboro, and Paducah.

- AHTF can 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 awards can be made in the form of a loan or grant at KHC's discretion. No less than one-third of the total statewide AHTF allocation will be made available as a loan.
- AHTF rental developments may serve households with incomes at-or-below 60 percent of the area median income. You can refer to the HOME income chart to find the maximum income limits used for the AHTF program. This chart can be found on KHC's Web site, www.kyhousing.org on the Housing Production page under Rental Production Programs.
- While there are no published rent limits for this program, proposed rents must be proportionate with the income level being served, unless some form of rental assistance is being provided. As noted above, there are no rent limits for this program, but the HOME rent chart can be used as a guide.
- AHTF can be blended with other KHC funds including HOME, SMAL, Risk-Sharing, the Housing Development Fund, Project-Based Section 8, and Housing Credits. AHTF also has the potential to be blended with many sources of non-KHC funding.

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 five 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.

If an applicant is proposing the rehabilitation of an existing rental project and can document that the project should utilize underwriting criteria contradictory to that of KHC, i.e., a lower vacancy rate, such documentation should be included. Likewise, if the applicant can document their ability to operate a project at a lesser per unit operating expense (based upon historical data of other similar projects owned by the applicant), such documentation should be included.

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

SMAL MULTIFAMILY AFFORDABLE LOAN PROGRAM (SMAL)

- Eligible applicants for this source of funding are nonprofit or 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 with new construction, and acquisition with rehabilitation.
- SMAL funds cannot be used for refinancing.
- Eligible households must have incomes at-or-below 80 percent of the area median.
- 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.
- SMAL may be combined with other KHC funds including the HOME Program, the Affordable Housing Trust Fund, the Housing Development Fund, Project-Based Section 8, and Housing Credits. SMAL funds may also be blended with many sources of non-KHC funding.

SMAL Program Financial Requirements

- SMAL loans are recourse loans.
- The maximum loan amount requested cannot exceed 90 percent (90%) loan-to-value or the loan amount supported by a 1.25 debt coverage ratio (DCR) in year one (whichever is lower). The DCR should remain at-or-above a 1.0 through year fifteen. Please refer to Application Submission, Review, Requirements for all funding sources, for more detailed information.
- Interest rate requested cannot be lower than 3.5 percent but will be established based on what the project can support as determined by KHC's underwriting review.
- The term of the loan shall not exceed 30 years, with matching affordability.
- 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 or at commitment.
- The vacancy rate for this program will be projected at ten percent (10 %).

- If an applicant is proposing the rehabilitation of an existing rental project and can document that the project should utilize underwriting criteria contradictory to that of KHC, i.e., a lower vacancy rate, such documentation should be included. Likewise, if the applicant can document their ability to operate a project at a lesser per unit operating expense (based upon historical data of other similar projects owned by the applicant), such documentation should be included.

- 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 cost 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:	<u>62.5%</u>

	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 7

Please refer to the SMAL rent and income chart for the maximum rent and income limits for this program. This information can be found on KHC's Web site, www.kyhousing.org, on the Housing Production page under Rental Production Programs.

SMAL Compliance Requirements

A compilation of the annual financial statements for the project only will be required within 120 days of the end of the project's fiscal year. This should be a full disclosure compilation or audit conducted by a CPA. It should include a balance sheet, profit and loss (income statement), and statement of cash flows. 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.

RISK-SHARING

- Eligible applicants are nonprofits, for-profits, and units of local government.
- KHC participates in the Housing Finance Agency Risk-Sharing Program under Section 542(c) of the Housing and Community Development Act of

1992. Risk-Sharing is a mortgage insurance program in which the insurance risk is shared between KHC and HUD, and KHC serves as the lender.

- This program provides construction and permanent financing for multifamily projects of five units or more.
- Eligible households are families, independent elderly persons, and elderly persons who require services.
- New construction, acquisition with new construction, and acquisition with rehabilitation projects are eligible.
- Each ownership structure must be a single-asset entity. and each principal (25 percent ownership or more) is subject to Previous Participation Certificate (HUD Form 2530) clearance.
- All multifamily projects must qualify as affordable housing and must constitute a qualified residential rental development. To be considered as such, the project must meet the following requirements:
 - A project in which 20 percent (20%) or more of the units are both rent-restricted and occupied by persons whose income is 50 percent (50%) or less of the area median as determined by HUD, with adjustments for household size
 - or
 - A project in which 40 percent (40%) or more of the units are both rent-restricted and occupied by persons whose income is 60 percent (60%) or less of the area median income as determined by HUD, with adjustments for household size.
- Since there are no income or rent charts for this program, the applicant can refer to the Housing Credit rent and income charts for the maximum rent and income limits. This information can be found on KHC's Web site on the Housing Production page under Rental Production Programs.
- The affordability period shall be equal to the term of the original first mortgage loan and shall survive any prepayment of the loan.
- 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 CFR, Part 58. (KHC staff 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 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.

- Risk-Sharing funds can be blended with other KHC funds including Housing Credits, HOME, SMAL, AHTF, Housing Development Fund, and Project-Based Section 8. Risk-Sharing also has the potential to be blended with many sources of non-KHC funding, including Renaissance Kentucky.

Risk-Sharing Financial Requirements

- Risk-Sharing loans are non-recourse.
- Risk-Sharing funds must be utilized with Housing Credits.
- The loan term may be up to 40 years.
- The maximum loan amount requested cannot exceed 90 percent (90%) loan to value or the amount that will support at a minimum a **1.25 debt coverage** ratio in year one. The DCR should remain at or above a 1.0 through year fifteen. Please refer to Application Submission, Review, and Requirements chapter for all funding sources, for more detailed information. Value will be determined by the appraisal during the application stage or technical submission stage.
- For projects of 11 units or less, a vacancy rate of 10 percent (10 %) should be projected, and for projects of 12 units or more, a **7 percent (7%) vacancy rate** should be projected.
- The maximum allowable developer fee for this program is 10 percent (10%) of the total project cost.
- A mortgage insurance premium (MIP) of 0.5 percent (0.5%) is required for loans under this program. The MIP will automatically be calculated in the underwriting model.
- Applicants should assume a **taxable loan rate**, exclusive of MIP. **This rate is for underwriting purposes and is subject to change as the market changes. Please contact your program representative/specialist for the applicable rate.**

- An initial closing will be held prior to the start of construction if the applicant is receiving construction financing. The following fees will be payable at the initial construction closing. If the applicant is seeking only permanent financing, these fees will be due at permanent closing. **(Include these fees on the Sources and Uses.)**
 - The loan origination fee of 3 percent (3%) of the loan amount.
 - The technical processing fee of 0.3 percent (0.3%) of the loan amount.
 - The inspection fee of 0.5 percent (0.5%) of the loan amount.
 - The mortgage insurance premium equal to 0.5 percent (0.5 %) of the loan amount or 0.45 percent (.045 %) of the loan amount if the Risk-Sharing loan is combined with Housing Credits. Please note that currently KHC will only consider allocating a Risk Sharing loan to a project that is also requesting housing credits.
 - An additional fee of \$5,000 for closing will be required if KHC utilizes Fannie Mae funds. (KHC reserves the right to use other funding sources.) At the time of commitment, \$3,000 will be collected, and the remaining \$2,000 is due at closing (fees subject to change).
 - Additional fees will apply to the project for closing. Please contact your program representative/specialist for additional fees.
- Prior to interest rate lock-in, a good faith deposit equal to 2 percent (2%) of the loan will be required. This deposit will be held in an interest bearing account pending the closing of the loan. In addition, the borrower shall execute a promissory note in an amount equal to five percent of the loan amount and shall be forfeited to KHC in the event the loan does not close.

Risk-Sharing Compliance Requirements

- All Risk-Sharing projects are required, throughout the affordability period, to submit annual audited financial statements 90 days after their fiscal year ends. The audit shall be prepared by a third party CPA in accordance with generally accepted accounting principles, government auditing standards, and the HUD Consolidated Audit Guide. Annual audited financial statements **MUST** be mailed to KHC's Asset Management Department. Please note that failure to submit the annual financial statements will be considered by KHC in future funding rounds and may be considered a covenant default event.
- New multifamily projects which have been placed in service must provide monthly reports as required by Asset Management.

- Management agents and owners must register with HUD at the following Web site https://hudapps1.hud.gov/apps/part_reg/apps040.cfm.
- Management agents and owners must adhere to all compliance monitoring procedures. Annual compliance fees will be assessed.

HOUSING CREDITS

Housing Credits are available per the set-asides as noted below. All other requirements and policies of the housing credit program are outlined in the current QAP.

Competitive Pools and Set-Asides	Approximate Amount
A. Urban Pool	\$1,925,000
B. Rural Pool	\$1,925,000
C. Nonprofit Pool Set-Aside	\$1,350,000
D. Rural Development Set-Aside	\$500,000
E. Special Needs Set-Aside	\$300,000
F. 2010 Forwarded Committed Projects from 2009 (estimated)	\$3,000,000

- **Please Note: KHC reserves the right to redistribute Housing Credit into other pools or set-asides as it deems necessary. KHC also reserves the right to allocate Housing Credit to non-specified projects if the credit amount can preserve the long-term viability of a project. Additionally, KHC reserves the right to reduce eligible basis and the amount of Housing Credit if costs appear excessive. Likewise, KHC may increase basis (not to exceed 130 percent) on any project for feasibility reasons as determined solely by KHC.**

Chapter 3 - Application Submission, Review, and Requirements

APPLICATION SUBMISSION

KHC's Housing Finance and Construction (HFC) Department utilizes one application for all KHC funding sources. Application review teams evaluate each application to ensure financial feasibility and meeting of threshold requirements. Any issues that could delay the project must be addressed before submitting an application.

- Projects that rely on fees from supportive services to pay debt service are not eligible for funding under this application.
- Applications must be submitted on the current year's online application available on KHC's Web site, www.kyhousing.org.
- Each application must be for an eligible project type and must propose an eligible activity.
- Applicants must request **all** KHC funds required for the project in one application.
- If an applicant is requesting federal funding such as Risk-Sharing or HOME, proof of submission to the State Clearinghouse must be included with the application.
- New construction and rehabilitation projects must meet the requirements of the latest edition of the Kentucky Building Code. The developer and/or builder must be in compliance with local zoning; building rules, regulations, and ordinances; Universal Design and Minimum Design Standards as adopted by KHC (where applicable); Housing Quality Standards; and all applicable federal regulations and requirements, including the Fair Housing Act.

Technical Assistance

In order to submit an application, a member of the development team must have developed, operated, or completed a project that is now in the affordability stage with compliance and has developed at least ten rental units with KHC. However, if no member of the development team meets this qualification, a member can request technical assistance through one of the rental program representatives/specialists. The applicant or member must request this technical assistance *at least* one month prior to submitting the application. Certain guidelines associated with this type of technical assistance must be met before the program representative/specialist will approve the member(s) to move forward with the application process.

APPLICATION PREPARATION

The application is created and submitted through KHC's online application process found on KHC's Web site, www.kyhousing.org. Applications should not be submitted unless all threshold requirements are met and the required minimum score can be achieved. Applications requesting housing credits must meet a minimum score of 680. Non-housing credit applications must meet a

minimum score of 600. Applications will not be accepted prior to the opening date and time listed below. Applications will continue to be accepted until KHC resources are no longer available.

A complete application must be transmitted to KHC. The online application system will notify the applicant of an application's successful transmission. One (1) original and three (3) copies of the required application attachments and one (1) set of the plans and specifications must be received in the time frame set forth below.

Application Submission Requirements

For the 2010 Funding Round, KHC will review applications through an open-window process. Non housing credit applicants will be allowed to submit applications beginning Friday, February 19, 2010, at 8:30 a.m., EST, and may continue submitting applications until funding sources are no longer available. All attachments must be received by close of business at 5 p.m., EST, on the business day following submission. If all applicable attachments and the underwriting model are not received by the close of business on the following day, the application will not have met the threshold requirements and will not be reviewed.

Applicants requesting housing credits only and/or housing credits combined with other KHC resources will be allowed to submit applications beginning Thursday April 1, 2010 at 8:30 a.m. EST. All attachments must be received by close of business at 5 p.m., EST, on the business day following submission. If all applicable attachments and the underwriting model are not received by the close of business on the following day, the application will not have met the threshold requirements and will not be reviewed.

Once the application is submitted, KHC will review it for completeness and to ensure that all threshold requirements have been submitted (met). An application package is complete when all applicable attachments and threshold items have been submitted in accordance to the 2010 Rental Production Guidelines, the electronic application has been submitted, and the electronic underwriting model has been received. The applicant should ensure that the underwriting model is current, complete, and meets all KHC underwriting requirements (and was submitted within the timeframe explained above).

Staff will review the application packets to ensure all applicable attachments and threshold items are included and complete and that a minimum threshold score can be achieved. Applications will then be reviewed and scored based on the date they were received. Applications will be funded in descending order based on the score they receive.

Regardless of the funding sources being requested, the methodology used is the same for all applications. In the following example, the four applications are not requesting Housing Credits. Credit Projects should refer to the example in the QAP.

Example: Both John Doe and Mary Smith submitted their electronic applications and underwriting models on February 19, 2010. Bill Johnson and Sally Jones submitted their electronic applications and underwriting models on February 22, 2010. The attachments for all projects were received within the appropriate timeframe. The applications were reviewed for and adequately met threshold requirements. Each was reviewed and scored as follows:

Applicant	Score	Date Submitted	Meet Requirements
John Doe	610	February 19	Yes
Mary Smith	700	February 19	Yes

Bill Johnson	690	February 22	Yes
Sally Jones	720	February 22	Yes

Result: John Doe and Mary Smith’s applications were received first, so they will be funded before Bill Johnson and Sally Jones. Mary Smith will receive an award of funding before John Doe because her score was higher. Next, depending on the amount of funds remaining, Bill Johnson’s and Sally Jones’ projects will be funded. In this instance, Sally Jones will receive funding first since her score is the higher of the two received the second day.

Staff will review the application packet to ensure all threshold items are included and complete. If threshold items are missing, are found to be inadequate, or do not contain the correct information as outlined in the guidelines, the application will be rejected. If an application is rejected, the applicant will not have any opportunities to resubmit or correct documentation.

If the application does not meet any one (or more) of the threshold requirements, scoring requirements, financial feasibility requirements, and/or market study requirements, the applicant will not be permitted to submit documentation or correct discrepancies and the application will be rejected. **KHC will remain firm on all these requirements.**

Due to availability of funds, KHC reserves the right to close the window at any time. KHC will notify our partners of the closing of the window via our e-gram system. If funds are recaptured due to applicants not meeting the established deadlines or if funds become available at any time after the window closes, KHC may reopen the window and those applications that were previously rejected will be permitted to reapply (with corrected documentation) along with any new applications.

NOTE: **KHC will reject all applications that do not meet threshold and scoring requirements, that KHC does not consider financially feasible, and/or has an inadequate market study. It is the applicant’s responsibility to ensure all documentation is submitted in accordance with the threshold and scoring requirements explained in the 2010 Rental Production Guidelines. Incomplete applications will be returned to the applicant.**

Electronic Submission	Attachment Submission	Award Notification
8:30 a.m., EST, Friday, February 19, 2010	By 5 p.m., EST, the next business day after application submission	Within 60 days of submission

All applicants must submit applications for funding electronically. The application is located at www.kyhousing.org. Applicants must also submit an underwriting model in KHC’s format to the e-mail address of rentaluw@kyhousing.org. The underwriting model and attachments must be submitted by 5 p.m., EST, the next business day after the electronic application submission.

An original and three (3) copies of all attachments (only), as outlined on the checklist and threshold requirements in the application, with the exception of one set of plans and specifications, must be submitted to:

**Housing, Finance, and Construction
Rental Staff
Kentucky Housing Corporation
1231 Louisville Rd.
Frankfort, KY 40601**

APPLICATION REVIEW PROCESS

Applications shall be reviewed and scored based on the date they were received. Applications will be funded in descending order based on the score they receive. Funding is based upon a three-phase process. Applications must pass all three phases before funding can be determined. Failure to successfully meet the requirements of any phase will result in the rejection of the application.

Staff will review the application packet to ensure all applicable attachments are included and **all** threshold items are met. If attachments are missing and/or thresholds not met, are found to be inadequate, or do not contain the correct information as outlined in the guidelines, the application will be rejected. If an application is rejected, the applicant will **not** have any opportunities to resubmit or correct documentation.

All applicable attachments must be submitted. Likewise, if the application does not meet any one (or more) of the threshold requirements, scoring requirements, financial feasibility requirements, and/or market study requirements, the applicant will not be permitted to submit documentation or correct discrepancies and the application will be rejected. **KHC will remain firm on all these requirements.**

During the application review, if corrections are made to the underwriting model by KHC staff and these corrections cause the project to no longer cash flow, the project will no longer be considered financially feasible. The application will be rejected, and the applicant will be notified of any discrepancies but will not be allowed to make any changes until such time as the window reopens.

KHC will make an effort to distribute funds geographically across the state. KHC has the discretion to move funding between pools and set asides.

Ties in scoring will be broken using the priorities listed below in the following order:

1. Lower amount of resources from KHC per unit.
2. Smaller projects.
3. County of lower-median income.
4. Capacity of the development team.

PHASE I: THRESHOLD REQUIREMENTS

Applications must meet all threshold requirements and receive the required minimum score in order to move to Phase II. Projects will be reviewed based on the documentation contained within the application and supporting documentation. If threshold requirements are not met, the application will be rejected. See Exhibit A in this section for the Threshold Checklist.

1. **Applications** must be submitted electronically in the current version located on KHC's Web site, www.kyhousing.org. The appropriate and most current underwriting model must also be submitted electronically, as an attachment. The underwriting model should be submitted as a hard copy as well. Please refer to KHC's Web site, www.kyhousing.org, Housing Production, for underwriting models. There are three different models to choose from, according to funds requested. Instructions on how to complete the underwriting model is found on the first page.
2. **Application Fee (Tax Credit only)** is a nonrefundable fee that must accompany each project application submitted for Housing Credits. If applying for two different pools with the same application, two fees will be required. Application fees will not be returned for incomplete applications or applications that do not meet minimum threshold requirements. Application fee amounts are as follows:
 - a. \$750 exclusively for nonprofit applicants.
 - b. \$1,250 for all other applicants.
3. **Technical Assistance Certification Form** is required for any applicant who has not previously used KHC resources to construct or rehabilitate a rental project. Technical assistance can be requested at any time prior to the application submission. KHC staff will make every effort to schedule the technical assistance quickly, but cannot guarantee how quickly assistance can be provided; therefore, it is the responsibility of the applicant to plan accordingly. KHC will not be held responsible or liable for any delay to project submission due to failure to obtain this certification. A minimum of two to four weeks should be permitted for such assistance to be provided.

It is strongly suggested that individuals who attend the technical assistance meeting be those who will be responsible for the day-to-day administration of the project, including application submission, technical submission requirements, construction management, closings, and project completion/closeout.

Note: Receiving technical assistance does not guarantee funding. KHC staff will provide only an overview of the process unless specific questions are asked during the training. Written guidelines and the Qualified Allocation Plan are the developer/applicant's first source for questions and answers. KHC staff cannot be responsible for application errors or deficiencies not covered during technical assistance training.

4. **Minimum Square Footage** is outlined below; however, refer to the Rental Production Guidelines for architectural and design standards for additional guidance.

The minimum heated and cooled net square footage for new construction projects are:

- Single Room Occupancy (SRO) unit – 150 net square feet.
- Efficiency Apartment – 400 net square feet.
- One-bedroom unit – 600 net square feet.
- Two-bedroom unit – 800 net square feet.
- Three-bedroom unit – 1,000 net square feet.
- Four-bedroom unit – 1,100 net square feet.

Rehabilitation projects are encouraged to meet the minimum heated and cooled net square footage, if appropriate.

5. Preliminary Specifications/Work Write-Up

(Required for all new construction and rehab of 12 units or more.)

Applicants must incorporate ENERGY STAR features and green construction techniques into the plans and specifications submitted to KHC. At a minimum, KHC will accept a list of ENERGY STAR features and a list of green construction techniques that will be incorporated into the project's final plans and specifications. These lists should be clearly identified and attached to the plans and specifications.

All outline specifications must be written following the standard Construction Specifications Institute (CSI) format. Outline specifications must specify products by model number and manufacturer for the sole purpose 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 must be included. The specifications should include the following if applicable:

- | | |
|------------------------------------|--------------------------|
| 1. General requirements | 9. Finishes |
| 2. Site Work | 10. Specialties |
| 3. Concrete | 11. Equipment |
| 4. Masonry | 12. Furnishings |
| 5. Metals | 13. Special construction |
| 6. Carpentry | 14. Conveying equipment |
| 7. Thermal and moisture protection | 15. Mechanical |
| 8. Door and windows | 16. Electrical |

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

Work Write-Up Description (Permitted in lieu of specifications for rehab projects of 11 units or less)

Rehabilitation Projects: Submit a detailed description of each type of repair or change to existing structures and construction for each room in every unit of rehabilitated structures. If

the development includes rehabilitation, consists of 12 units or more, **and** requests \$250,000 or more of funding from KHC, a Physical Needs Assessment (PNA) will be required in addition to the work write-up. On these projects, the work write-up can be incorporated in the PNA or the scope of work description in the specifications; however, the following information must be included.

Projects of 11 units or less: Projects that are 11 units or less or projects undertaken by a nonprofit developer 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.

Below are items that must be included in the work write-up.

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

ENERGY STAR

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

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

For additional information on ENERGY STAR guidelines, please visit <http://www.energystar.gov/>.

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

- Inclusion of ENERGY STAR rated heating and cooling products. Homes equipped with heat pumps, which have programmable thermostats, shall be required to use “adaptive recovery” technology in order to prevent excessive use of electric back-up heating.
- All windows are ENERGY STAR rated.
- Three or more of the following ENERGY STAR qualified appliances: clothes washer, dishwasher, refrigerator, freezer, or range hood.
- All ENERGY STAR qualified ceiling fans, light fixtures, and ventilation fans.

Note: Developer must clearly identify ENERGY STAR products in the plans and specifications and/or work write-up. For application review purposes, these must be identified collectively in one location.

Green Construction

The Leadership in Energy and Environmental Design (LEED) Green Building Rating System™ is the nationally accepted benchmark for the design, construction, and operation of high performance green buildings. LEED gives building owners and operators the tools they need to have an immediate and measurable impact on their building's performance. LEED promotes a whole-building approach to sustainability by recognizing performance in five key areas of human and environmental health: sustainable site development, water savings, energy efficiency, materials selection, and indoor environmental quality. For new construction and rehabilitation projects to receive scoring points they must incorporate at least six of the green construction criteria outlined below. For additional information please see <http://www.usgbc.org/>.

- Project must be located within ¼ mile of one or more stops for two or more public or campus bus lines useable by building occupants.
- Smoking must be prohibited in the building and any designated smoking areas are at least 25 feet away from entries, outdoor intakes, and windows.
- All adhesives, sealants, and primers used on the interior of all buildings and applied onsite shall comply with South Coast Air Quality Management District Rule #1168. Acceptable volatile organic compounds limits are listed in the table provided at <http://www.arb.ca.gov/DRDB/SC/CURHTML/R1168.PDF>.
- Use of fifty percent (50%) of wood based materials and products that are certified in accordance with the Forest Stewardship Council's Principles and Criteria for wood building components.

- ❑ Place a minimum of fifty percent (50%) of parking spaces under cover.
- ❑ Provide vegetated open-space area equal to: 1) 20 percent (20%) of the project site area or 2) equal to the building foot print. Vegetated open space is defined as lawns, gardens, plant beds, and fish ponds with plants, shrubs, or trees.
- ❑ Provide an easily accessible area that serves the entire project and is dedicated to the collection and storage of non-hazardous materials for recycling, including (at a minimum) paper, corrugated cardboard, glass, plastics, and metals. Property is responsible ensuring the proper disposal and removal of the recyclables.
- ❑ Install compact florescent light bulbs throughout the project.
- ❑ Utilize rapidly renewable floor materials such as bamboo, linoleum, cork, or eucalyptus to cover a minimum of 25 percent (25%) of the floor area of each unit. Note: Linoleum is not vinyl.
- ❑ Provide covered storage facilities and racks for securing bicycles for fifteen percent (15%) or more of building occupants.
- ❑ Install a vegetated roof for at least fifty percent (50%) of the roof area.
- ❑ Install a programmable thermostat throughout project. (Note: If a heat pump is installed in the units, a programmable thermostat specifically designed for heat pump systems must be utilized.)
- ❑ Develop and implement a construction waste management plan that recycles or salvages at least fifty percent (50%) of non-hazardous construction and demolition debris.
- Install tankless water heaters in each unit. (Note: Proper installation requires that the heating unit satisfies demand capacity and the manufacturer's energy requirements be strictly followed.)
- ❑ Use recycled, salvaged, refurbished, or reused materials such that the sum of these materials constitutes at least ten percent (10%) of the total value of project materials.
- ❑ Use building materials which have been extracted, harvested, recovered, or manufactured within five hundred (500) miles of the project site for a minimum of ten percent (10%) of the total material costs.
- Use only carpeting which meets the product testing requirements of the Carpet and Rug Institute's Green Label Plus program throughout project. More information is available at <http://www.carpet-rug.org/about-cri/cri-signature-programs/green-label-plus-carpet.cfm>.
- The average flow rate for all lavatory faucets must be ≤ 2.0 gpm.
- The average flow rate for all showers must be ≤ 2.0 gpm.
- The average flow rate for all toilets must be ≤ 1.3 gpf.
- ❑ Toilets must be dual-flush and meet the requirements of ASME A112.19.14.

- Toilets must meet U.S. EPA WaterSense specifications and be certified and labeled.
 - All domestic hot water piping shall have R-4 insulation. Insulation shall be properly installed on all piping elbows to adequately insulate the 90-degree bend.
 - Central hot water manifold trunk no more than 6 feet, insulated to R-4, with no branch line exceeding 20 feet.
 - Compact hot water supply line design with no run over 20 feet from water heater.
 - Prior to construction, create detailed framing plans or scopes of work and accompanying architectural details for use on the job site. Indicate the specific locations, spacing, and sizes of all framing members in the floors, walls, roof, and ceiling (if different from the roof).
 - Prior to construction, create a detailed cut list in lumber order that corresponds directly to the framing plans and/or scopes of work.
6. **Preliminary Construction plans** must include ENERGY STAR design features and Green Construction Techniques, which are supported in the specifications. Preliminary plans must include final building plan at 1/8" scale, final floor plan to include typical unit plans at 1/4" scale, site plan, building floor plan, as well as corresponding preliminary elevation drawings compiled by an architect licensed in the Commonwealth of Kentucky.

Applications of 11 units or less for new construction or rehabilitation are required to submit Building Plans at 1/8" scale and Typical Unit Plans at 1/4" scale. The plans must include building floor plans, elevations, and site plan.

Applications of 12 units or more, for new construction or rehabilitation, are required to submit Building Plans at 1/8" scale and Typical Unit Plans at 1/4" scale. The plans must include site plan, building floor plan, as well as corresponding elevation drawings compiled by an architect licensed in the Commonwealth of Kentucky.

Below is a listing of requirements for site development plans, building floor plans, and elevations.

Site plan

- Preferred scale of 1" equals 20', but can be no smaller than 1" equals 40'.
- Property lines with metes and bounds.
- Buildings should be drawn on the site plan regardless of new construction or rehabilitation. Any other structures that are to remain should also be indicated on the site plan.
- All exterior items, such as parking, street walks, curbs, dumpster pads with enclosures, playground, community room, and fences.
- Site plan should show all dimensions, setbacks, easements, and right-of-ways, and should be shown along with North Arrow.
- A site detail must be shown on plan or can be a separate site detail sheet. Details should describe the type of walks, curbs, handicapped parking, etc.

Building Floor Plan

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

Floor Plans

Floor plans at a minimum should include the following:

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

Elevations

The elevations at a minimum should show the following:

- Exterior wall finishes.
- Window and door openings.
- Roof material and slope of roofs.
- Eave, rake, and fascia conditions to include gutters and downspouts.

Photographs that clearly show elevations for all sides of the buildings may be submitted in lieu of elevation drawings at the application stage. The minimum acceptable photograph size is 5" x 7". However; elevation drawings will be **required** during the Technical Submission Stage.

Universal Design

{Required for all projects that receive debt or subsidy financing from KHC, equal to 50 percent (50%) or more of the total project cost and all Housing Credit developments.}

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

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

The goal of universal design is to build housing that meets the needs of the greatest portion of a community's population. It differs from accessible design, which is primarily intended to meet the needs of persons with disabilities. It is, however, inclusive of adaptable design as it strives to incorporate structural features that will allow a residence to be adapted to an individual's needs. All projects that receive debt or subsidy financing from KHC equal to 50 percent (50%) or more of the total project cost and all Housing Credit projects, for the purpose of constructing or reconstructing single-family or multifamily housing, will be affected with the exception of rehabilitation projects.

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

Minimum Design Standards

Minimum Design Standards shall apply to new construction and reconstruction of all multifamily homes constructed with funds from the HOME Investment Partnerships Program, Affordable Housing Trust Fund, SMAL, Risk Sharing and/or Housing Credits. The standards become effective when funding from KHC is ten percent (10%) or more of the cost per unit based on total development cost.

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

Energy Efficient Methods

(Required on all project types except acquisition only.)

- If a project **is not** required to meet Minimum Design Standards, the architect or developer must provide a letter that explains how the design of the development will provide the most efficient insulation and heating system.
- If a project **is** required to meet Minimum Design Standards, the applicant may choose to submit a ResCheck calculation, which is a free download from the U.S. Department of Energy, that indicates the proposed design exceeds the Kentucky Energy code by 20 percent.

or:

The applicant may elect to use one of the two methods provided in the Minimum Design Guidelines located on KHC's Web site, www.kyhousing.org, on the Housing Production page under Design and Construction.

Federal and State Accessibility Requirements Section 504

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

Alterations of Existing Housing Facilities: If a development to 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 (75%) or more of the replacement cost of the completed facility, then five percent (5%) of the total units or one unit must be accessible to persons with mobility impairments **AND** two percent (2%) of the units or one unit must be accessible to persons with visual or hearing impairments.

Fair Housing Design Requirements

New Construction and all rehabilitation units constructed after 1991: Developments shall comply with all requirements of the Fair Housing Accessibility Requirements of the Fair Housing Act. For more information about Fair Housing Accessibility, visit the Fair Housing First Web site at www.fairhousingfirst.org.

Kentucky Building Code

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

7. **Signed Letter of Support** from the mayor if the project is within the city limits or from the county judge executive if outside the city limits, depending on where project is located. The letter must be on appropriate letterhead. (Required on projects of 12 or more units or projects requesting Housing Credits).
8. **Evidence of proper site control** must extend through the award announcement period. Applicants **MUST** have one of the following as evidence of site control.
 - Property Deed.

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

9. Evidence of proper zoning with classifications clearly defined.

If the site is already properly zoned, a local zoning map that shows the classification of the proposed site and neighboring sites and a detailed description of what is allowed in each zoning classification must be provided as an attachment. The location of the site must be clearly indicated on **all copies** of the map. **A letter from the local zoning board or governing authority, which indicates the proper zoning classification, must also be attached.**

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

10. Preliminary letter of interest from the equity provider (housing credit projects) and appropriate letters of commitment from all non-KHC funding sources.

Each application package must include a letter of interest from the equity investor for the purchase of Housing Credit for the project.

Each letter of interest **must** attest that the investor has conducted a preliminary review of the proposed project which includes the following:

1. Is aware of any special populations the project anticipates serving;
2. Has performed at least a cursory review of the initial underwriting including proposed rents, expenses and number of units;
3. Has determined the estimated amount of equity investment for the project based on the proposed Credit in the application;
4. Acknowledgement of other resources in the application; and
5. Has developed a proposed pay-in schedule with milestones.

- Investors may make their letter contingent upon and subject to normal due diligence and final underwriting once an award of Credit is made.

Projects meeting the above criteria will satisfy the threshold requirements of the QAP. Projects providing a firm commitment of funding that meets or exceeds the Sample Commitment Letter attached to the QAP as Exhibit C will receive points for firm commitment of equity.

Commitment Letters

All non-KHC sources that will provide financing for the project should include commitment letters that provide:

1. Amount and form of funding being requested
2. Rate, term or other conditions of funding
3. Expiration of offer, if applicable.

Sources of Funds Without Commitment Letters

Projects proposing non-KHC funding that have not received commitment letters must describe the resources that they intend to apply for and must detail the following:

1. Entity to which an application will be made (source of funds being requested);
2. Type of funds being requested (grant/loans with anticipated terms);
3. Application submission date and anticipated funding announcement date; and
4. Description of contingency plan if project does not receive an award of non-KHC financing.

11. Appropriate Market Study/Needs Analysis

As a threshold requirement, a complete market study **MUST** be submitted with application. Applicants **MUST** utilize one of KHC's approved market analysis firms to conduct this study. A list of approved market analysis firms can be found at www.kyhousing.org under Housing Production/Rental Production Programs. Please refer to Phase III for additional information as it pertains to Market Study/Needs Analysis.

Conditional Approval Process

Funding recommendations are made by the application review team, which consists of staff representatives/specialists of the program area within KHC's Housing, Finance, and Construction Department, underwriters, and design and construction staff.

Staff recommendations will be presented to KHC's Credit Review Committee for conditional project approval. Final funding decisions are at the discretion of KHC's chief executive officer.

Once conditional approval is received, staff will notify the applicant by letter. Notifications will be made within 60 days of the submittal of the application to KHC. Received approvals will be posted on KHC's Web site under Housing Production. Approved projects will receive a conditional-commitment letter based upon receiving final construction and closing requirements.

KHC reserves the right to terminate its obligations regarding any commitment or award if the terms of the application or any part of the transaction are changed in any material respect, or if any material information submitted to KHC proves to have been inaccurate or incomplete in any material respect, or if any material adverse change occurs, or any additional information is disclosed to or discovered by KHC which KHC deems materially adverse in respect of the condition, financial or otherwise, business, operations, assets, nature of assets, liabilities or prospects of applicant or the proposed project.

Technical Submission Stage

Housing Credit Reservation Notice and Preliminary Commitment of Funds

KHC will notify in writing each successful applicant of an initial reservation of Housing Credits and/or preliminary commitment of funds. In determining the initial amount of credit and/or funds to be reserved, KHC will use costs, incomes, and expenses submitted in the application as determined by KHC to be reasonable. The amount of credit and/or funds allocated to each

successful applicant may be less than but may not be more than the amount requested in the application, the amount specified in the conditional commitment letter, or the amount reflected in a carryover allocation (Housing Credits).

Deadlines

If a conditional award is received from KHC, the Applicant must provide to KHC, no later than July 15, 2010, firm commitment(s) of funding for non-KHC funding sources which provide (i) the dollar amount of the funding to be provided to the project; (ii) the interest rate and term, if loan proceeds are involved; (iii) the collateral for the project, if a loan is involved; and (iv) the anticipated pay-in schedule for the funding sources. The commitment letters may contain normal and customary contingencies for equity and loan commitments, including, without limitation, approval of appraisal, closing of other sources of financing, environmental and title review and financial condition of the developer and satisfactory negotiation of partnership and/or loan documents. If the commitment letters have not been submitted by July 15, 2010, the conditional award of KHC funding to the project will automatically expire and KHC will recapture the **funds**. **No extensions to this date will be granted.** KHC will strictly enforce requirements imposed upon applicants. Applicants must agree to proceed diligently to closing.

Similarly, once a conditional award has been made, applicants will have until October 29, 2010 to submit all final construction, fair housing and other closing documents to KHC and close with their other funders. The applicant will receive a checklist that will outline all outstanding or additional documentation needed. If the project does not close by the October 29, 2010 deadline, KHC's conditional commitment to the project shall expire and be null and void and of no further force and effect. If a project does not close by October 29, 2010, the conditional award will automatically expire and KHC will recapture the funds.

If extenuating circumstances prevents the project from closing by the noted October deadline and a closing is eminent, KHC may in its sole discretion allow one extension as approved by KHC management.

Please refer to the 2010 QAP for deadlines applicable to projects allocated housing credits.

SCORING REQUIREMENTS

While this application round is considered an "open window" or "first come, first served" round, there is a scoring component. In addition to the minimum score threshold requirement, project scores may be used for determining funding priorities when circumstances warrant. See Exhibit B in this section for the score sheet. Please note that two methods of scoring are used: one scoring method is used for projects requesting housing credits and a separate scoring is used for non-housing credit projects.

1. **Housing credit projects: Project is requesting less than 15 percent (15%) of total development costs (100 points):** For the purpose of determining how much is being requested from KHC, all KHC funds except Housing Credit equity and KHC amortizing loans should be totaled.

Example:	HOME deferred loan	\$ 300,000
	Conventional loan	\$1,000,000
	HC Equity	<u>\$1,500,000</u>
	Total Development Cost	\$2,800,000

In this example, since the Housing Credit is not included, the total requested from KHC is \$300,000. The next step is to divide the Kentucky Housing funds requested in the form of a grant, deferred forgivable or deferred loan, by the total development costs:

$$\$300,000 / \$2,800,000 = 10.71 \text{ percent (10.71\%)}$$

These numbers are a mathematical example only for illustrative purposes and are not intended to indicate the level of funding that is acceptable from any source.

Non-housing credit projects: KHC financing as compared to total project costs.

KHC financing 1 – 10 percent of total project cost	100 points
KHC financing 11 – 25 percent of total project cost	75 points
KHC financing 26 – 35 percent of total project cost	50 points
KHC financing 36 – 50 percent of total project cost	25 points

Please note that when awarding points in this scoring category, KHC will only consider KHC-allocated non-amortizing debt, such as grants and/or forgivable or due-at-maturity loans. For example, if a proposed project has a total project cost of \$200,000 and requests \$125,000 of HOME as a forgivable-at-maturity loan, the percentage of KHC financing would be 62.5%. Thus, zero points would be awarded. However, if the HOME funds requested were in the form of an amortizing loan with monthly debt service, the full 100 points would be awarded.

2. **Project meets KHC guidelines for DCR requirements (50 points):** Please refer to Financial Feasibility section for underwriting requirements.
3. **Project meets construction-related maximum fees (50 points):** Please refer to financial feasibility section construction fees.
4. **Project meets KHC’s cost containment limits (50 points):** Please refer to financial feasibility section for Cost Containment requirements.
5. **All other associated fees are within KHC’s guidelines (50 points):** Please refer to financial feasibility section for additional guidance.
6. **Housing credit projects: Equity Commitment Letters demonstrate firm intent (100 points):** If the applicant submits firm letters that equity has already been approved or equity investor letters include all terms and conditions (pay-in schedule, etc.), and agreement has been executed, additional points will be granted. Refer to Exhibit A in QAP for an example of a commitment letter.

No additional points are awarded for any other type of non KHC financing as such commitment letters and/or plan of action to apply for such funds is a threshold requirement.

7. **Rent Restrictions (100 points):** This section is for scoring purposes only and is testing **rent restrictions only**. Rent restrictions will be reviewed and scored based on what is identified in the Underwriting Model. This is not a test for the level of area median income being served. The level of AMI being served will be indicated in the application.

The Housing Credit rent chart for the given market area should be used to determine which level of rent restriction the project is within. **This chart is to be used for all projects regardless whether the project is requesting Housing Credits.** Using this chart to award points for lower rents will give all counties that have an AMI below the statewide, non-metro a scoring advantage.

Note: Selected rent restrictions will be incorporated into all Kentucky Housing applicable legal documents.

To determine which sections to check under each rent restriction level, do the following analysis of the project rents:

- a. Compare each rent proposed to the Housing Credit rent chart for the appropriate county at each rent level (50% and 60%). For the rent to be considered at each level the rent must be equal to or less than the rent published for that rent level.
- b. To determine if the rent being proposed is equivalent to or less than the 30 percent rent restriction level, a calculation will need to be done to determine the 30 percent (30%) rent level. Divide the 60 percent (60%) rent level by 2. This will be the 30 percent (30%) rent level for each bedroom type for the proposed county.
- c. Once you have determined the rent restriction level of each rent, determine how many units (as a percentage of the total number of units) are at the 60 percent (60%) level, how many are at the 50 percent (50%) level, and how many are at the 30 percent (30%) level.
- d. Choose your scoring level based on the percentage of units at the rent levels listed.

Example:

Allen County
Proposed Rents

1BR = \$240 (2 units)	2BR = \$290 (1 unit)
1BR = \$380 (4 units)	2BR = \$425 (3 units)
1BR = \$455 (6 units)	2BR = \$500 (4 units)

Total number of units 20 units

1BR 60 percent rent is \$490 (as shown on rental chart)
1BR 50 percent rent is \$408 (as shown on rental chart)
1BR 30 percent rent is \$245 (calculation shown in # 3 above)

2BR 60 percent rent is \$588 (as shown on rental chart)
2BR 50 percent rent is \$490 (as shown on rental chart)
2BR 30 percent rent is \$294 (calculation shown in # 3 above)

Based on the proposed rents, there are 3 total units with rents at or below the 30 percent (30%) rent restriction level: two 1BR units and one 2BR unit. Three units divided by 20 total units would be 15 percent (15%).

There are 7 units at or below the 50 percent (50%) rent restriction level: four 1BR units and three 2BR units. Seven units divided by 20 total units would be 35 percent (35%).

Lastly, there are 10 units at or below the 60 percent (60%) rent restriction level: six 1BR units and four 2BR units. Ten units divided by 20 total units would be 50 percent (50%).

All percentages should total 100 percent (100%).

NOTE: The rent levels, number of units, etc., used in this example are for illustrative purposes only and are not intended to be an example of an acceptable project.

8. **No member of the development team in the past three years has had uncorrected noncompliance issues (50 points):** If a member of the development team has been found directly or indirectly responsible for any other project within the past three years in which there is or was documented uncorrected noncompliance issues for more than six months after the close of the correction period, points will not be awarded.
9. **No member has properties that do not pass the Uniform Physical Condition Standards (UPCS), Housing Quality Standards (HQS), or Real Estate Assessment Center (REAC) standards (50 points):** If a member of the development team has properties where it is documented that they did not or do not pass the Uniform Physical Condition Standards, Housing Quality Standards, or REAC standards, points will not be received. The UPC standards are intended to ensure that the housing provided is decent, safe, sanitary, and in good repair. A REAC score of 60 or better must be achieved for properties that are subject to REAC physical conditions standards within the past five years.
10. **No member of the development team has had projects that have requested extensions for debt service and/or forbearance but are not in default (50 points):** If any member of the development team has been involved with projects within the past three years and have *consistent, documented* patterns requesting extensions to Kentucky Housing's imposed deadlines, extensions for debt service payments and/or a request for forbearances but are not in default will not receive points.
11. **No member of the development team has any projects that have been or are currently in the process of foreclosure (50 pts):** points will not be received.
12. **No member of the development team has had outstanding/unresolved audit or asset management findings (50 pts):** This includes improper use and/or maintaining inappropriate balances in reserve for replacement accounts and/or tenant security deposit accounts as indicated in approved funding documents and/or required under regulatory agreement as well as submission of financial/occupancy data as requested.
13. **No member of the development team has been involved with a project awarded funding prior to December 31, 2007, for which the project has not placed in service or all close out documentation has not been received (50 pts):** If a member of the development team has been involved in a project awarded Housing Credits and/or other KHC funding in the last three years for which it has been documented that either the permanent financing or equity investment has not been closed and/or construction has not been completed and the project placed in service, points will not be received.

14. **No member of the development team in the development process in the last three years has had funds recaptured by KHC (50 pts):** If, in the past three years, it has been documented that KHC has recaptured funds from any member of the development team, during the development process, points will not be received. This includes funds recaptured from homeownership or rental projects and all funding sources including: Housing Credits, SMAL, HOME, Affordable Housing Trust Fund, Risk-Sharing, Housing Assistance Funds, Housing Development Funds, HOPWA, ESG, etc.

PHASE II: FINANCIAL FEASIBILITY REQUIREMENT

This is the second phase of the application review process. A project's financial feasibility is when **all** (including federal, state, local and/or Kentucky Housing) programmatic guidelines are met and the project is still viable. Rents and expenses should be reasonable, the sources and uses must balance and the debt coverage ratio (DCR) must be appropriate for the size of the project.

A review of the submitted underwriting model, along with information in the overall application, will be reviewed. **If a contradiction exists between the underwriting model and the application, the information in the underwriting model will be used to determine the financial feasibility.**

During the application review, if corrections are made to the underwriting model by KHC staff and these corrections cause the project to no longer cash flow, the project will no longer be considered financially feasible. The application will be rejected and the applicant will be notified of any discrepancies but will not be allowed to make any changes until the window reopens.

Underwriting

- The construction contingency should not exceed 10 percent (10%) of total construction hard costs. When calculating contingency, acquisition of the property should not be included as hard costs. For new construction projects, contingency should always be less than 10 percent (10%). 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. **The 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 provided by KHC and are not used, those funds will be recaptured and the necessary loan documents will be modified to reflect the difference in the amount funded.**
- The required debt coverage ratio (DCR) in year one must be **at a minimum 1.25** and should remain at or above 1.0 through year 15. Projects requesting Housing Credit only may close with a lower standard if requested by the equity provider.
- Operating expenses must be supported and generally should fall between \$2,500 to \$4,500 per unit. If higher or lower, the corresponding question in the Financial Design section of the application must be answered. Operating expenses should reflect ongoing compliance costs, as well as fees paid to other entities that have monitoring responsibilities.

- Rents charged to low-income tenants cannot exceed 30 percent (30%) of the applicable income limit applicable to the unit size less an allowance for tenant-paid utilities, if applicable. (Section 8 subsidy payments are not included in the tenant rent computation **except for the HOME Program. In general, the HOME Program does require that such rental assistance be included and compared to the applicable HOME rent limit.**)
- Management fees generally should be comparable to market fees and may not exceed 8.5 percent (8.5%) of effective gross income. Smaller projects and/or special needs projects, which may require a higher fee, should justify a higher percentage.
- **ALL permanent loans shall have monthly debt service payments.** HOME and AHTF loans do not accrue interest during the construction period.
- Unless otherwise approved in writing by KHC prior to closing, all KHC loans shall be secured by first-position liens/mortgages.
- If services are a requirement to live in the housing units, generally these service fees must be included in the gross rent.
- For Housing Credit projects, the low-income occupancy and rent restrictions apply for a minimum of 30 years plus three-year vacancy de-control period. Noncompliance with the requirements can lead to recapture and substantial penalties from the Internal Revenue Service.

Subsidy Layering Review

A subsidy layering/financial review will be required on all projects which receive, either directly or indirectly, financial assistance from the U.S. Department of Agriculture Rural Development (RD) or the U.S. Department of Housing and Urban Development (HUD). A Subsidy Layering Review is required where there is a combination of Risk-Sharing and Housing Credit.

KHC is required to follow guidelines established by RD and HUD with respect to the review of the financial assistance provided to the project.

For Housing Credit projects, the subsidy layering review will include a review in 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.

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.

Applicants must enter the applicable cost containment limit for the project in the underwriting model. KHC's cost containment limits are available on the Rental Production page under Housing Production on KHC's Web site.

KHC cost containment guidelines apply solely to KHC resources. KHC resources include HOME, SMAL and AHTF funds. KHC will also consider Exchange funds as a KHC resource, if the program is extended into 2010. At no time will KHC fund a project if these cost containment limits are exceeded.

When considering all funding sources in a project, please note that these cost containment guidelines are provided as a resource tool and KHC will not make funding decisions solely upon the total development costs of each proposed project. Projects which score high enough to receive an allocation of credits yet exceed these published limits may be asked by KHC to revisit the design of the project to determine if costs can be lowered. Such a request by KHC may cause the closing of KHC financing to be delayed. KHC reserves the right to compare the costs of a proposed project to the costs of previously funded projects similar in scope and location when making a request to revisit a projects proposed design.

KHC funding in a project must not exceed the cost containment limit.

Example: Cost containment test:

1BR = \$105,872

2BR = \$127,684

Therefore: 5 X \$105,872

6 X \$127,684

= \$ 529,360

= \$ 766,104

Total KHC funds in project may not exceed this amount.

\$1,295,464

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 equals:

*General requirements divided by (total hard cost minus construction contingency.)
(Construction management fees are considered to be a part of general requirements;
therefore, those fees must be included with general requirements and cannot exceed the
general requirement percentage).*

Builder's overhead equals:

Builder's overhead divided by (total hard cost minus construction contingency).

Builder's profit equals:

Builder's profit divided by (total hard cost minus construction contingency) .

Maximum allowable fees based on total development cost of:

\$0 - \$250,000:		\$251,000 - \$750,000:	
General requirements	up to 6%	General requirements	up to 5%
Overhead	up to 7%	Overhead	up to 6%
Profit	up to 12%	Profit	up to 8%

Note: Applications utilizing Housing Credits or a combination of Risk Sharing, HOME Housing Credit, and Project-Based Section 8 will require a subsidy layering/financial analysis and will be limited to the following fee structure, regardless of the total project costs.

General Requirements	up to 6%
Overhead	up to 2%
Profit	up to 6%

\$751,000 and greater:	
General requirements	up to 6%
Overhead	up to 2%
Profit	up to 6%

Developer Fee

The allowable fees for developers are based on the total development cost (TDC) of the project. The developer fee on any Housing Credit project may not exceed 15 percent (15%). Risk-Sharing projects are limited to 10 percent (10%) developer’s fee unless otherwise approved by KHC’s Board of Directors. At KHC’s sole discretion, tax-exempt bond financed projects may be allowed an increase in developer’s fee.

The amount of developer fee (including any fees for consulting services) paid for with AHTF funds can not exceed five percent (5%) of the total AHTF award for the project.

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

$\frac{\text{Developer fee} + \text{consulting fees} + \text{anything resembling consulting or developer fees}}{\text{Total project costs} - \text{developer fee} - \text{consulting fees} - \text{anything resembling consulting or dev. fees}}$

A subsidy layering/financial review will be required on all projects when there is a combination of any of the following funding sources: Risk Sharing, HOME, housing credit, or Project-Based Section 8. Projects requiring this review will be limited to a 10 percent (10%) developer fee.

Reserve for Replacement

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

If the project is requesting Risk-Sharing, the calculation is the greater of:

- .006 multiplied by building construction costs plus costs associated with roads/walks and lawns/plantings

or

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

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

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

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

Transitional housing projects that are unable to generate sufficient cash flow to fund a reserve account will not be required to have a reserve for replacement dedicated account. However, the applicant must document how they plan to meet the project's needs usually covered by the reserve account. In addition, transitional housing projects must also provide documentation as to how the operating expenses of the project will be met for a minimum of five years.

Operating Deficit Reserve (ODR) Account

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

KHC calculates the minimum requirement as follows:

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

For Housing Credit projects, if the equity provider requires a different amount than KHC's minimum, KHC will negotiate a new ODR amount with the equity provider.

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

For purposes of KHC underwriting, the ODR is a total reserve that may include rent-up reserves and any other funds intended to cover operating deficits throughout the term of the project.

Proof of Match and Other Funding Commitments

All KHC Housing, Finance, and Construction Programs, except Risk-Sharing and Housing Credit, will require a five percent (5%) match. Any non-KHC financing source may be eligible. This includes, but is not limited to:

- Private bank financing
- Other federal funds (*not an eligible match source for HOME funds*)

- Owner equity
- Donated services
- Gap financing from any non-KHC source
- Affordable Housing Trust Fund and NHPR funds provided the funds are structured as a grant. However, applicants proposing use of either source of funds as match to meet the minimum 5 percent (5%) requirement must provide a *minimum of 5 percent (5%) of other funds not administered by KHC.*

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

- Cash contributions (excluding proceeds from Housing Credit and other owner equity).
- Donated real property. If the real property will not be donated but will be sold for below market value, the match amount is the difference between the appraised value and the sale price of the property. If a below market value sale is proposed, attach a copy of the appraisal and a copy of the purchase contract. Also, attach a statement from the owner explaining that the property was sold for affordable housing purposes.
- Donated construction materials. The letter of commitment must include the method of calculating the value of donated materials.
- Sweat equity (valued at \$10/hour).
- Volunteer labor (valued at \$10/hour unless classified as a professional/ skilled service such as electrical or plumbing, which may be valued at documented market rate). For projects proposing skilled labor, document the current market hourly rate and method of calculation. For projects proposing unskilled volunteer labor, attach a letter from the coordinating volunteer agency (church group, civic group, etc.) stating the commitment, including the number of hours, when volunteer labor will be performed and cost per hour. Note that there is a maximum of 3,500 hours per unit for volunteer labor.
- Waived fees and taxes
- Owner equity in the form of cash contribution meeting the following requirements:
 - To assist applicants that cannot fulfill the HOME matching requirement, KHC will accept cash contributions in the form of owner's equity (**this does not include proceeds from the sale of housing credit**) as an eligible form of match.
 - The cash contribution must be in the form of a grant to the project. Cash contributions that are loaned to the project are not eligible. In addition, the developer must provide a letter from the local government entity stating that they are not willing to waive taxes (in whole or in part temporarily) for the project as a source of match.

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

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

Using KHC Administered Funds as Match

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

Construction Financing

KHC construction financing can be provided to developments utilizing HOME, SMAL, AHTF, Risk-Sharing, and Housing Credit for the construction or rehabilitation of rental housing units. Construction financing will be conditioned on the following:

1. Interest will be billed and collected quarterly (calculated on a calendar year basis). Monthly billings are possible for larger developments.
2. All fees associated with both the interim/construction and permanent financing will be collected at the close of the interim/construction financing.
3. KHC will retain 10 percent (10%) of the total KHC funds until the final draw, final inspection and all project completion reports have been submitted and approved.
4. Developer fee paid with KHC funds will be disbursed on a pro rata share equal to the percent of project completion, with the exception of the initial draw as follows:
 - a) Up to forty percent (40%) of the project's developer fee can be disbursed at the initial draw.
 - b) The remaining sixty percent (60%) can be drawn based upon the percentage of construction completion.

NOTE: Developer fee must be used to cover all funding shortfalls before additional funds can be requested. KHC will continue to hold the 10 percent (10%) retainage until all project completion and closeout documents are received. For HOME-funded projects, KHC will hold at least 50 percent (50%) of the 10 percent (10%) retainage until the Project Completion Report is submitted and complete.

c) For Risk-Sharing projects, a determination regarding whether the FHA insurance is required on interim/construction loans will be made on a case-by-case basis. (If the personal net worth of the guarantors does not cover the amount of the loan, then generally, the construction loan would need to be FHA insured).

Funding Gaps/Substantial Change

If a funding gap is identified **prior to** construction (after application approval and funds reserved), KHC will consider a request for additional funds not exceeding 10 percent (10%) of KHC's investment, exclusive of housing credit. The following information must be sent to the program representative/specialist along with the request for the additional funds:

- Updated underwriting model.
- Justification for the gap.

If a funding gap is identified in excess of 10 percent (10%) of KHC's investment exclusive of housing credit or the number of units increase or decrease by 10 percent (10%) or more, this will be viewed as a **substantial change**. In this case, the applicant must obtain the additional funding from another source outside of KHC or forfeit their KHC award(s) and re-submit the project in a future funding round. If the applicant elects to seek additional funding, then KHC will grant a 30-day extension for technical submission completion; however, no additional extensions will be granted and failure to resolve the funding gap by this deadline will result in recapture of all KHC awarded resources.

If a funding gap is identified **during** construction, KHC will consider a request for additional funds; however, KHC reserves the right to approve or reject such a request at KHC's discretion alone. The following information must be sent to the program representative/specialist along with the request for the additional funds:

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

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

Capacity Review

For the purposes of credit/financial review, financials must be submitted on general partners, managing member, or person of equivalent position in the ownership entity. Failure to submit financial documents will result in denial of the application. KHC reserves the right to request additional financial information, as needed, as part of the application review process.

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

All financial statements should be prepared in accordance with Generally Accepted Accounting Principles (GAAP). **All personal financial statements must be prepared on the KHC Personal Financial Statement form.** This form must be **completed electronically** and printed to ensure all formulas calculate correctly. You can find this form on KHC's Web site, on the Housing Production page under Rental Production Programs. All business financial statements should be compilation statements or audited financial statements. If submitting compilation statements, there must be a CPA certification contained with the statements certifying they meet the requirements for a compilation statement.

All KHC funds, whether provided in the form of a grant or loan, will be supported by a funding agreement, appropriate security documents, and a personal guarantee. Guarantors shall be credit worthy individuals with the financial capacity to ensure KHC will be made whole in the event that the project is unable to fulfill its commitments.

All general partners, general partner entities and guarantors must submit the following:

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

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

If the general partner entity or guarantor is a person/individual, the following is required:

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

As part of the review of the above documents, a personal credit report will be ordered on all principals of the general partner entity and guarantor(s). A business credit report from Dun and Bradstreet will be ordered on any corporate general partner. Personal and business credit reports are valid for 90 days.

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

A qualified nonprofit organization is one that is:

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

PHASE III: MARKET STUDY REQUIREMENT

This is the final phase of the review. If the market study is unacceptable, the project will not continue forward regardless of meeting all Phase I and Phase II requirements. Market studies will only be accepted by firms that are on KHC's approved list, located on KHC's Web site, www.kyhousing.org, under Housing Production. This list will be valid for at least one year. However, KHC reserves the right to remove individuals/firms from this list for any reason. The market study/needs analysis 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. **Market studies are required of all projects 12 units or more and all housing credit projects, regardless of size. For projects of 11 units or less or any type of transitional housing**

projects (regardless of size, as long as not combined with housing credits) a market needs analysis survey must be completed. Please refer to KHC's website for additional guidance.

Market analysts submitting a report that materially fails to comply with KHC's requirements or is otherwise unacceptable may be removed from the list, at the sole discretion of KHC. If received reports are not acceptable, applicants will be informed by KHC. The expense of an additional report will be the responsibility of the applicants.

Applicants will enter into a contract for services directly with the market analyst and the applicants will be responsible for handling all issues related to the market analysis, with the exception of questions about KHC standards and/or requirements. Applicants contracting with market analysts for the benefit of KHC will be responsible for negotiating the price of the contracted work.

Although the applicants are responsible for engaging market analysts, the report must identify KHC as the intended user for the purpose of providing KHC a basis for investment and loan underwriting decisions.

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

APPLICATION SUBMISSION REQUIREMENTS

In addition to the threshold and scoring requirements, applicants are also responsible for submitting the documentation listed on the application checklist to complete the review. If items are not submitted at the time of application, they will be required during the technical submission stage.

However, applicants are strongly encouraged to submit the required documentation during the application stage to ensure an accurate review. See Exhibit C in this section for the Application Checklist.

Before submitting your attachments, be sure to submit a cover sheet that clearly states the project name, project address, and developer/applicant information. This ensures attachments are with the correct application.

Proof of 501(c)3 or (c)4 Nonprofit Status: If applying as a nonprofit or through the nonprofit set-aside pool for Housing Credits, please submit a copy of nonprofit status.

Applicant/Developer Certification Form: Certifies the applicant has done their due diligence regarding the site, development team, and design for the proposed project. This document is available on KHC's Web site at www.kyhousing.org under Housing Production and must be submitted with the application.

Consultant Administrative Contract: Third-party contract between the consultant and applicant that outlines the consultant's duties.

Consultant Certification Form: States the consultant and development team has done their due diligence regarding the site, development team, and design for the proposed project. This document is available on KHC's Web site at www.kyhousing.org under Housing Production and must be submitted if a consultant is responsible for preparing the application.

Management Certification Form: Indicates the management company has been made aware of pledges made in the application including targeting incomes, special needs populations, etc. This document is available on KHC's Web site at www.kyhousing.org under Housing Production and a copy must be submitted between the applicant and the management.

Location Map with Directions: Must clearly show the site location and all major street and highways. If applicable, please indicate all nearby airports, railroad tracks, interstates, rivers, etc. that may have an adverse effect on the proposed site.

Site Photos: Provide photos in the application that will show the appearance from all sides. If the development is a rehabilitation, please submit photos of the exterior and the interior of the proposed building.

Capital Needs/Physical Needs Assessment: A written report performed by a qualified inspector, for the purpose of rehabilitating an existing building into housing units. This report defines the necessary repairs required to provide safe, sanitary, and affordable housing.

Required on rehabilitation developments of 12 units or more and that request \$250,000 or more of KHC funding. All applications requesting Housing Credit for rehabilitation will be required to submit a Capital/Physical Needs Assessment regardless of project size. **Applicants are responsible for all fees for such assessments.**

All selected projects involving substantial rehabilitation of existing buildings and that receive an initial reservation letter must provide a capital needs/physical needs assessment at application stage. The capital/physical needs assessment must be performed by an independent, qualified architectural or engineering firm to determine whether the existing building(s) and rehabilitation activities are sufficient to ensure that the building(s) and improvements have a useful life of at least 30 years. All needs assessments must contain a Capital Reserve Replacement Schedule detailing scheduled maintenance, improvements, and corresponding expenditures necessary to extend the life of the facility, for a minimum of 30 years. In the event the analysis does not support the proposed project, KHC reserves the right to reject or seek modification of the proposal. Variances in the work documented in the capital needs/physical needs assessment require the approval of KHC staff. Please refer to the Architectural Guidelines for additional information.

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

The physical needs inspector and the appraiser will work closely together to ensure consistency concerning areas of square footage, number of buildings, bedroom mix, etc.

Capital Needs/Physical Needs Inspector Qualifications

- All inspectors and/or firms must be insured as directed by KHC.
- Inspectors must be experienced and have the background of inspecting multifamily residential housing.
- Inspectors must be architects and/or engineers who are licensed to operate in the state of Kentucky. The inspector may also need to consult with structural, mechanical, or electrical engineers to provide expert opinions about the existing condition of a particular item. When

other consultants are employed, they must meet all the requirements as set forth for an inspector and must be insurable.

Specific items to be addressed in each report:

- Describes, in detail, all rehabilitation work required, as well as any new additional work.
- Separate estimates for both rehabilitation and new work are required.
- All write-ups should be provided to indicate the items and areas that are in need of immediate repair. An analysis should be completed on all components that will need repair or replacement within the next five years. The inspector should also provide a report on any existing conditions or items that are in violation of existing building codes, ordinances, etc.
- Corrective measures should be thoroughly described that would bring the items into compliance.
- Any visible evidence of hazardous substances should be documented, including but not limited to Asbestos Containing Material (ACM), Lead-Based Paint (LBP), Petroleum Bulk Storage (PBS), Polychlorinated Biphenyl's (PCBs), and Chlorofluorocarbons (CFCs).
- All units of each type must be inspected before the inspector prepares the report.
- Cost estimates for any items that require action due to market demand. These will be provided to the inspector by the appraiser or KHC.
- Any maintenance that is deferred and that was not taken care of on a normal operating basis. Must include estimate of the cost to correct the item.
- Any repairs needed to nonresidential buildings such as community buildings, management offices, garages, etc.
- Inspectors must propose a total price to the applicant of all costs, including travel, clerical, inspection services, attending meetings at KHC, etc.
- All inspectors will be required to make corrections as required by KHC.
- In preparing the report, the inspector may use the Inspection Form HUD-52580-A. Additional information may be recorded on separate sheets and attached, but is not required.

All reports must be prepared in compliance with all applicable federal and state laws and regulations, including all applicable HUD policies, procedures, and directives.

Utility Chart or Company Historical Usage Data: A Section 8 utility chart or documentation from local utility companies showing the usage for the type of project proposed is required. These documents justify the UA allowance on the underwriting model. If the project will have Section 8 Project-Based Rental Assistance, the UA chart for that county must be submitted.

Financial Review Documents: The Personal and/or Business Credit Report Certification is required. This document allows KHC to run credit reports required for the financial review if the applicant is requesting KHC funds as a loan. Additional documentation will be required, please see the Financial Feasibility section for additional guidance.

Documentation to Support Compliance Period has Ended: If an applicant is applying for Housing Credits on a project that was previously funded with credits, documentation must be submitted that shows the project has met their 15-year compliance period. A copy of the previous Land Use Restriction Agreement may be submitted as proof.

Documentation Indicating Eligibility for Housing Credit Projects Applying for Acquisition Credit: Ensures the 10-year rule has been adhered to. A copy of the deed must be submitted.

Internal Revenue Service Waiver for Troubled Projects: If a project meets the 10-year rule but is in danger of foreclosure, the applicant must submit a letter from the Internal Revenue Service granting this waiver.

Guideform Notice to Owners: If an applicant is proposing to purchase the property with HOME dollars, the Disclosure to Seller with Voluntary Arm's Length Purchase Offer must be submitted. This document is available on KHC's Web site at www.kyhousing.org under Housing Production.

Guideform Notice for Tenants: If the applicant is applying for HOME funds and the complex currently has tenants, a copy of the notice letter must be given to all tenants. This document is available on KHC's Web site at www.kyhousing.org under Housing Production.

Flood Plain Map: Must be submitted showing the 100-year flood plain for the proposed development. The map must be prepared by a nationally accepted organization such as FEMA and the project site must be indicated on the map.

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

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

Deed Restrictions/Subdivision Restrictions: If restrictions apply to the project site, please submit those restrictions for review.

Relocation Plan: If tenants are currently present in the development, the applicant must submit a plan detailing how the rehabilitation work will be completed with current residents, as well as copies of the letters submitted to these residents concerning future moves, etc. Please refer to Technical Submission Requirements for additional information about relocation requirements.

Commitments of Donated Land, Material, and/or Section 8 or Rural Development Rental Assistance: Must submit copies of letters that indicate what type of rental assistance is available to the proposed project, letters from individuals who donated the land to include in the appraised value, etc.

Permanent Housing Transition Plan: If requesting funds for Transitional Housing, applicants must also submit a detailed plan outlining how tenants will transition into permanent housing once their twenty-four months is complete. This plan must include projects made available for housing to current residents, as well as services that may be provided during the transition.

Partial Awards

Projects that receive partial awards of Housing Credits due to limited availability will have priority in subsequent years to receive the amount of Housing Credits necessary to complete the project. In the event this occurs, KHC does not require an additional application to be submitted the following year.

Placed In Service Stage

All projects are required to submit final closeout documentation, including certificates of occupancy, etc. Applicants will receive a “placed in service” checklist outlining additional documentation required at this stage.

Exhibit A to the 2010 QAP

Threshold Requirements

Please refer to Rental Guidelines for detailed information about items listed below.

All threshold items must be submitted before application will be reviewed. If required items are not submitted, the application will not be reviewed at time of submission.

Threshold Requirements		Yes	No
General			
1.	Application was submitted in the current application version and current underwriting model.		
2.	Application and underwriting model submitted electronically and in paper form.		
3.	A copy of the Utility Allowance Chart from KHC or local Public Housing Authority.		
4.	Required application fee was submitted (if applicable).		
5.	Certification from KHC staff that applicant (if new) has received the required technical assistance.		
Project Design			
6.	Preliminary Specifications/Work write-up that list specific Energy Star and green construction techniques that will be used in the project.		
7.	Construction Plans are to proper scale and include: (Energy Star Design features, green construction techniques), final building plan at 1/8" scale and final floor plan to include Typical Unit Plans at 1/4" scale. The plans must include site plan, building floor plan as well as corresponding preliminary elevation drawings compiled by an architect licensed in the Commonwealth of Kentucky.		
Ready to Proceed			
8.	Signed letter of support from mayor or county judge executive on city or county letterhead (12 units or more or requesting credit).		
9.	Evidence of Site Control (scattered site projects must have all sites identified).		
10.	Zoning Letter that project site is zoned properly.		
11.	Housing credit projects: A letter of interest from the equity investor for the purchase of Housing Credit for the Project .		
12.	Award letter(s) from all non-KHC funding sources and/or a narrative providing details of funding that will be requested for the Project..		
13.	Market Study/Needs Analysis submitted in accordance with KHC guidelines.		

Exhibit B to the 2010 QAP

Minimum Scoring Criteria (Projects requesting housing credits)

A minimum score of 680 is required to move forward with financial and market study review.

Criteria	Points	Awarded
Financial Design		
1. Project is requesting less than 15% of total development costs in the form of a KHC grant or deferred loan.	100 points	
2. Project meets KHC guidelines for DCR requirements without adjustments.	50 points	
3. Project meets the construction-related maximum allowable fees with the correct limits without adjustments.	50 points	
4. Project is within KHC's cost containment limits without adjustments. Points awarded if total of KHC resources per unit do not exceed published limitation.	50 points	
5. Operating, management fees, reserve for replacement, vacancy rates and operating deficient reserves fall within KHC's requirements without adjustments.	50 points	
6. Commitment Letters demonstrating firm intent from the Equity Investor. The Letters should meet or exceed those of the sample commitment letter attached to the QAP	100 points	
7. Rent Restrictions: Rent Restrictions are based upon the published housing credit rents. As applicable, check on selection in each category. (100 points maximum)		
<u>I. 60% Rent Restrictions</u>		
a. 100% of the units are rent restricted to the 60% level	20 points	
b. 75% of the units are rent restricted to the 60% level	15 points	
c. 50% of the units are rent restricted to the 60% level	10 points	
d. 25% of the units are rent restricted to the 60% level	5 points	
<u>II. 50% Rent Restrictions</u>		
a. 100% of the units are rent restricted to the 50% level	55 points	
b. 75% of the units are rent restricted to the 50% level	35 points	
c. 50% of the units are rent restricted to the 50% level	20 points	
d. 25% of the units are rent restricted to the 50% level	10 points	
<u>III. 30% Rent Restrictions</u>		
a. 100% of the units are rent restricted to the 30% level	100 points	
b. 75% of the units are rent restricted to the 30% level	75 points	
c. 50% of the units are rent restricted to the 30% level	50 points	
d. 25% of the units are rent restricted to the 30% level	25 points	

Capacity of Development Team			
8.	No member of the development team in the past three years has had uncorrected noncompliance issues for more than six months from the close of the correction period. Noncompliance for issues considered acts of GOD or for reasons beyond the owners control may be excluded, as determined by KHC.	50 points	
9.	No member of the development has properties that do not pass the Uniform Physical Condition Standards (UPCS), Housing Quality Standards (HQS) or REAC standards.	50 points	
10.	No member of the development team has had projects that requested extensions for debt service and/or forbearance but are not in default.	50 points	
11.	No member of the development team has had any projects that have been in or are in foreclosure.	50 points	
12.	No member of the development team has had outstanding/unresolved audit or asset management findings. This includes maintaining appropriate balances in reserves for replacement accounts as indicated in approved funding documents and submission of financial/occupancy data as requested.	50 points	
13.	No member of the development team has been involved with a project awarded funding prior to December 31, 2007 for which the project has not been placed in service or all closed out documentation has not been received.	50 points	
14.	No member of the development team in the development process in the last three years has had funds recaptured by KHC.	50 points	
Total Amount of Points		850	

Exhibit B to Rental Production Guidelines

Minimum Scoring Criteria (Non-housing credit projects)

A minimum score of 600 is required to move forward with financial and market study review.

Criteria	Points	Awarded
Financial Design		
1. KHC financing 1 – 10 percent of total project cost 100 points KHC financing 11 – 25 percent of total project cost 75 points KHC financing 26 – 35 percent of total project cost 50 points KHC financing 36 – 50 percent of total project cost 25 points KHC non-amortizing debt only.	100 points	
2. Project meets KHC guidelines for DCR requirements without adjustments.	50 points	
3. Project meets the construction-related maximum allowable fees with the correct limits without adjustments.	50 points	
4. Project is within KHC's cost containment limits without adjustments. Points awarded if total of KHC resources per unit do not exceed published limitation.	50 points	
5. Operating, management fees, reserve for replacement, vacancy rates and operating deficient reserves fall within KHC's requirements without adjustments.	50 points	
6. Rent Restrictions: Rent Restrictions are based upon the published housing credit rents. As applicable, check on selection in each category. (100 points maximum)		
<u>I. 60% Rent Restrictions</u> a. 100% of the units are rent restricted to the 60% level b. 75% of the units are rent restricted to the 60% level c. 50% of the units are rent restricted to the 60% level d. 25% of the units are rent restricted to the 60% level	20 points 15 points 10 points 5 points	
<u>II. 50% Rent Restrictions</u> e. 100% of the units are rent restricted to the 50% level f. 75% of the units are rent restricted to the 50% level g. 50% of the units are rent restricted to the 50% level h. 25% of the units are rent restricted to the 50% level	55 points 35 points 20 points 10 points	
<u>III. 30% Rent Restrictions</u> e. 100% of the units are rent restricted to the 30% level f. 75% of the units are rent restricted to the 30% level g. 50% of the units are rent restricted to the 30% level h. 25% of the units are rent restricted to the 30% level	100 points 75 points 50 points 25 points	

Capacity of Development Team			
7.	No member of the development team in the past three years has had uncorrected noncompliance issues for more than six months from the close of the correction period. Noncompliance for issues considered acts of GOD or for reasons beyond the owners control may be excluded, as determined by KHC.	50 points	
8.	No member of the development has properties that do not pass the Uniform Physical Condition Standards (UPCS), Housing Quality Standards (HQS) or REAC standards.	50 points	
9.	No member of the development team has had projects that requested extensions for debt service and/or forbearance but are not in default.	50 points	
10.	No member of the development team has had any projects that have been in or are in foreclosure.	50 points	
11.	No member of the development team has had outstanding/unresolved audit or asset management findings. This includes maintaining appropriate balances in reserves for replacement accounts as indicated in approved funding documents and submission of financial/occupancy data as requested.	50 points	
12.	No member of the development team has been involved with a project awarded funding prior to December 31, 2007 for which the project has not been placed in service or all closed out documentation has not been received.	50 points	
13.	No member of the development team in the development process in the last three years has had funds recaptured by KHC.	50 points	
Total Amount of Points		750	

Exhibit C to Rental Production Guidelines

Rental Application Checklist

Please certify that your information is complete by clicking this checkbox. The information you have provided is considered contractually binding with Kentucky Housing Corporation (KHC).

For the application to be considered complete, it must contain all applicable items listed in this checklist. When submitting, please include all attachments in the order they are listed on the checklist. Please note that failure to submit a required attachment will make the application ineligible for review and funding.

- Cover sheet that includes project name, developer name, and application number (required for ALL projects)

Threshold Attachments

- Application Fee (required **ONLY** if requesting Housing Credits). Please refer to the Qualified Allocation Plan for additional information pertaining to Housing Credit projects.
- \$750 for exclusively nonprofit applicants
- \$1250 for all other applicants
- Copy of underwriting model
- Proof of having received technical assistance from KHC's Rental Production staff (**Only new applicants—refer to the Rental Application Guidelines**).
- Preliminary specifications/work write-up
- Preliminary plans
- Letter of support from the mayor if the project is located within the city limits or letter of support from the County Judge Executive if the project is located outside the city limits. **Required for projects 12 units or more and for all projects requesting Housing Credits.**
- Evidence of site control
- Zoning letters, including definition of classification from local zoning authority
- Firm Commitment Letter(s) for **all** non-KHC subsidies or a plan of action as to when application(s) will be submitted for such funding. For housing credit projects, a letter of intent from the equity provider as defined in the QAP (to include all terms, if applicable).
- Market study

Application Attachments

- 501(c)3 (**Nonprofits only**)
- Applicant/developer certification
- Copy of consultant and/or administrative contracts (**if using consultant**)

- Consultant certification form
- Management certification form
- Location map with directions to the site **(if requesting Housing Credits, please indicate the location of the site with the Qualified Census Tract identified)**
- Site photos **(from ALL sides)**
- Physical Needs/Capital Needs Assessment (PNA). **Rehabilitation developments only.**
- Utility chart or utility company historical usage data **(if proposing utility allowances). If requesting Project-Based Section 8, the utility allowance chart from KHC or local PHA must be used.**
- Financial review documents, as required per Financial Review Section of the Funding Sources and Requirements Chapter of the Rental Application Guidelines.
- Documentation to support the compliance period has ended if the project previously received Housing Credit **(Tax Credit Only)**
- Documentation indicating eligibility for Housing Credit projects applying for acquisition credit** (Reference IRC Section 42(d) Tax Credit Only).
- Internal Revenue Service Waiver for Troubled Projects** (Tax Credit Only)
- Copy of the GUIDEFORM NOTICE – Disclosure to Seller with Voluntary, Arm’s Length Purchase Offer** (if requesting HOME funds)
- Copy of the GUIDEFORM GENERAL INFORMATION NOTICE given to current tenants** (if requesting HOME funds and Relocating current tenants)
- Copy of flood plain map **(indicate on all copies of the map the location of the site)**
- Copy of deed/subdivision restrictions
- Relocation plan. **If both HOME and AHTF are used for funding, the most restrictive will apply (refer to Rental Application Guidelines).**
- Commitment letters for donated land, material, Section 8 rental assistance, and RD rental assistance.
- Permanent housing transition plan **(required only if proposing transitional housing).**
- Evidence as to how operating expenses will be covered for a minimum of five years (required only for transitional housing projects)**
- Other

Revised January 15, 2010

Chapter 4 - Technical Submission Stage & Requirements

Once an applicant receives approval from KHC to move forward, the application will then enter into the Technical Submission stage of the process. Staff will work with applicants during this stage to ensure all guidelines and requirements are met. Additional documentation will be required and will be outlined in a letter to the applicant. The Technical Submission checklist can be found on KHC's Web site under Housing Production, Rental Production, Technical Submission Packet.

Technical Submission Stage (not all inclusive)

All applicants that receive a conditional commitment of funding are required to comply with the terms and conditions of the technical submission phase. In addition to the letter of conditional commitment funding, applicants receive a checklist of additional items that need to be submitted to KHC prior to a final award of funding. All applicants have 120 **calendar days** to submit **all** required items. If the 120 day deadline is not met, applicants forfeit their funding commitment and KHC shall recapture all resources committed. Therefore, it is critical that all applicants meet the 120-day technical submission deadline. It is imperative that the applicant stay in contact with their respective representative during this 120 day period. KHC staff will work with all applicants to help ensure that items are received and reviewed in a timely manner.

If an applicant is new to KHC, the program representative/specialist will request a face-to-face meeting with the applicant to discuss technical submission and the technical submission checklist. Additional guidance and forms can be found at KHC's Web site, on the Housing Production page under Rental Productions Programs.

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

Tenant Selection Plan

(Required on all projects)

The tenant selection plan is a written policy which ensures that new tenants are selected in conformance with the owner's policies and all applicable federal requirements. The tenant selection plan should describe the criteria that will be used to identify eligible tenants.

Affirmative Marketing Plan

(5 units or more)

Each applicant is required to carry out an affirmative program to attract prospective buyers or tenants from all minority and non-minority groups in the housing market area regardless of age, race, color, religion, sex, national origin, disability, or familial status. Racial groups include White, African American, American Native, Asian, native Pacific Islander. Other groups who may be subject to housing discrimination includes but not limited to American 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 as well as initial sales and rent-up period. The affirmative marketing program also should ensure that any group(s) of persons ordinarily unlikely to apply for this housing without special outreach, know about the housing, feel welcome to apply and have the opportunity to buy or rent.

Drug Free Workplace Certification

(Required on all projects)

KHC's policy is to promote a drug free environment for all individuals acquiring housing through the use of KHC funds. Applicants are required to sign The Drug Free Certification form which certifies the project will continue to provide a drug-free workplace by publishing a statement notifying employees that the unlawful manufacture, distribution, dispensing, possession or use of a controlled substance is prohibited in the recipient's workplace. The policy should also specify the actions that will be taken against employees who violate this prohibition.

Fair Housing Plan

(Required on all projects)

Each applicant must submit a Fair Housing policy or incorporate policies into the organization's existing system which will ensure that all citizens within the service area are aware that affirmatively furthering fair housing practices is a priority.

Sample Lease Documents

There are certain requirements that should be incorporated in to the lease agreement between the owner and tenant depending upon the funding source(s) in the development. KHC has established guidelines that contain both provisions and prohibited clauses in a lease. The lease should also conform to the tenant selection plan.

A-95 Clearinghouse Letter

(Required if requesting HOME or Risk-Sharing)

A letter from the Department of Local Government which states the project has undergone the process to ensure there will be no negative impacts on any part of the environment and has received clearance to move forward with the environmental review. This letter is received after Application has been made to Kentucky Intergovernmental Review Process during the application stage. The Web site for the Kentucky Intergovernmental Review process can be found at <http://dlg.ky.gov/clearinghouse/>.

Title VI Self-Survey & Assurance

(Required for projects involving federal funds only)

In accordance with KRS 344.015, KHC developed a Title VI Implementation Plan. All organizations that receive pass-through federal funding from KHC must comply with this implementation plan. To ensure that KHC meets its compliance responsibility, procedures have been established to provide monitoring of Title VI compliance activities and complaint processing in all programs. To meet the requirements of compliance, every recipient can either adopt the KHC plan or create their own. The document can be downloaded from KHC's Web site on the Rental Production page in the HOME Implementation Manual under Reference Materials.

Proof of Match & Other Funding Commitments

All KHC Housing Finance and Construction Programs, except Risk-Sharing and Housing Credit, require a five percent match. Any non-KHC financing source may be eligible. During the technical submission phase proof of match will be required. Please refer to Application Submission chapter for additional information pertaining to match requirements.

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

Historic Preservation Letter

(Historic Tax Credit projects only if not provided at application)

Must provide an approved Part 1-Evaluation of Significance of the Historic Preservation Certification Application from the State Historic Preservation Office (SHPO). Plans and specifications must still meet all Kentucky Housing Design and Construction requirements as well.

By-Laws & Articles of Incorporation

(If applicable)

Applicants must submit their By-Laws and Articles of Incorporation which have been filed with the Secretary of State.

Final Underwriting Model

(Hard copy submitted and electronic copy e-mailed to rentaluw@kyhousing.org)

This document was created by KHC to assist developers in underwriting all rental projects. The Underwriting Model is available on KHC's Web site under Rental Production.

Legal Description of Property

Applicant must submit a full legal description, including metes and bounds, of the proposed project

Owner and Architect Agreement

(Required for all projects of 12 units or more; required for all projects using an architect)

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

- The architect and owner shall submit an unsigned copy of their agreement. There are various types of standard AIA documents that can be used depending upon the type of project and the relationship between the owner and architect. Only the most recent and up-to-date AIA documents should be used.
- The most commonly used agreement is the lump sum contract, which is B 141 Standard Form of Agreement between the Owner and Architect with standard form of architect's services.

ALTA Survey

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

- The survey shall be a metes and bounds survey at a preferred scale of 1 inch equals 20 feet, but can be no smaller than 1 inch equals 40 feet.
- Metes and bounds Legal Description of the property line which should also indicate setback requirements if they exist. All easements and right-of-ways should also have the metes and bounds described in the description.
- The survey shall show all right-of-ways and/or easements and north arrow.
- All roads, setback requirements and natural drainage ways.

- The survey shall show all existing improvements/conditions and/or structures that are currently on the site.
- The survey shall indicate the 100-year flood boundary, any other floodways, and a written floodplain zone determination.
- All parking, streets, walks, curbs, dumpster pads, playground areas, etc. should be included on site survey.

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

Final Construction Plans

(Required for all projects; on projects with twelve (12) or more units, plans must be prepared by a licensed design professional and bear a signature and required seals)

Final plans should address the issues identified in the Physical Needs Assessment (if applicable) for rehabilitation projects.

All plans must be at 1/4" scale and be completed in accordance with the highest architectural and engineering professional standards. All plans submitted to KHC that are considered to be *final* must be dated and sealed with the architect's and engineer's stamp and signature. In addition, plans that are to be considered final plans must also be submitted to the appropriate building code officials for their review and their comments shall be incorporated into the final drawings or amended by an addendum. KHC will accept at time of technical submission verification that the plans have been sent to the appropriate building code officials for review and KHC will not complete their final review until final verification/modifications or changes are received from the building code officials. Any comments received during the application stage must also be incorporated in the final plans. If corrections to the final plans are done by an addendum, then it must be submitted for review and should contain all corrections that are necessary.

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

When required by code and/or regulations the plans must meet all accessibility requirements. At least five percent (5%) percent of the total units must be fully accessible to the mobility impaired and two percent (2%) percent of the total units must be usable by the hearing impaired or vision impaired.

- *For projects containing **12 units or more***, the construction plans must contain site plan, earthwork plans, landscaping plans, floor plans, enlarged floor plans, foundation plans, elevations, building sections or wall sections, enlarged bathroom and kitchen plans, door, window and room schedules, structural drawings (if applicable), mechanical and electrical plans.
- *For projects of **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, and electrical drawings.

Note: Final Construction Plans should include the following:

Site plan

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

Earthwork Plans

(Required for projects of 12 units or more.) Earthwork and grading plans at a minimum should show the following):

- Grading contours existing and new at 2'-0 intervals unless the grade is too steep that this 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" below finish floor elevation and shall slope away from the building a minimum of 6" over the next 10'-0'.
- If retaining walls are required, they should be shown and provide a top of wall spot elevation and adjacent grade elevation.
- Earthwork details as shown. Details such as retaining walls, curb cuts, access ramps, dumpster pad, etc. must be shown on plans.

Site Utility Plan

(Required for all projects, not required for 11 units or less if the information below is included with the site survey)

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

Existing Utilities

(Required on all projects)

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

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

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 all projects)

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

Enlarged Floor Plans

(Required for **all** projects)

Enlarged floor plans should, at a minimum, indicate the following:

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

Elevations

(Required for **all** projects and on 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 Sections

(Required for **all** projects, can do either building sections or wall sections)

- Construction of exterior walls with footers, floor to wall details and ceiling to wall conditions.
- Floor construction and height to second floor or ceiling structure above.
- Show eave or overhang of roof to wall with materials noted and heights.
- Wall and floor insulation and give R-values.
- Roof structure and materials with notes and dimensions.

Wall Sections

(Required for **all** projects, can do either wall sections or building sections)

- Wall structure, thickness and type of interior and exterior finishes.
- Exterior grade to finish floor relationship.
- Footing details complete with notes and dimensions.
- Include the same information as requested under building section, except at a larger scale.

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 accessibility turning radius and clearances required by the code in accessible units.

Door, window and room schedules

(Required for 12 units or more)

- Door size, thickness, material and fire rating, if applicable. Provide elevation of each door type.
- Window size, type, operation and glazing. Provide elevations of each type.
- Door hardware schedule, example hinges, lock sets, closures, panic push bars, kick plates and weather stripping.

- Indicate room schedule with room designation or number. Provide floor finish description, base finish, wall finish, ceiling finish and notes for special finishes.
- Show all details for windows, doors and finishes as necessary.
- Provide windows in bedroom and living rooms that meet the egress as called for in the Kentucky Building Code and Housing Quality Standards (HQS).

Mechanical Drawings

(Required for **all** project types) A mechanical contractor for projects of 11 units or less may prepare schematic drawings.

- Drawings shall show plumbing supply lines and indicate size of pipe.
- Plumbing waste line and indicate size of pipe and direction of flow.
- Legends shall be placed on drawing which indicate all plumbing fixture type and manufacturer model numbers.
- Show riser diagrams for all piping to indicate size and direction of flow.
- Show all mechanical supply and return ducts along with equipment.
- Provide legends that have equipment sizes, model numbers and manufactures names.
- Miscellaneous details as necessary.

Electrical

(Required for all project types. A mechanical contractor for projects of 11 units or less may prepare schematic drawings.)

- Show 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.
- 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, provide structural drawings when necessary. The developer will be notified by KHC if this is needed.)

- Floor framing plans, complete with details and sections that fully describe the structural system of the floor.
- Roof and/or ceiling framing systems with details that clearly indicates all details and conditions.
- Foundation systems with associated details for all conditions that exist.

- Miscellaneous details that cover all aspects of the structural system that are involved.

Final Specifications/Work Write-Up

(Specifications are required on all projects, a work write-up may be used in lieu of specifications on rehabilitation projects of 11 units or less or minor rehabilitation)

During the technical submission stage, KHC’s design and construction staff will review the final specifications/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 specifications/work write-up, the program representative/specialist will inform the applicant if additional changes or corrections will need to be made. All changes and modifications must be submitted and approved prior to KHC’s commitment and final underwriting. Any previous review comments during the application stage shall be corrected and incorporated into the final specifications. Final Specifications should address the issues identified in the Physical Needs Assessment if applicable for rehabilitation projects.

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

Specifications

(Required for all projects)

All specifications shall be written following the standard CSI 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 documents that pertain to the contract for construction shall be included. The specifications should include the following 16 divisions:

- | | |
|------------------------------------|--------------------------|
| 1. General Requirements | 9. Finishes |
| 2. Site work | 10. Specialties |
| 3. Concrete | 11. Equipment |
| 4. Masonry | 12. Furnishings |
| 5. Metals | 13. Special Construction |
| 6. Carpentry | 14. Conveying equipment |
| 7. Thermal and moisture protection | 15. Mechanical |
| 8. Door and windows | 16. Electrical |

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

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

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

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

Final Work Write-Up Description

(Required for all rehabilitation projects)

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

Final Cost Estimate

(Required for **all** projects, except acquisition only)

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

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

The cost estimate can be one of three different forms:

- Construction Cost Breakdown HUD Form 2328
- Schedule of Values, AIA Document G702 & 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.

Letter from Housing, Building and Construction or proof of local approval of plans

(Required on all projects)

The local Department of Housing, Building and Construction (HBC) or other local jurisdictions that have a state licensed building inspector in the county where the project is located must review and approve the plans and specifications. If the local jurisdiction has no state licensed building inspector, then the developer should obtain approvals from the State Department of Housing Building and Construction in Frankfort if the project consists of two (2) or more attached units (subject to change by policies of HBC).

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

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

Design Architect's Certification

(Required for all projects in which the services of an architect are utilized.)

The Project Design Certification is to be completed and signed by the recipient and project architect that certify that the plans and specifications comply with all local building codes, rules and regulations as set forth by the authorities in jurisdiction, Fair Housing Requirements, Universal Design and Minimum Design Standards. A copy of this form is included on the Kentucky Housing Corporation website (www.kyhousing.org) in the Rental Production section.

Architect's Certification of Accessibility

(Required for all projects in which the services of an architect are utilized.)

The Project Architect must certify that the project design is in conformance with the Fair Housing Act of 1988, KHC Minimum and Universal Design Standards, Uniform Federal Accessibility Standards, Section 504 of the Rehabilitation Act of 1973, Americans with Disabilities Act Accessibility Guidelines and any other state or local code or regulation pertaining to design or inclusion of rental housing accessibility features. This form is located on KHC's Web site under the Housing Production, Design and Construction section.

Lead-Based Paint Abatement, Inspection or Assessment

(Required on rehabilitation projects constructed prior to 1978 and receiving HOME, Project Based Assistance and the Risk-Sharing Program will be subject to the new lead-based paint regulations of 24 CFR 35)

Please refer to KHC's Web site on the Housing Production page under Design and Construction. *See Resources*. There are several links listed that will provide resources for information pertaining to lead-based paint abatements, inspections and risk assessments.

REScheck Documentation

(<http://www.energycodes.gov/rescheck/download.stm>)

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

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

The applicant may elect to use one of the two methods provided in the Minimum Design Guidelines located on KHC's Web site on the Housing Production page under Design and Construction.

Environmental Review

(HOME or Risk-Sharing funds, KHC to complete)

All properties intended to be developed with HUD assistance (including HOME funds) must have an environmental review to ensure that the proposed project does not negatively impact the surrounding environment and that the property site itself is safe for development. An environmental review is the process of reviewing a project and its potential environmental impacts to determine whether it meets federal, state, and local environmental standards. The environmental review process is triggered when a Recipient utilizes HOME or Risk Sharing Funds to purchase, or intends to purchase, rehabilitates, intends to rehabilitate any property with HUD funds. Not every project is subject to a full environmental review (i.e., every project's environmental impact must be examined, but the

extent of this examination varies), but every project must be in compliance with the National Environmental Protection Act (NEPA), and other related Federal and state environmental laws. KHC performs this review for all recipients except units of local government who must perform the review themselves.

Phase I Environmental Site Assessment/Report

(Required for **all** projects which include HOME, Risk Sharing, Project-Based Section 8 or Housing Credits as **any** portion of funding)

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

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 must be provided in the written report.

Individuals or agencies must be experienced in this field of work and have 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, refer to WWW.ASTM.ORG.

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

Please note that on HOME and Risk-Sharing projects it is important to submit the Phase I early in the technical submission stage. KHC requires the Phase I in order to proceed with the HUD environmental review process. A commitment cannot be executed until the HUD environmental is complete.

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

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

Phase II Environmental Site Assessment/Report

(As required per Phase I Report)

If an environmental hazard is identified during the Phase I Environmental Site Assessment (ESA), or if a known hazard exists based on past usage, a Phase II ESA will evaluate suspect areas identified on the subject property. KHC will not proceed with a project until the Phase II is submitted and reviewed.

During the Phase II, soil samples and boring collected in suspect locations. Samples are collected, preserved, shipped to a laboratory according to standard industry methods. Ground water samples are collected from the borings or permanent monitoring wells located on the property. The Phase II ESA report describes the soil borings completed, soil texture, soil and ground water analytical results, and presents the data in tabular format with a map illustrating the sampling locations and plan of site.

Subsurface Investigation Report

(Required on developments requesting Risk-Sharing Funds and on projects of 12 or more units or as deemed necessary per site visit by construction specialist)

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

Davis-Bacon Wage Rate Request

(HOME projects of 12 or more assisted units; or Project-Based projects of 9 or more assisted units; or projects with Risk Sharing construction financing for new construction or substantial rehab of 12 or more units.)

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 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.

Utility Letter(s)

(If not provided at application)

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

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

Appraisal

Appraisals are required on projects where KHC's total loan amount (including HOME deferred and forgivable loans) is \$250,000 or more, with the exception of Risk Sharing loans, in which case an appraisal is required regardless of the size of the loan. KHC reserves the right to request an appraisal on any project utilizing KHC funds. Appraisals must be received during the Technical Submission Stage.

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

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

Applicants MUST choose an appraisal firm or individual listed on KHC's approved list located at www.kyhousing.org under Housing Production Rental Programs.

Baseline APPS completed (All principles involved) for Previous Participation Certification

(Risk-Sharing funds only)

All principals in the Risk Sharing project will have to submit an electronic Previous Participation Certificate to HUD. Failure to register and complete the data input required by APPS will restrict new and revised participation until after system inputs are completed. Each entity must complete the Baseline Information first. This information is only required one time for the partnership regardless if the partnership has more than one project. Once this information is entered, the Baseline Information will not have to be completed again unless to add new properties, a member of the partnership changed, address change, etc. The APPS Industry Tutorial Program and User Guide, located at <http://www.hud.gov/offices/hsg/mfh/apps/appsmfhm.cfm> will provide information on how to register in HUD's Secure System.

Additional items needed that were not submitted with the application

(Additional items may be spelled out in the technical submission letter or on the technical submission checklist)

KHC may identify additional items that need to be submitted prior to the release of funds or moving into the next stage.

These are items that must be sent in addition to the items listed above if requesting Low Income Housing Tax Credits:

Owner/Recipient Information

Recipients of housing credits must submit a letter that includes the following:

- Owner & General Partner federal identification numbers
- Exact name and address of owner as it will appear on IRS Form 8609
- Exact street address including zip code for all buildings in the project (include number of buildings)

Seven (7) percent reservation fee

(Due within two weeks of receipt of technical submission letter)

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

Draft syndication agreement or letter of intent including syndication proceeds

Applicant/developer receiving housing credits must submit a copy of the draft syndication agreement which includes a tentative pay-in schedule with

milestones and cents on the dollar being paid. The final syndication agreement will be required before final underwriting is completed.

Partnership Agreement and Certificate of Limited Partnership as filed with the Secretary of State

The Partnership Agreement governs relations among the partners and between the partners and the partnership and Certificate of Limited Partnership documents such 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.

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).

Updated project completion schedule

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

Owner certification of federal, state, or local loans and/or grants

(Form located on KHC's Web site on the Rental Production page under "Additional Housing Credits Reference Material")

KHC is required to ensure that the amount of housing credit 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.

Evidence of having incurred more than 10% of total project costs or a written request for 10% test extension

Projects allocated housing credits must be placed in service by the end of the calendar year in which the credits were allocated or they must submit a carryover request. If the project will not be placed in service prior the end of the allocation calendar year, the recipient must either submit evidence of having incurred more than 10 percent of the total project cost **or** the recipient may submit a written carryover request for an additional 12 months to submit this evidence.

Gross Rent Floor Election

(Form located on KHC's Web site on the Rental Production page under "Additional Housing Credits Reference Material")

The Internal Revenue Service (IRS) will treat the gross rent floor as taking effect on the date KHC initially allocates tax credits to the building. However, the IRS will treat the gross rent floor as taking effect on the building's placed-in-service

date **IF** the owner designates that date instead and **so informs KHC prior to the placed-in-service date of the building.**

Additional items needed if requesting HOME or AHTF funds:

Project Set-Up Report

(HOME projects only; required after executed funding agreement. Form located on KHC's Web site on the Rental Production page under "Reference Materials" and "Rental HOME Packet")

HUD requires that all HOME funds allocated to a project be reserved at the Treasury via the Integrated Disbursement and Information System (IDIS). The project set-up report form is the HUD document that the recipient must complete and submit to KHC to report project-specific information, performance measures and use of HOME funds.

Anti-Displacement & Relocation Assistance Plan

HOME & AHTF (See Section 11 of Homeownership Implementation manual found on Rental Production page for guidance)

For ALL rehabilitation projects, a plan for relocation must be submitted; regardless if the building is vacant or occupied.

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

AHTF Relocation Requirements

All very-low income persons (defined as 60 percent AMI and below for purposes of AHTF) 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 (FHWA)'s Uniform Relocation Assistance and Real Property Acquisition Policies Act, as Amended, Fixed Residential Moving Cost Schedule, plus a one time assistance payment of \$300 per applicable unit. You can view the schedule at: <http://www.fhwa.dot.gov/realestate/fixsch96.htm>. In the event displaced persons are eligible for federal relocation benefits, no additional relocation benefits are required as a result of this policy.

HOME Relocation Requirements

(Information provided is not all inclusive, you should refer to HUD's Web site www.hud.gov for more detailed information)

If your project will be funded with HOME or any other federal funding sources you are required by law to follow the Uniform Relocation Act (URA). URA was passed by Congress in 1970. It is a federal law that establishes minimum standards for federally funded programs and projects that require the acquisition of real property (real estate) or displace persons from their homes, businesses, or farms.

The Fifth Amendment of the U.S. Constitution states that “**private property**” shall not be taken without payment of “**just compensation**” and that “no person shall be deprived of life, liberty, or **property** without due process of the law.” These constitutional rights form the basis of the URA's protections for property owners.

The Uniform Act's protections and assistance apply to the acquisition, rehabilitation, or demolition of real property for federal or federally funded projects. The government-wide regulation that implements the URA is detailed in 49 CFR Part 24. HUD Handbook 1378 provides HUD policy and guidance on implementing the URA and 49 CFR Part 24 for HUD funded programs and projects.

URA Objectives

- To provide uniform, fair and equitable treatment of persons whose real property is acquired or who are displaced in connection with federally funded projects
- To ensure relocation assistance is provided to displaced persons to lessen the emotional and financial impact of displacement
- To ensure that no individual or family is displaced unless decent, safe, and sanitary housing is available within the displaced person's financial means
- To help improve the housing conditions of displaced persons living in substandard housing
- To encourage and expedite acquisition by agreement and without coercion

Responsibilities of URA

If your project requires compliance with URA, you will have certain legal responsibilities to the affected property owners and displaced persons. Plan accordingly to ensure that adequate **time, funding and staffing** are available to carry out those responsibilities. Some of those responsibilities include:

For Real Property Acquisition

- Appraise property before negotiations
- Invite the property owner to accompany the appraiser during the property inspection
- Provide the owner with a written offer of just compensation and a summary of what is being acquired
- Pay for property before possession
- Reimburse expenses resulting from the transfer of title such as recording fees, prepaid real estate taxes, or other expenses.

For Residential Displacements

- Provide relocation advisory services to displaced tenants and owner occupants
- Provide a minimum 90 days written notice to vacate prior to requiring possession
- Reimburse for moving expenses
- Provide payments for the added cost of renting or purchasing comparable replacement housing

For Nonresidential Displacements (businesses, farms, and nonprofit organizations)

- Provide relocation advisory services
- Provide a minimum 90 days written notice to vacate prior to requiring possession
- Reimburse for moving and re-establishment expenses

Issues to Consider During Planning

- Minimizing Displacement:** HUD requires that all reasonable steps be taken to minimize displacement as a result of a HUD-assisted project.
- Budgetary Implications:** Planning is essential to ensure that sufficient funds are available to comply with all applicable requirements. You

should plan to insure your project budget includes realistic estimates for acquisition and relocation expenses.

- Coordination of the Project:** Steps should be taken to coordinate activities and facilitate cooperation among government agencies, neighborhood groups, and persons affected by the project.
- Determining Resource Needs:** During the planning stage, HUD recommends that you review the applicable relocation policies, staffing needs, and training or other capacity building needs to anticipate any issues that may hinder the acquisition and relocation process.
- Administrative Requirements:** You must adhere to the HUD administrative requirements involved in the planning for acquisition and relocation projects.

Who is a Displaced Person?

Generally, a displaced person under the URA is an individual, family, partnership, association, corporation, or organization, which moves from their home, business, or farm, or moves their personal property, as a direct result of acquisition, demolition or rehabilitation for a federally funded project. Displaced persons are eligible for relocation assistance under the URA.

Who is not displaced?

Generally, persons not displaced are not eligible for relocation assistance under the URA. Examples of persons not displaced include, but are not limited to, the following:

- Persons displaced temporarily from their dwelling for less than 12 months while it is being rehabilitated
- Illegal aliens; the URA prohibits providing relocation assistance to persons not lawfully present in the U.S.

The URA contains specific definitions of a "displaced person" and "persons not displaced." These definitions, in addition to the HUD handbook, should be used when making any determinations of relocation eligibility.

Required Notices

The URA regulations require three notices to be issued to eligible persons. These notices provide important information about the project, the affected person's resulting rights, their protections, and their eligibility for relocation

assistance and payments under the URA. It is critical that you issue appropriate notices to the persons affected at the appropriate time.

One of the most important URA notices is the **90-Day Notice**. No person shall be required to move without a minimum of 90 days written notice of the required date of the move.

HUD has specific requirements relating to the three URA notices and also requires additional notices be issued when conducting acquisition and relocation activities for HUD funded programs and projects. Please refer to HUD Handbook 1378 or HUD's Web site www.hud.gov for more information.

- General Information Notice (GIN)** Informs affected persons of the project and that they may be displaced by the project. ***(Copies provided to KHC at application for all current residents)***
- Notice of Relocation Eligibility:** Informs persons that they will be displaced by the project and establishes their eligibility for relocation assistance and payments. This notice may not be issued unless a comparable replacement dwelling is available and the displaced person is informed of its location and has sufficient time to lease or purchase the property. ***(Copies provided to KHC for all current residents at Technical Submission)***
- 90-Day Notice:** Informs displaced persons of the earliest date by which they will be required to move. ***(Copies provided to KHC for all current residents at technical submission)***
- Residential Relocation Management Report:** located in HUD Handbook 1378, Appendix 21 ***(Copy provided to KHC at completion/placed in service)***

Relocation Advisory Services

In addition to being required by law, relocation advisory services are the single most important part of a successful relocation program. Relocation advisory services are required to be provided to all eligible displaced persons including nonresidential displaced persons. Relocation advisory services must:

- Determine the needs and preferences of displaced persons
- Explain available relocation assistance
- Explain a person's right to appeal if dissatisfied with agency decisions
- Offer and provide transportation to locate replacement housing
- Offer other assistance (e.g. social services or financial referrals, housing inspection, etc.)

- Provide current and ongoing listings of comparable dwellings for residential displacements and replacement sites for businesses
- Supply information on other federal and state programs offering assistance
- Provide counseling and other assistance to minimize hardship in adjusting to relocation
- And other required and appropriate assistance

Relocation Assistance

In addition to relocation advisory services, residential displaced persons may be eligible for other relocation assistance including relocation payments for moving expenses and replacement housing payments for the increased costs of renting or purchasing a comparable replacement dwelling.

The URA provides the following moving payment options:

- Payment for the actual, reasonable moving costs and related expenses, or
- Payment based on a fixed schedule
- Or a combination of both based on circumstances

In cases where the move is provided for a displaced person at no cost, the displaced person should receive a \$100 expense and/or dislocation allowance.

Replacement Housing Payments

The URA provides for different replacement housing payments (RHP) based on a displaced person's occupancy status and length of occupancy. Tenant occupants may be eligible for a rental assistance payment to supplement the costs of leasing a comparable replacement dwelling, or down payment assistance payment to purchase a replacement dwelling. Owner occupants may be eligible for a price differential payment, mortgage interest differential payment, or incidental payments to supplement the costs of purchasing a comparable replacement dwelling.

- For tenant occupants of 90 days or more**
A rental assistance payment is based on the difference, if any, between the cost of the monthly rent and utilities of the displacement dwelling and a comparable decent, safe, and sanitary replacement dwelling. The URA established a 42 month period for supplementing this payment difference, for a total amount up to \$5,250.
- It is important to note that a rental assistance payment should be based on income for low-income persons.** (Please see 49 CFR 24.402(b) and [**FHWA's Low Income Calculations**](#) for additional information.)

Furthermore, tenant occupants may be eligible to use their rental assistance payment as a down payment for the purchase of a replacement dwelling.

- For owner occupants of 180 days or more**
A price differential payment is based on the difference, if any, between the acquisition price of the acquired dwelling and the purchase price of a comparable decent, safe, and sanitary replacement dwelling, as determined by the agency. The URA established a maximum amount of \$22,500 for a RHP for 180 day owner occupants.

- For owner occupants of 90 to 180 days**
Short-term owners may be eligible for similar assistance as tenant occupants listed above.

The URA requires that comparable decent, safe, and sanitary replacement (DSS) housing within a person's financial means be made available before that person may be displaced. When such housing cannot be provided by using replacement housing payments, the URA provides for "housing of last resort." Housing of last resort may involve the use of replacement housing payments that exceed the URA maximum amounts. Housing of last resort may also involve the use of other methods of providing comparable decent, safe, and sanitary housing within a person's financial means.

You have broad flexibility in the use of housing of last resort. It is intended to enable agencies to respond to difficult or special displacements, but it should **not** be used as a substitute for lack of time or lack of relocation advisory services.

Remember that it is crucial to identify potential housing of last resort situations early so that they may be addressed in a proper manner.

Temporary Relocation

Sometimes a project may require persons to be displaced from their dwellings for only a short period of time. Although temporarily displaced persons do not receive the same relocation assistance and payments as persons permanently displaced under the URA, they do have certain rights and protections.

When necessary or appropriate, residential tenants who will not be required to move permanently may be required to relocate temporarily for the project. **Temporary relocation should not extend beyond one year before the person is returned to his or her previous unit or location.** Any residential tenant who has been temporarily relocated for more than

one year must be offered all permanent relocation assistance that may not be reduced by the amount of any temporary relocation assistance previously provided.

All conditions of temporary relocation must be reasonable. At a minimum, the tenant shall be provided the following:

- Reimbursement for all reasonable out-of-pocket expenses incurred in connection with the temporary relocation, including the cost of moving to and from the temporarily occupied housing and any increase in monthly rent or utility costs at such housing.
- Appropriate advisory services, including reasonable advance written notice of the following:
 - Date and approximate duration of the temporary relocation;
 - Address of the suitable decent, safe, and sanitary dwelling to be made available for the temporary period;
 - Terms and conditions under which the tenant may lease and occupy a suitable decent, safe and sanitary dwelling in the building/complex upon completion of the project; and
 - Provisions of reimbursement for all reasonable out of pocket expenses incurred in connection with the temporary relocation as noted above.

Section 104(d) Requirements

- Replacement, on a one-for-one basis, of all occupied and vacant occupiable low- or moderate-income dwelling units that are demolished or converted to a use other than low- or moderate-income housing, and
- Provision of certain relocation assistance to any lower income person displaced as a direct result of the following activities in connection with federal assistance:
 - Demolition of any dwelling unit, or
 - Conversion of a low- or moderate-income dwelling unit to a use other than a low- or moderate-income residence.

Section 104(d) requirements are triggered by the use of HOME, CDBG, Section 108 Loan Guarantee, or UDAG funding in a project involving the demolition or conversion of low- or moderate-income housing.

Relocation Requirements under Section 104(d)

The relocation assistance and payments for eligible persons under Section 104(d) are similar to those required for the URA but there are a number of differences. One significant difference between the laws is the period of time used to calculate a rental assistance payment; Section 104(d) factors in 60 months vs. 42 months for URA. Section 104(d)-eligible displaced persons may choose to receive relocation assistance under Section 104(d) or under URA.

What are the guiding regulations for Section 104(d) relocation requirements?

Section 104(d) Regulations: **24 CFR Part 42** is the regulation that implements Section 104(d) of the Housing and Community Development Act.

It is recommended that you visit **HUD's Real Estate Acquisition and Relocation Web Site** for all your acquisition and relocation needs. There, you will find the following information and much more, including:

Laws and Regulations

Policy and Guidance

Training

Publications

HUD Contacts

There are additional relocation requirements when applying for HOME funds or Affordable Housing Trust Fund (AHTF) funds. Note that the requirements of these two programs are not the same. Please review these requirements in their respective program's funding specifics section of this manual.

Binding Final Executed Commitment Letters

The documents must contain the estimated dollar amount of the equity investment or loan amount to be provided to the project, the interest rate and term, if loan proceeds are involved, the collateral for the project, if a loan is involved and the anticipated pay-in schedule for the equity contributions, subject to final underwriting of the project and other reasonable adjustments prior to closing.

Authorized Signature Form

This document is required prior to KHC dispersing any funds. There are at least two different signatures required on this form, and it is used as a means of checks and balances for KHC; one person signs the draw request form, and another should sign the check – the same person may not sign both. The signature form must be signed by the top official of the organization (i.e., CEO, Mayor, etc.).

Section 504 Self Evaluation and Transition Plan

The Section 504 Self-Evaluation is a tool that recipients of federal funds use to determine their current level of compliance with the 1978 amendments to Section 504, as well as identify areas of potential non-compliance that need to be addressed.

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. It must be prepared by the recipient in consultation with individuals with disabilities or organizations representing them. It is required for all recipients with 15 or more employees must keep on file for at least three years.

A transition plan is mandatory if structural changes to facilities are needed to achieve program accessibility. The plan must be developed with the assistance of individuals with disabilities or organizations representing them. A copy of the plan must be made available for public inspection. The plan should identify the physical obstacles that limit accessibility, include a detailed description of methods that will be used to make facilities accessible, the schedule for each step of the process. All structural changes must be made within six months of project funding.

Resolution accepting HOME Funds

This document is considered the formal acceptance of the HOME Investment Partnership Program funds (HOME) and is either a Board Resolution or a copy of the unit of Local Government's approved board minutes. For private developers, KHC accepts a letter on the entity's letterhead stating they accept the HOME funds and all the responsibilities of said funds. The document should contain the amount of HOME funds, the use of HOME funds, the person authorized to execute HOME-related documents and the date of acceptance.

Third Party Administrative Contracts

KHC requires a copy of all third parties administrative contracts so that we can verify who will be responsible for what. This document should be fully executed and outline all parties responsibilities.

Procurement Policy

This document is required for all units of local governments and non-profits and governs the procurement of all goods and services in association with the federal funds. The policy must fully comply with 24 CFR Part 84 for non-profit organizations or Part 85 for units of local governments.

HOME Administrative Certification Form

This document is required for all recipients of HOME funds. It outlines many of the requirements for the use of the HOME funds. It must be signed by the top official of the organization (i.e., CEO, Mayor, etc.)

Site and Neighborhood Standards Questionnaire

Each recipient must administer its HOME funds in a manner that provides housing that is suitable from the standpoint of facilitating and furthering full compliance with the applicable provisions of title VI of the Civil Rights Act of 1964 and promotes greater choice of housing opportunities. This form must be completed and submitted to KHC for review and approval prior to release of HOME funds.

AHTF Administrative Certification Form

This document is required for all recipients of AHTF funds. It outlines many of the requirements for the use of the AHTF funds. It must be signed by the top official of the organization (i.e., CEO, Mayor, etc.).

Additional Requirements

Lead-Based Paint Abatement, Inspection or Assessment

(Required on rehabilitation projects constructed prior to 1978 and receiving HOME, Project Based Assistance and the Risk-Sharing Program will be subject to the new lead-based paint regulations of 24 CFR 35)

Please refer to the KHC's Web site, www.kyhousing.org on the Housing Production page under Design and Construction. *See Resources*. There are several links listed that will provide resources for information pertaining to lead-based paint abatements, inspections and risk assessments.

Archeological Survey (Required during the technical submission stage if requested by SHPO)

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

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

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

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

EXHIBIT A
Technical Submission Checklist

Project Name: _____ **KHC Use Only
Received**

Approved	Item			
	1. Tenant Selection Plan			
	2. Affirmative Marketing Plan	5 units or more		
	3. Drug Free Workplace Certification			
	4. Fair Housing Plan	Fed Funds only		
	5. Sample Lease Documents	Not required for acquisition only		
	6. A-95 clearing House Letter	Requesting HOME & Risk-Sharing		
	7. Title VI Self-Survey & Assurance	Fed Funds only		
	8. Proof of Match & other funding Commitments	(as indicated on application)		
	9. Historic Preservation Letter	Historic housing credit projects only		
	10. By-laws & Articles of Incorporation			
	11. Final underwriting model (hard copy & electronic)	Not required for acquisition only		
	12. Legal description of property	(Should match description on survey)		
	13. Owner/Architect Agreement	12 units or more or if architect is involved with 11 units or less (fee should match sources and uses)		
	14. ALTA Survey	<u>Must stamped, sealed and signed.</u>		
	15. Final Construction Plans	(Refer to Guidelines)		
	16. Final Specifications/Work write-up	(Refer to Guidelines)		
	17. Final Cost Estimate	HUD form 2328 (construction cost breakdown), AIA documents G-702 & G-703 or KHC Payment Request Form (contact rep for form)		
	18. Letter from Housing, Building & Construction or proof of local approval of plans	If final approval has not been given, submit documentation to show plans are in review. (Final approval will not be granted until letter is received)		
	19. Design Architect Certification	Required for all projects with an architect involved.		
	20. Architect's Certification of Accessibility	Required for all projects with an architect involved.		
	21. Lead Based Pint Abatement, Inspection or Assessment	Rehabilitation projects constructed prior to 1978 only (Housing Prod.>Design & Construction)		
	22. Environmental Review	HOME or Risk-Sharing, KHC to complete.		
	23. Phase I Environmental Report	Refer to the KHC's Phase I Environmental Policy		
	24. Phase II Environmental Report	If applicable as required in Phase I		
	25. Davis-Bacon Wage Rate Request	HOME projects of 12 or more assisted units; or Project-Based projects of 9 or more assisted units; or projects with Risk Sharing construction financing for new construction or substantial rehab of 12 or more units.		
	26. REScheck Documentation)	http://www.energycodes.gov/rescheck/download.stm		
	27. Utility Letter(s)	Provide if not provided at application		
	28. Appraisal	Required for projects requesting Housing Credits for acquisition or a loan or forgivable loan. (not ordered by KHC, see KHC's appraisal policy)		
	29. Subsurface Investigation/Soils Report	Risk-Sharing or 12 or more units or as deemed necessary.		
	30. Baseline APPS completed (all principles involved) for Previous Participation Certification	Risk-Sharing only		
	31. Additional items needed that were not submitted with the application	Program Representative/Specialist will notify applicant of additional items		

Additional items needed if requesting Housing Credits

Item	KHC Use Only		
	Received	Approved	
1. Owner & General Partners federal ID numbers.			
2. Seven percent reservation fee.	Due within two weeks of receipt of tech sub letter		
3. Draft syndication agreement or letter of intent including syndication proceeds.			
4. Partnership Agreement and Certificate of Limited Partnership as filed with the Secretary of State.			
5. Estimated project cost breakdown by building			
6. Updated project completion schedule			
7. Exact name and address of owner as it will appear on IRS Form 8609			
8. Exact street address including zip code for all buildings in the project. (include number of buildings)			
9. Owner certification of federal, state or local loans and or grants	Found on Rental Production page under Add'l Housing Credit Reference Material		
10. Evidence of having incurred more than 10% of total project cost or a written request for 10% carryover extension.	Must be prepared by an independent certified public accountant using the KHC-approved format (Found on Rental Production page under Add'l Housing Credit Reference Material) Must be received within one year of allocation.		
12. Gross Rent Floor Election	Found on Rental Production page under Add'l Housing Credit Reference Material		

Additional items needed if requesting HOME funds or Affordable Housing Trust Fund

Item	KHC Use Only		
	Received	Approved	
1. Project Set-up report	HOME only, required after executed funding agreement (Rental Production>Rental HOME Packet)		
2. Anti-Displacement & Relocation Assistance Plan	HOME & AHTF (see Sec.11 of Homeownership Implementation Manual found on Rental Production page for guidance)		
3. Authorized Signature Form	HOME & AHTF		
4. Section 504 Transition Plan & Self-Evaluation	HOME only (Rental Production>Rental HOME Packet)		
5. Resolution accepting funds	HOME and AHTF		
6. Procurement Policy	HOME only if Non-profit or local (Rental Production>Rental HOME Packet)		
7. HOME Administrative Certification Form	HOME only (Rental Production>Rental HOME Packet)		
8. Site & Neighborhood Standards Questionnaire	HOME only (Rental Production>Rental HOME Packet)		
9. AHTF Certification Form	AHTF only		

Chapter 5 - Pre-Construction & Closing Stage

Any documentation not submitted as required during previous stages must be received prior to a commitment of funds by KHC. Once all the required documentation has been received, KHC will proceed with preparing the funding agreements and closing documents. When the applicant receives a commitment of funds from KHC, that Commitment or Funding Agreement must be executed and returned to KHC within 30 days. Upon receipt, additional legal documents needed for the closing will be prepared and sent to the closing attorney. Construction *cannot occur* until all closing documents are recorded and the original closing documents have been returned to KHC. In preparation for closing and prior to the closing, applicants may be required to submit additional information to KHC. .

Applications receiving Risk-Sharing funds will be provided a checklist to assist the applicant in the closing process. Risk-Sharing closings will be conducted by KHC's outside legal counsel in their offices.

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

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

Below is a list of items that will be required during the Pre-Construction and Closing stage for all projects not funded with Risk Sharing. A separate checklist will be provided to for projects involving Risk Sharing.

Surveyor's Report

(Required on projects utilizing Risk-Sharing funds only)

The surveyor's report HUD form 92457 must be completed, dated, signed and stamped by a licensed surveyor in the state of Kentucky. The survey must be dated within 120 days of the day of closing in order to be valid. A copy of the surveyor's report can be found at www.hud.gov. under the heading "forms".

Final Site Survey/Plot Plan

(Only if utilizing Risk-Sharing funds for construction)

A final site survey needs to be submitted, signed, sealed and dated within 120 days of closing. The survey must be accurate and the metes and bounds must agree with the legal description. The survey is to show all easements, right-of-ways, encroachments, set-backs, etc. If site survey was approved during technical

submission phase, the only thing that will be needed is the seal and dated within 120 days. Seven copies will be required for closing.

Owner and Contractor Agreement

(Required for **all** projects)

The Owner/Contractor agreement must agree with the final cost estimate, as well as the amount for total hard costs showing on the Sources and Uses. The applicant can utilize either the AIA Document or HUD's Construction Contract Form.

The contract should be completed and signed by all parties for final review and include the following:

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

Assurance of Completion

(Required when KHC is providing construction financing)

KHC requires an assurance of completion for all projects utilizing KHC funds during construction and KHC has committed a total of \$100,000 or more in any combination of grant or loan. All Risk Sharing loans will require an assurance of completion regardless of the loan amount.

Assurances of completion shall be in one of three forms:

1. Payment/Performance bond (AIA document A 312 or the HUD Form 92452) equal to or greater than 100% of the total construction contract amount. An individual who has been given power of attorney by the Insurance Company, issuing the bond must sign the bond and they must be licensed in the State of Kentucky. KHC's name must appear on the document as an additional insured; or
2. Irrevocable On-Sight Demand Letter of Credit in the amount equal to or greater than 30 percent of the total amount of KHC funds used for the construction of the development. KHC's name must appear on the document as an additional insured. The letter of credit is a personal guarantee; or

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

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

Evidence of Proper Insurance

(Required on all projects)

The contractor must provide evidence of proper insurance prior to closing. The insurance policy should provide evidence of workers compensation, builders risk and liability. The insurance shall be carried during the length of the contract. A binder from an insurance company is sufficient documentation. **KHC must be listed as either the primary Certificate Holder or Additional Insured on all certificates of insurance.** If applicant is requesting financing utilizing Risk-Sharing funds, the applicant must include as an additional insured KHC and U.S. Department of Housing and Urban Development as their interest may appear.

Building Permit / Approval Letter from Department of Housing, Buildings and Construction

(Required on all projects)

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

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

Pre-construction Conference

(Required on all projects)

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

All individuals involved with the construction of the development should attend the pre-construction conference. These individuals should include the developer/applicant, contractor and architect, if applicable. KHC's construction specialist will conduct the meeting along with the program representative/specialist.

The following are topics that will be discussed during the meeting:

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

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

Inspections

Once the pre-construction conference has been conducted and all construction documents have been received, a Notification of Construction Start-up form must be submitted to KHC prior to the start of any construction. During construction, KHC's construction specialist will inspect the work progress and conduct regular inspections. At a minimum, projects will be reviewed prior to footing placement, before drywall installation and final. 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.

If projects request other KHC funding, during the monthly inspection, the construction specialist will approve the draw requests for construction costs. All other costs will be approved by the program representative/specialist. KHC will not pay for materials stored off-site. KHC will disburse funds for materials stored on-site if they are insured, invoiced, properly stored and secured. Draws are limited to one draw per month.

In addition to the regular construction inspections, if the project has Housing Credits involved, a pre-8609 inspection will be conducted by Compliance Monitoring staff to

determine if pledged amenities and/or other non-construction related attributes pledged during the application process have been provided.

Change Orders

All change orders to the approved plans and specifications must be submitted to KHC for review and approval at the time the change is needed. If KHC's inspectors are unable to review the work at the time of the change or the change order is held and submitted at the end of construction, the change order may not be approved.

Construction Draws

(The universal draw form is located at www.kyhousing.org/apps/draw/)

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

In projects where KHC has awarded both loan and grant funds, the loan funds must be disbursed first. KHC will disburse 40 percent of the developer fee upfront. The remaining 60 percent of the developer fee will be disbursed on a percentage basis in line with the percent of work completed.

All change orders must be submitted at the time the change is needed. Change orders must be signed by the Construction Specialist prior to submitting them to KHC for approval. The draw requesting the contingency funds needed for the change order will not be processed until the change order has been approved by Design & Construction.

The KHC draw request guidelines are located at http://www.kyhousing.org/uploadedFiles/Housing_Production/Rental_Production_Programs/Technical_Submission_Packet/3KHCDRAWREQUESTGUIDELINES.doc?n=3648

The following documentation is required for each draw request:

1. KHC draw Form.
2. Title Endorsement to Title Policy (we will accept a faxed copy provided the original is received within 24 hours).
3. Builders or Contractors Affidavit (must be submitted with every draw).
4. Form G-702 & G-703, or KHC Payment Request Form.
5. Copies of invoices, receipts, etc. for payment of soft cost (and hard costs if an architect is not involved).
6. The first draw must include all closing fees due KHC that were not received prior to closing (i.e. loan origination fee, processing fees, etc.).

7. The final draw may include construction interest due to KHC, escrows for taxes and insurance, etc. The final draw will not be approved until the final inspection, project completion reports and/or final endorsements/modification to the note have been received.

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

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

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

NOTE: Please remember that the title endorsement should reference the name of the borrower and the policy number as well as the name of the insured party for ease in reference.

KHC will retain 10 percent of the total of all KHC funds until the final inspection is complete and all final documents are received. If the project contains KHC HOME funds, 5% of the 10% retainage will be held until all the HOME units are leased up and the Project Completion Report (PCR) has been received and reviewed by KHC.

Title Insurance Commitment

(Not required on Grants)

A copy of the Title Insurance Commitment must be submitted if KHC is providing funding in the form of a loan. A commitment of title insurance is provided by the closing attorney after a title search has been completed. The title insurance provided is for the protection of KHC as the lien holder.

Closing Attorney's Name, Address and Phone Number

(Required if not utilizing Risk-Sharing funds)

The contact information for the attorney who will be preparing the closing documents is needed.

EXHIBIT A
Pre-Construction/Closing Items

Project Name: _____

The items listed below are not all inclusive of closing documents that will be required.

(Items needed prior to construction and closing for loans or grants)

Item			KHC Use Only	
			Received	Approved
1. Surveyor's Report w/stamp	Risk-Sharing funds only, must be signed within 120 days of closing.			
2. Final Site Survey	Risk-Sharing funds only, if not approved during technical submission stage. Must be sign, sealed and dated within 120 days of closing (7 copies needed for closing).			
3. Owner/Contractor Agreement	If contractor is involved.			
4. Assurance of Completion (Refer to Preconstruction/ Closing Items Chapter in the Rental Guidelines)	Required when KHC has committed a total of \$100,000 or more in any combination of grant or loan. All Risk Sharing loans will require an assurance of completion regardless of the loan amount.			
5. Evidence of proper insurance	Builders Risk, liability & workman's comp.			
6. Building permit/Approval Letter from Dept. of Hsg. Bldg. & Constructions	Required. If there is no local jurisdiction, plans must be submitted to Dept. of Hsg. Bldg. & Construction.			
7. Pre-Construction Conference	To be conducted by KHC			
8. Draw request	If requesting soft costs at closing.			
9. Title Insurance Commitment	For loans only. Must insure KHC for the total amount to be loaned. Dated within 30 days of closing.			
10. Closing attorney's name, address and phone number.	(Required if not utilizing Risk-Sharing funds)			

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Chapter 6 - Construction Completion/Placed-In-Service Stage

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

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

Final As-built survey

(Required on projects utilizing Risk-Sharing funds only)

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

Cost Certification

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

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

Certificate of Substantial Completion

(Required on projects of 12 units or more, or if an architect was involved and KHC is the primary lender)

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

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.

Termite Inspection Report

(Required on **all** rehabilitation projects)

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

Termite Certificate

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

A termite certificate must be furnished as evidence that all buildings and surrounding foundation have been properly treated to prevent the infestation of termites.

Final Inspection

(Required on all projects)

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

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

Final Punch List

The KHC's Construction Specialist will submit a punch list of items still needed to be complete. The Specialist will also verify that the items have been completed.

Final Draw

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

Project Completion Packet

(HOME only)

The Project Completion Packet is completed when all HOME units have been leased up and includes the documentation listed below. The final retainage of HOME funds will not be released until the Project Completion Report (PCR) and Final Funds Expenditure Statement is received and completed. All documents needed to complete the packet can be found on KHC's Web site under Housing Production, Rental Production Programs, Rental HOME Packet.

- **Project Completion Report (PCR)**

The PCR is a reporting of the project's final sources of funds and designation of the fixed or floating HOME units at initial occupancy. The total activity cost must match the total project cost on the Final Funds Expenditure Statement.

- **Final Funds Expenditure Statement**

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

- **Section 3 Report**

(applicable to projects with contracts over \$200,000 and subcontracts over \$100,000)

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

- **Minority Business Enterprise/Women Business Enterprise (MBE/WBE)**

The MBE/WBE is a reporting of the contracts awarded to minority and female businesses. The MBE section is to report the racial classification and number of contracts for contractors and subcontractors and the WBE section is to report gender classifications and number of contracts for contractors and subcontractors.

W-9 Form

This is required for all projects with loans to for-profit and non-profit entities that are not tax exempt (not required for grant only projects). The W-9 form can be found on KHC's Web site under Housing Production, Rental Production, Technical Submission Packet.

Management Contract

(This contract is required if a management company is utilized)

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

Proof of Lead Based Paint Abatement Clearance

(This is required for projects built prior to 1978 and funded with HOME, Risk Sharing and Project Based)

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

Operating Deficit Reserve/ Reserve for Replacement Certification

All applicants are certifying that an Operating Deficit Reserve account has been established and with what Banking Institution. Further they are certifying that a Reserve for Replacement account has also been set up; who will hold the account; and the amount of the account. This form can be found on KHC's Web site under Housing Production, Rental Production, Technical Submission Packet.

Application for Issuance of Certification of Allocation Form 8609

(This is required on Housing Credit projects only)

A completed Request for Issuance of Low Income Housing Tax Credit Allocation and Certification (IRS Form 8609) packet must be sent to KHC's compliance department. the application for Issuance of Certification of Allocation Form can be found on KHC's Web site under Housing Production, Rental Production The information received in this packet will be used by both compliance and rental production in the preparation of the Extended Use Agreement (EUA) and IRS Form 8609. The EUA will be mailed to the owner to be signed and recorded. The IRS Form 8609 will be mailed to owner once the executed EUA has been received by KHC.

After Construction Completion Requirements

Audits

Any project where KHC holds the first mortgage will be required to send financial statements to KHC on an annual basis. All projects funded through Risk-Sharing will be required to submit **audited financial statements** on an annual basis. The audited financial statements for Risk Sharing loans are to be submitted to KHC within 60 days of the project's fiscal year end. All other projects are required to

submit a compilation financial statement within 120 days of the project's fiscal year end.

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

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

Compliance Issues *(All funding sources - please refer to individual program requirements for additional compliance requirements)*

Projects utilizing any KHC funds are required to meet compliance requirements throughout the affordability period of the project. 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 as noted above:

- Tenants must be given at least 30 days written notice before increases are implemented. Any increases are also subject to other provisions of the lease agreements. For example, rents may not increase until the tenant's lease expires. Documentation of increases must be kept in the tenants file.
- Owners/Management companies must include the following in the tenant files:
 - **Rental Application** – The rental application or income survey form used to gather information about household income, composition and student status.
 - **Verifications:** The appropriate third-party verifications and any supporting documentation used to support the income information provided by the tenant for each certification and recertification; this will also include asset verifications which could include copies of bank statements.
 - Copies of all form letters sent to third-party sources.
 - Copies of all correspondence from third-party sources.
 - **Student status:** Evidence must be maintained to show what consideration was made as to whether the household is made up entirely of full-time

- students and supporting documentation if one of the four exceptions were applicable. (*Projects utilizing Housing Credit only*).
- **Lease:** The lease must be included, documenting the rent amount and must be signed by both parties.
 - **Set-aside documentation:** Evidence to support set-aside selection as pledged in the project's application and extended low-income housing commitment. (*Projects utilizing Housing Credit only*).
 - **Income calculation:** Include formula used to calculate income.
 - Any notation of all actions taken in the tenant file.
-
- KHC reserves the right to inspect each development for compliance with Housing Quality Standards (HQS) throughout the term of the loan and Labor Uniform Physical Condition Standards.

 - Any development using several sources of financing may have additional compliance requirements. Please refer to program specifics for additional compliance requirements.

EXHIBIT A
Construction Completion/Placed In Service
(Items required after construction for loans and/or grants and all Tax Credits)

Project Name: _____

Item		KHC Use Only		
		Received	Approved	
1.	Final as-built survey	Risk-Sharing only		
2.	Cost certification- including cost breakdown by building and a sources and uses of funds statement	Risk-Sharing & Tax Credit only Certification must be completed by an independent CPA		
3.	Certification of Substantial Completion AIA G-704	12 units or more or if an architect is involved and KHC is primary lender		
4.	Certificate of occupancy	If certificate is not issued in the county, then one must be received from the Dept. of Housing, Building & Construction in Frankfort.		
5.	Termite Inspection report	Rehab only		
6.	Termite Certificate	New Construction		
7.	Final inspection report	Submitted by KHC's Construction Specialist		
8.	Final punch list & verification that all items have been completed.	Submitted by KHC's Construction Specialist		
9.	The "Final Draw"	KHC Form 206		
10.	Project Completion Packet a. Project completion report b. Final funds expenditure statement c. Section 3 Requirements d. MBE/WBE	HOME only, (KHC HOME packet)		
11.	W-9 Form	Required for projects with loan to for-profits and non-profits who are not tax exempt (not required for grant only projects)		
12.	Copy of Management Contract	If using a management company		
13.	Proof of Lead Based Paint Abatement Clearance	If applicable, for rehab projects originally built prior to 1978 & funded with HOME, Risk-Sharing, PB		
14.	Operating Deficit Reserve/Reserve for Replacement Certification			
15.	Exact name, address and federal ID number as it will appear on IRS Form 8609	Tax Credit Only		
16.	Exact street address, including zip code on all buildings	Tax Credit Only		
17.	Application for Issuance of Certification of Allocation Form 8609	Tax Credit Only		

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Chapter 7 - 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 (4) episodes of homelessness in the past three (3) 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 homes, the term "homeless" means "a person sleeping in a place not meant for human habitation (e.g., living on the streets) or in an emergency homeless shelter."

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

Community Service Facility (CSF): A space that can be used for purposes, including but not limited to, child daycare, senior programs and job training. They are defined as facilities that are designed to primarily serve low-income households (60 percent or less of area median income.) Project employees could also use the facilities. To receive additional tax credits the CSF must be must be located in a 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 that is 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. In addition "controlling" means the possession, directly or indirectly, of 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 MIP when applicable, to repay the loan.

Deed restriction: A limitation that passes with the real property regardless of the owner; usually limits the real estate's type of use or intensity of use. *See also* restrictive covenant.

Developer's fee: Fee received by the developer for coordinating and developing the project, including any fees paid for consulting services or any other fees resembling consultant or developer fees.

Elderly Project: There are two ways to qualify as an elderly project, all units are occupied solely by persons 62 years of age or older (100% elderly); or 80% 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: An 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.

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 (eg, psychosis, neurosis, personality, or behavior disorder), a development disorder (eg, mental retardation), or a neurological disorder that affects cognitive or emotional functions to the extent that capacity for judgment is significantly diminished.

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

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

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

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

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

Preservation: (Minor rehabilitation is NOT included.) Kentucky Housing Corporation defines preservation as the maintaining of existing units or maintaining the integrity of the original existing unit as closely as possible. Preservation 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.

Proforma: A spreadsheet that projects income and expenses (including reserve for replacement) of the development as well as debt service, debt coverage ratio and cash flow for each year.

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

Rent-Up Reserve (aka 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 building components that deteriorates and 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 that is part of a conveyance and is binding on all subsequent purchasers; may involve control of lot size, setback, placement of buildings, architecture, cost of improvements, or use.

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

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

Subsidy Layering/Financial Analysis: A review that is 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 to repay 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.