CITY OF BETHLEHEM
HOME INVESTMENT PARTNERSHIP (HOME) MANUAL

MAY 2021

Table of Contents

CHAPTER 1: INTRODUCTION AND PURPOSE

The City of Bethlehem's Department of Community and Economic Development (the "City") will work closely with the subrecipients of HOME funds to ensure that eligible City residents have access to affordable, decent, safe, and sanitary housing.

The HOME Program was created by the National Affordable Housing Act of 1990 (NAHA), and has been amended several times by subsequent legislation. It is the largest Federal block grant available to communities to create affordable housing. The City receives HOME Investment Partnership Program funding from HUD as a Participating Jurisdiction (PJ), and then makes awards to eligible organizations who, in turn, use the HOME funds to develop housing units and provide affordable housing assistance within the City.

The intent of the HOME Program is to:

- Increase the supply of decent affordable housing to lower-income households
- Expand the capacity of nonprofit housing providers
- Strengthen the ability of state and local governments to provide housing, and
- Leverage private-sector participation.

The City takes its responsibility of administering the HOME Program that has been entrusted to it seriously. Funding subrecipients must follow procedures described in this HOME Program Operations Manual. Different rules apply to different activities and therefore readers should refer to relevant chapters.

This manual is for The City of Bethlehem HOME subrecipients and/or any related parties as a tool to provide support and practical guidance related to the HOME Program. It is not intended to change, enlarge or restrict any requirement found in the contracts, Department of Housing and Urban Development (HUD) Final Rule, City of Bethlehem rules and policies and/or any related federal or state rule governing this program.

This manual is not meant to be a substitute for HOME Program regulations, but as a supplement to them. It is not exhaustive regarding all considerations affecting the use of HOME Program funds. While careful consideration and due care has been used in developing the manual, HOME Program participants are encouraged to consult with the City's Department of Housing and Community Development staff to ensure correct interpretation of policies and regulations. The City reserves the right to implement additional policies as needed.

CHAPTER 2: ADMINISTRATIVE AND MANAGEMENT OVERVIEW

Subrecipients of HOME funds are subject to a number of general administrative requirements and must manage their program for compliance with these requirements. This chapter covers administrative requirements and management considerations that HOME fund recipients should have in mind when they receive HOME funds. The first part of the chapter discusses how to get started – the agreements and systems that should be put in place, good practices for administering and managing HOME funds, and also how to complete draws for HOME funds. The second part of the chapter covers specific administrative requirements including HOME rules for administrative and planning costs, Federal uniform administrative requirements, HOME written agreements, conflict-of-interest provisions, prohibition against the use of HOME funds for inherently religious activities, HOME rules for program income, and other City of Bethlehem administrative requirements.

Getting Started

Award notification. Upon approval of the HOME Program application, the City will issue an Award Letter to a subrecipient that specifies the award amount and any applicable conditions.

Agreement. City HOME agreements have to be executed to codify the details of the award. This agreement cannot be signed until properties for activities are specified and environmental reviews are undertaken. The subrecipient agreement will specify expectations and requirements.

Written Agreements will include general requirements that are applicable across all City HOME programs. Program specific details that are specified in written agreements will reflect the details of the approved application and City HOME parameters.

Return with the contract Proof of current Hazard/Liability Insurance naming the City as additional insured.

To ensure that all HOME Program requirements have been met, no work shall begin until all documentation has been executed and returned to the subrecipient.

Critical Success Factors

To be successful in the use of HOME funds, subrecipients should consider several factors that are critical to success. They include readiness to initiate the program and the ability to account for funds. There are also a number of sound management practices that support success.

Readiness. The City expects that subrecipients will have property identified and will initiate programs immediately upon receipt of the returned executed agreement.

Subrecipients receiving HOME Program funds must begin their program activities and/or developments within ninety (90) days of the agreement date. Subrecipients that do not commence program activities within ninety (90) days risk the loss of their award, unless otherwise approved by the City.

Accountability. The City expects that subrecipients will be accountable for all City HOME funds distributed through their programs. To that end, subrecipients are expected to:

- Monitor beneficiaries and contracted/partner entities for appropriate expenditures.
- Provide accurate beneficiary and expenditure activity to the City.
- Report changes in project scope, funding or beneficiaries to the City.

Other good practices. There are several key steps in the effective administration of a HOME program that will aid subrecipients in running good HOME programs. The City strongly urges subrecipients to consider these steps and implement them in the administration of all HOME program activities:

- Train staff working on HOME funded projects regarding HOME regulations.
- Implement systems to track and manage performance.
- Choose qualified partners: subrecipients should have approved systems for selecting contractors and partners that are capable of delivering goods and services that comply with HOME requirements.
- Monitor the performance of subcontractors or project partners and take appropriate, timely action to correct problems.
- Develop effective policies and procedures to guide staff and partners. These policies should describe what steps need to be followed, documentation to be collected and how to monitor performance to ensure compliance.
- Develop a strategy to market the program appropriately as projects are to serve appropriate beneficiaries, especially under-served populations.
- Set realistic, achievable milestones for achievement and describe consequences for failure to meet them.
- Implement procedures to effectively manage rental units during the affordability period. The subrecipient is responsible for ensuring that beneficiaries are income eligible and all parties involved in the process are adequately verifying incomes and charging allowable rents, maintaining unit quality, and re-certifying incomes.
- Keep records sufficient to demonstrate to the City that HOME funds have been spent appropriately and within the intent of the program and compliant with its regulations.

Subrecipients must provide information regarding their annual performance in administering HOME funds to the City that the City can report the information and make it available to HUD and the public for review.

Home Program Draws

Costs incurred prior to HOME Program fund allocation shall not be reimbursed (except in the case of an eligible soft cost or an interim construction loan approved by the City).

Disbursement of HOME Program funds will occur only when all of the following conditions have been met:

- The required environmental review process has been satisfactorily completed.
- A written agreement between the City and subrecipient is executed.

General City requirements regarding reimbursement of costs for both interim and final requests include:

- Funds will be released within thirty (30) days after the final inspection is approved and upon City’s receipt of pay request and all completion documentation.

- Completion of project-specific documentation will be required for release for final closeout. Funds requested for interim reimbursement must contain documentation of the activities that are being requested for reimbursement.

If applicable, requests for disbursements must include Section 3 Compliance Report and Documentation (i.e. Advertisement/Flyers/and any additional efforts to hire low and very low income county residents)

If any HOME Program funded project has an available balance after development completion and release of retainage, City will de-obligate those funds and reallocate such balance of HOME Program funds to other eligible activities according to City's adopted HOME Program allocation process.

Eligible Administrative and Planning Costs

HUD allows the City a maximum of 10% of the sum of their annual grant allocation plus current year program income for reasonable administrative and planning costs. These include staff costs as well as other administrative costs. The 10% cap includes certain soft costs incurred by the developer if they are project-related. To understand how the 10% is calculated, it is important to note the following are considered administrative costs:

- general management, oversight and coordination;
- staff and overhead;
- public information;
- fair housing;
- indirect costs;
- preparation of the Consolidated Plan;
- other Federal requirements

Staff Costs for Administering HOME Programs

Eligible administrative and planning costs include expenditures for salaries, wages and related costs of City staff responsible for HOME Program administration.

The City has two alternatives for determining the amount of staff costs to charge to HOME Program administration.

1. Include the entire salary, wages and related costs of each person whose primary responsibility involves program administration assignments.
2. Determine the pro rata share of salary, wages and related costs of each person whose job includes any program administration assignments for each person.

The City may choose only one of these two methods each program year.

Other Planning and Administrative Costs

In addition to staff salaries and related costs, other costs are HOME eligible. These include:

- Goods and services necessary for administration (e.g., utilities, office supplies, etc.);

- Administrative services under third party agreements (e.g., legal services);
- Administering a tenant-based rental assistance (TBRA) program;
- Providing public information;
- Fair housing activities;
- Indirect costs under a cost allocation plan prepared in accordance with applicable Office of Management and Budget (OMB) Circular requirements and approved by the City; and
- Complying with other Federal requirements.

Administrative Costs versus Project-Related Soft Costs

Certain costs may be charged as either administrative costs, or as project-related soft costs when they are incurred by the City. Costs that are eligible as project-related soft costs are listed below.

- Staff and overhead costs: These are staff and overhead costs incurred by the City or third party contractor that are directly related to carrying out specific HOME projects. They include:
    - Appraisals;
    - Preparation of work specifications;
    - Loan processing and underwriting;
    - Construction inspections and oversight;
    - Inspections for the presence of lead hazards or defective paint;
    - Advisory and other relocation services;
    - Project-specific environmental reviews; and
    - Homebuyer and tenant counseling (if the buyer or tenant is HOME-assisted).
- Compliance costs: These include the costs of complying with other Federal requirements directly related to a specific HOME-assisted project.

Implications of charging to a project: Charging costs to a specific project has several implications.

- Project costs count in the maximum per-unit subsidy limit calculation.
- Project costs trigger 25 percent match.
- If the project does not go forward, project costs must be charged as administrative costs.

Implications of charging as administrative and planning costs:

- Costs are subject to the 10 percent cap.
- Accounting and reporting requirements are simplified.

Exceptions:

- Subrecipients, community development housing organizations (CHDO), housing non-profits, and for-profit developers may not charge servicing, originations or other fees for the purpose of covering costs of administering the HOME program.
- Project-related soft costs incurred by a property owner are considered project-specific and cannot be charged as administrative costs. (For example, if the property owner hires and pays for an appraisal.)

Uniform Administrative Requirements

Subrecipients must comply with certain administrative requirements pertaining to financial management and audit standards. These differ depending on whether the subrecipient is a nonprofit or a CHDO:

All subrecipients:

- Certain provisions in **2 CFR Part 200** : These regulations set forth uniform requirements for financial management systems, procurement, reports and records, and grant close-outs for Recipients of Federal grant funding.
- **OMB Circular A-133** (Audit Requirements): All Recipients are required to have audits. Audit thresholds and requirements are outlined in OMB Circular A-133.

Nonprofit organizations.

- **OMB Circular A-122**, "Cost Principles for Non-Profit Organizations," or, for institutions of higher education, OMB Circular A-21 "Cost Principles for Educational Institutions". These circulars establish principles for determining allowable costs under grants, contracts and other agreements with nonprofit organizations.
    - Certain provisions of 24 CFR Part 84**.** The regulations at 24 CFR Part 84 implement OMB Circular A-110 and set forth uniform requirements for nonprofit organizations, including financial management systems, property standards, procurement standards, reporting and record-keeping.

CHDOs.

- **24 CFR 84.21**, "Standards for Financial Management Systems" apply to CHDOs who are acting as an owner, developer or sponsor of HOME-assisted housing.

Written Agreements between Subrecipients and Other Entities for Bethlehem HOME Funds

Written agreements are important legal documents that help the City and its subrecipients protect their investment and enforce HOME Program rules. A written agreement must be entered into before any HOME funds are committed or disbursed by the City to any entity. All signatures must be dated to meet the definition of Commitment at 24 CFR 92.2.

Contents of Written Agreements

The specific contents of agreements will vary. The 2013 HOME Final Rule (24 CFR Part 92) details the specific HOME provisions that must be included in written agreements between the City and subrecipients. These provisions are listed below.

Use of funds: A description of the amount and use of HOME funds, including the type and number of housing units, tasks to be performed, schedule for completing tasks, a budget, any requirement of matching contributions, and the period of the agreement in sufficient detail to effectively monitor performance.

Affordability: HUD requires housing assisted with HOME funds to meet the affordability requirements, as applicable, and require repayment of the funds to the City if the housing does not meet the affordability requirements for the specified time period. The affordability requirements must be imposed by deed restrictions, covenants running with the land, use restrictions or other mechanisms approved by HUD. Bethlehem uses both the “resale” and the “recapture” methods of ensuring affordability throughout a project’s required affordability period.

Reversion of assets/program income requirements: States whether program income, unexpended funds or other assets will be returned to the City.

Uniform administrative requirements: Compliance with applicable Federal administrative requirements as cited above.

Other Federal requirements: Regulations regarding non-discrimination and equal opportunity; affirmative marketing and minority outreach; environmental review; displacement, relocation and acquisition; labor standards; lead-based paint; and conflict-of-interest.

Affirmative marketing: Requirements for affirmative marketing in projects of **five or more** HOME-assisted units.

Requests for disbursements of funds: Requirement that HOME funds may not be requested until funds are needed for payment of eligible costs. The amount of each request must be limited to the amount needed. Program income must be returned to Bethlehem before any new funding requests will be provided. Repaid loans guaranteed with HOME monies are not considered program income and are not subject to HOME requirements.

Records and reports: Enumeration of records that must be maintained, and information and reports that must be submitted.

Enforcement of the agreement: This provision is in the agreement with all parties, and is the means of enforcing the provisions of the written agreement.

Prohibited Fees: Prohibits the subrecipient from charging servicing, origination, or other fees for the costs of administering the HOME program.

Duration of agreements. The agreement must specify the duration of the agreement. If the housing assisted under the agreement is rental housing, the agreement must be in effect through the affordability period required by the City. If the housing assisted under this agreement is homeownership housing, the agreement must be in effect at least until the completion of the project and transfer of ownership to a low-income family.

Amending the documents. Written agreements may be amended by mutual agreement of the parties when regulations and requirements change, or when adjustments to funding levels or other conditions related to a specific project are needed.

Conflict-Of-Interest

The HOME Program regulations require the City and all subrecipients to comply with two different sets of conflict-of-interest provisions. The first set of provisions comes from 24 CFR Parts 84 and 85. The second, which applies only in cases not covered by 24 CFR Parts 84 and 85, is set forth in the HOME regulations. Additionally, the HOME regulations include conflict of interest provisions for nonprofit, for-profit owners/developers/sponsors and CHDOs.

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

- Require that no employee, officer, agent of the City/subrecipient 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;
- Require that the City and subrecipient employees, officers and agents not accept gratuities, favors or anything of monetary value from contractors, potential contractors or parties to sub agreements; and
- Stipulate provisions for penalties, sanctions or other disciplinary actions for violations of standards.

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

- An employee, agent or officer of the City or subrecipient;
- Any member of an employee's, agent's or officer's immediate family;
- An employee's, agent's or officer's partner; or
- An organization that employs or is about to employ an employee, agent or officer of the City or subrecipient.

<u>Conflict of Interest Policy applicable to the City</u>

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 City. The HOME regulations state that no person covered 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:

- May obtain a financial interest or benefit from a HOME activity; or
- 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 City.

While not specifically required in the HOME regulations, the City will include the conflict-of-interest provision in written agreements and other documents with owners, developers and sponsors. In addition, monitoring of projects should include necessary actions to ensure that this provision is adhered to.

Conflict of Interest Provisions for Nonprofit and For-Profit Owners, Developers, CHDOs and Sponsors

The HOME Final Rule includes conflict-of-interest provision applicable to for-profit and nonprofit owners, developers and sponsors of HOME-assisted housing. This provision states that no owner, developer or sponsor of HOME-assisted housing, including their officers, employees, agents, consultants or elected or appointed officials, may occupy a HOME-assisted unit in a development. This provision does not apply to:

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

Religious Organizations

HOME funds may be provided to primarily religious organizations for any activity, excluding inherently religious activities. As of the September 30, 2003 Final Rule for 24 CFR Part 92, HUD (Attachment 1-4), HUD identified regulations for eight programs, including the HOME Program, to eliminate barriers and ensure that these programs are open to all qualified organizations regardless of their religious character.

Home Program Income

Program income is any revenue received by the subrecipient directly generated from the use of HOME funds or matching contributions. Program income includes, but is not limited to:

- Proceeds from the sale or long-term lease of real property acquired, rehabilitated or constructed with HOME funds or matching contributions;
- Income from the use or rental of real property owned by a subrecipient that was acquired, rehabilitated or constructed with HOME funds or matching contributions, minus the costs incidental to generating that income;
- Payments of principal and interest on loans made with HOME or matching funds, and proceeds from the sale of loans or obligations secured by loans made with HOME or matching contributions;
- Interest on program income; and
- Any other interest or return on the investment of HOME and matching funds.
- Repaid loans guaranteed with HOME monies are not considered program income and are not subject to HOME requirements.

The City of Bethlehem requires that all program income is returned to the City unless otherwise agreed to in writing.

Recaptured Funds

Bethlehem uses HOME funds for two types of homebuyer activities. They are:

1) Homebuyer purchase assistance, which provides loans to help with down payments and closing costs under the Bethlehem Homebuyer Assistance Program (BHAP), and

2) Direct buyer subsidy for houses constructed or rehabbed, in whole or in part, with HOME funds. These homes are normally built or rehabbed by Bethlehem's non-profit partners, both CHDO and non-CHDO alike.

Bethlehem has chosen to use the **Recapture** option for all programs. The HOME program's investment, and thus the period of affordability, is ensured in all cases by a mortgage and note payable to the City of Bethlehem should the property be sold during the period of affordability.

Repayments are in the amount of the direct subsidy, subject to availability of net proceeds. Under the BHAP, all HOME funds are considered the direct subsidy. In the construction/rehab sale properties, the direct subsidy is the amount of HOME funds used to reduce or help reduce the sales price from market value to an amount affordable to the buyer.

In the event that net proceeds – defined as sales price less other debt on the property – is insufficient to repay the entire direct subsidy, the recaptured amount shall be determined by the following formula:

HOME direct subsidy/Total project cost x net proceeds = Recapture amount

Other City Of Bethlehem Administrative Requirements

In addition to the HOME administrative requirements listed in this chapter, the City has certain administrative requirements for subrecipients related to criminal history, suspensions and audits.

- Approval. The City has the ability to approve an increase or decrease in HOME funds for Owner Occupied Rehabilitation activities previously approved by the City as long as the total increase or decrease does is in line with the City's Citizen's Participation plan.
- Criminal background check. In addition to the Contract Disclosure and Certification described in the Conflict of Interest section above, the City requires subrecipients to disclose if any of the following apply:
    - Conviction by State or Federal jurisdiction;
    - Suspension or debarment by any state or Federal agency;
    - Bankruptcy or Reorganization;
    - Outstanding, uncorrected noncompliance with a state or Federal housing agency;
    - Existing contracts or indebtedness with the City of Bethlehem; and
    - Delinquent, defaulted or foreclosed contract, loan or indebtedness with the City of Bethlehem.

Suspension policy

Note that the Criminal Background Check works in conjunction with the City's Suspension Policy.

- Per the Suspension Policy, the City requires participants in the HOME Program to certify that neither it nor its principals are presently debarred, suspended, proposed for debarment, declared ineligible or voluntarily excluded from any entity from a federally funded transaction.
- Any participant that remains on a debarred or suspended condition shall be prohibited from participation in the HOME Program as long as they are classified in this manner.

Audit

The City requires that subrecipients have an audit conducted of Federal funds received in accordance with the following:

- Generally Accepted Accounting Principles (GAAP) and the Single Audit Act Amendments of 1996 (31 U.S.C. 7501-7507) and revised OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations" as required in 24 CFR Part 84 and 85 respectively.

CHAPTER 3: GENERAL REQUIREMENTS OF THE HOME PROGRAM

The HOME program has a number of basic rules that apply to all program activities. All City HOME Program subrecipients must comply with these rules when implementing their projects. These requirements include rules about project subsidies, eligible costs, the property (including property standards), low-income targeting, long-term affordability, cost allocation and subsidy layering.

Allocation of Funds

HOME funds are allocated annually by formula to State and local governments by HUD. The City of Bethlehem receives funds through this formula. Under the HOME Program, the City of Bethlehem is designated a "Participating Jurisdiction" or "PJ". In turn, the City allocates funds to various partners through their formal application process. Bethlehem is subject to several HOME Program requirements when allocating funds to other entities and these requirements affect the way HOME program subrecipients manage their programs as well.

Timeframes

HOME Rules require the City to commit and spend its funds within certain timeframes.

- The City has 24 months to enter into written agreements with developers, owners, contractors, others subrecipients, and Community Housing Development Organizations (CHDOs) to commit HOME funds
- Once a PJ commits its HOME funds to a specific project or program, it has 4 years from the date of that commitment to complete the project
- Rental projects have 18 months to lease up all HOME-assisted units
- Homebuyer projects have 9 months to enter a sales contract

Projects that do not meet these timeframes risk losing their HOME funds.

Integrated Disbursement and Information System (IDIS)

Project Setup

All HOME activities shall be set up in the Integrated Disbursement and Information System (IDIS). The City must complete the following steps prior to setting up a HOME activity in IDIS:

- Perform project underwriting and subsidy layer requirements at 24 CFR 92.250
- Comply with environmental requirements under 24 CFR part 58 for release of funds
- Execute a written agreement

Written agreements with owners, developers, or sponsors of affordable housing must include all provisions at 24 CFR 92.504 including:

- Address or legal description of the property
- Project budget and completion schedule

Activities shall be limited to acquisition, new construction, rehabilitation of housing, and tenant-based rental assistance. All project setup information must be entered at the time of project setup, including project funding sources.

Project Draws

Funds may be drawn down for eligible project costs. Draw requests shall be reviewed and approved for allowability by CPD staff. The Business Manager shall initiate these draws by electronic funds transfer in IDIS. Specific funds that are committed to a project will be disbursed for that project. If both funds in the local account and funds in the Treasury account are committed to a project, HOME funds in the local account that are committed to a project shall be disbursed prior to initiating a draw from the Treasury. Funds drawn must be expended for eligible costs within 15 days. Interest earned within the 15 days shall be retained by the City as HOME funds. Any funds drawn and not expended for eligible costs within 15 days of disbursement from the Treasury account must be returned to HUD for deposit into the City's Treasury account. Interest earned after 15 days in excess of $500 per year must be returned to the United States as provided in 2 CFR 200.305(b).

Uses of Funds

The HOME Program and the City place the following limits on uses of fund:

- Planning and Administration. The City may use up to 10 percent of their HOME Program allocation for planning and administration costs (See Chapter 2: Administrative Overview and Management for more information).
- CHDOS. The City of Bethlehem must reserve a minimum of 15% of its annual allocation for activities undertaken by qualified Community Housing Development Organizations (CHDOs). Up to 10% of this set-aside can be used for project pre-development costs.
- Additionally, up to 5% of a PJ's annual HOME allocation may be used for CHDO operating expenses. This does not count toward the CHDO set-aside allocation.

Eligible Home-Funded Activities

HOME funds can be used to support four general affordable housing activities.

- Homeowner rehabilitation: HOME funds may be used to assist existing owner-occupants with the repair, rehabilitation or reconstruction of their homes. (See Chapter 4 Homeowner Housing – Owner Occupied Housing for more information.)
- Homebuyer activities: HOME funds can be used to finance the acquisition and/or rehabilitation or new construction of homes for homebuyers. (See Chapter 5 Homeowner Housing -- Homebuyer for more information.)
- Rental housing: Affordable rental housing may be acquired and/or rehabilitated, or constructed. (See Chapter 6 Rental Housing Program for more information.)
- Tenant-based rental assistance (TBRA): Financial assistance for rent, security deposits and, under certain conditions, utility deposits may be provided to tenants. Assistance

for utility deposits may only be provided in conjunction with a TBRA security deposit or monthly rental assistance program. The City currently does not administer TBRA.

City of Bethlehem HOME Program Roles and Relationships

The City relies on numerous partners to create affordable housing under its HOME program. Partners play different roles at different times, depending upon the project or activity being undertaken.

- CHDOs: A CHDO is a private, nonprofit organization that meets a series of qualifications prescribed in the HOME regulations. Each PJ, including the City of Bethlehem, must use a minimum of 15% of its annual allocation for housing owned, developed or sponsored by CHDOs. PJs evaluate organizations' qualifications and designate them as CHDOs. CHDOs also may be involved in the program as subrecipients, but the use of HOME funds in this capacity is not counted toward the 15 percent set-aside. The City may elect to allocate an additional 5% of its total allocation for CHDO administration support needs, subject to the greater of $50,000 or 50% of the CHDO's annual operating budget.
- Subrecipients: A subrecipient is a public agency or nonprofit organization selected by a PJ to administer all or a portion of the PJ's HOME Program. It may or may not also qualify as a CHDO. A public agency or nonprofit organization that receives HOME funds solely as a developer or owner of housing is not considered a subrecipient.
- Developers, owners and sponsors: Individuals, for-profit entities and nonprofits can participate in the HOME Program as owners, developers or sponsors of housing. When CHDOs use HOME funds as owners, developers or sponsors, this use of HOME funds counts toward the 15% CHDO set-aside.
- Private lenders: One of the goals of the HOME Program is to establish strong public/private partnerships. PJs are required to make all reasonable efforts to maximize participation by private lenders and other members of the private sector. The Community Reinvestment Act (CRA) requirements provide an incentive to private lending institutions to become involved in HOME Program activities.
- Faith based organizations: Faith-based or religious organizations are now able to compete on an equal footing with other organizations for HUD funding. Funding may be provided directly to any Recipient, as long as those funds are not used to support inherently religious activities. As of the September 30, 2003 Final Rule for 24 CFR Part 92, HUD identified regulations for eight programs, including the HOME Program, to eliminate barriers and ensure that these programs are open to all qualified organizations regardless of their religious character.
- Third-party contractors: A PJ may contract with a private for-profit contractor to administer all or part of its HOME Program. Unlike public agencies or nonprofits, contractors must be procured through a competitive process in accordance with applicable Office of Management and Budget (OMB) procurement requirements. These requirements are found in 24 CFR Part 85 (for PJs) and Part 84 (for nonprofits).

Other Home Requirements

Matching Requirement [92.218-92.222]

Each PJ incurs a 25 percent matching obligation for HOME funds it expends. Matching contributions must be:

- A permanent contribution to affordable housing;
- From non-Federal sources; and
- Provided by any of a broad array of public and private donors, such as local government agencies, state agencies, charitable organizations/foundations, and private sector organizations such as lending institutions and corporate donors.

Maximum Per-Unit Subsidy Amount [92.250]

The total amount of HOME funds that the City may invest on a per-unit basis in affordable housing may not exceed the per-unit dollar limitations established under section 221(d)(3)(ii) of the National Housing Act (12 U.S.C.1715(d)(3)(ii)). HUD will allow the per-unit subsidy amount to be increased on a program-wide basis to an amount, up to 240% of the original per unit limits, to the extent that the costs of multifamily housing construction exceed the section 211(d)(3)(ii) limit. HUD publishes these limits annually and the City will provide this information to all partners and subrecipients.

Monitoring, Record-keeping and Reporting [92.508 and 92.509]

The City is required to keep records that enable HUD to determine whether they have met program requirements. The City is also responsible for enforcing these requirements with all its HOME Program subrecipients. The City must also submit an annual performance report to HUD known as the Consolidated Annual Performance and Evaluation Report (CAPER). The City requires that all subrecipients meet certain reporting obligations to assist with this annual responsibility.

The following two definitions are critical to understanding the requirements that are outlined in the following sections.

1. ***Project***: A site or sites together with any building (including manufactured housing unit) or buildings located on the site(s) under common ownership, management and financing, to be assisted with HOME funds as a single undertaking. The "project" includes all of the activities associated with the site and building. For tenant-based rental assistance (TBRA), "project" means assistance to one or more families.
2. ***HOME-Assisted Units*****:** The HOME Program distinguishes between the units in a project that have been assisted with HOME funds and those that have not -- hence the term HOME-assisted unit. This distinction between HOME-assisted and unassisted units allows HOME funds to be spent on mixed-income projects while still targeting HOME dollars only to income-eligible households.

The Subsidy

The HOME Program regulations allow virtually any form of financial assistance, or subsidy, to be provided for eligible projects and to eligible beneficiaries, though the City decides what forms of assistance it will provide.

Eligible subsidies under the HOME regulation are outlined below:

- Interest bearing loans or advances: These loans are amortizing loans. Repayment is expected on a regular basis, usually monthly, so that over a fixed period of time, all of the principal and interest is repaid.
    - Such loans may have interest rates at or below the prevailing market rate. Often, very low interest rates can make monthly payments affordable to the borrower.
    - The property or some other assets are used as collateral.
    - The term of the loan may vary. For home purchase, a term of up to 30 years is common while rehabilitation and construction loans tend to have terms of 10 to 15 years.

- Non-interest-bearing loans or advances: The principal amount of such loans is paid back on a regular basis over time, but no interest is charged.
    - As with interest-bearing loans, these loans will use the property or other assets as collateral and the term of the loan will vary depending on the nature of the activity funded.
    - Such loans are made when the borrower is able to make regular payments but even a small amount of interest is not affordable.

- Deferred loans (forgivable or repayable): These loans are not fully amortized. Instead, some, or even all, principal and interest payments are deferred to some point in the future. Deferred loans can be structured in many different ways.
    - Deferred payment loans can be forgivable or repayable.
    - If forgivable, the forgiveness might be structured to occur at one point in time (such as at the end of the affordability period), or forgiven incrementally (such as forgiving one-fifth of the loan each year over five years).
    - If repayable, repayment might be required at the sale or transfer of the property or at the end of a fixed period of time.
    - Like the amortizing loans, these loans can accrue interest or be non-interest bearing.
    - Deferred payment loans require the property or some other form of collateral to be used as security for repayments.
    - Deferred payment loans may be used to help rental projects by allowing deferral of loan payments for the first few years until the project becomes stable.

- Grants: Grants are provided with no requirement or expectation of repayment.
    - Grants require no liens on the property or other assets.
    - They are most commonly used for down payment and closing cost assistance in homebuyer programs or to provide assistance to low/moderate homeowners for rehabilitation.

- Interest subsidies: This is usually an up-front discounted payment to a private lender in exchange for a lower interest rate on a loan. An interest subsidy may also be a deposit in an interest-bearing account from which monthly subsidies are drawn and paid to a lender along with the homeowner's monthly payment.

- Equity investments: An equity investment is an investment made in return for a share of ownership. Under this form of subsidy, the PJ acquires a financial stake in the assisted property and is paid a monetary return on the investment if money is left after expenses and loans are paid. Historically, this option has not been utilized by the City.

- Loan guarantees and loan guarantee accounts: HOME funds may be pledged to guarantee loans or to capitalize a loan guarantee account. A loan guarantee or loan guarantee account ensures payment of a loan in case of default.
    - HOME rules require that the amount of money in a loan guarantee account must be based on a reasonable estimate of the default rate on the guaranteed loans, and may not exceed 20 percent of the total outstanding principal guaranteed, except that the account may include a reasonable minimum balance.

Any other forms of assistance require HUD approval. If the City intends to use a form of assistance not listed above, the City's Consolidated Plan or Action Plan should describe the proposed form of assistance. Once approved by HUD as part of the Plan, no other HUD approval is required.

Project Subsidy Limits

Minimum HOME investment

The minimum amount of HOME funds is an average of $1,000, multiplied by the number of HOME-assisted units in the project.

- The minimum only relates to the HOME funds, and not to any other funds that might be used for project costs.
- The minimum HOME investment does not apply to TBRA.

Maximum HOME investment

The maximum per-unit HOME subsidy limit varies by location. HUD determines the maximum amounts, which are based on 95% of area median purchase price.

Determining a Project's Per-Unit Subsidy

The actual subsidy provided will depend on the following factors.

- The proportion of the total project cost that is HOME-eligible -- some planned project costs may not be eligible expenses under the HOME Program.

- The number of units in the project is HOME-assisted -- projects may have a mix of HOME- and non-HOME-assisted units.
- The financial needs of the project -- HOME projects may not receive more subsidy than is required to make them financially feasible.

To determine what is required and reasonable, the City's Department of Community and Economic Development will complete a cost allocation and subsidy layering analysis. HOME project awards are based on the completed cost allocation and subsidy layering analysis.

Cost allocation and subsidy layering are impacted by any changes in the number of HOME-assisted units, total number of units in the project, development cost and/or financing sources. Because of these requirements, all HOME Recipients are obligated to contact the City as soon as there are any changes in project size/scope, cost or financing sources.

Eligible Costs

Eligible costs depend on the nature of the program activity. General allowable costs are as follows:

- New construction: HOME funds may be used for new construction of both rental and ownership housing. Any project that includes the addition of dwelling units outside the existing walls of a structure is considered new construction.

- Rehabilitation: This includes the alteration, improvement or modification of an existing structure. It also includes moving an existing structure to a foundation constructed with HOME funds. Rehabilitation may include adding rooms outside the existing walls of a structure, but adding a housing unit is considered new construction.

- Reconstruction: This refers to rebuilding a structure on the same lot where housing is standing at the time of project commitment. HOME funds may be used to build a new foundation or repair an existing foundation. Reconstruction also includes replacing a substandard manufactured housing unit with a new manufactured housing unit. During reconstruction, *the number of rooms per unit may change, but the number of units may not*. Reconstruction may take place anywhere on the lot; however, reconstruction of a single family unit in a new location on the lot is classified as new construction for purposes of environmental review. Reconstruction of multi-family is viewed as new construction for the purposes of environmental review if the number of units is increased or decreased by more than 20% and/or the cost of reconstruction is more than 75% of the total estimated cost of the replacement after the work is completed. (24 CFR Part 58).

- Conversion: Conversion of an existing structure from another use to affordable residential housing is usually classified as rehabilitation. If conversion involves additional units beyond the walls of an existing structure, the entire project will be deemed new construction. Conversion of a structure to commercial use is prohibited.

- Site improvements: Site improvements must be in keeping with improvements to surrounding standard projects. They include new, on-site improvements (sidewalks, utility connections, sewer and water lines, etc.) where none are present. They are essential to development or repair of existing improvements. Building new, off-site utility connections to an adjacent street is also eligible. Off-site infrastructure is not eligible as a HOME expense, but may be eligible for match credit.

- Acquisition of property: Acquisition of existing standard property, or substandard property in need of rehabilitation, is eligible as part of either a homebuyer program or a rental housing project. After acquisition, rental units must meet HOME rental occupancy, affordability and lease requirements.

- Acquisition of vacant land: HOME funds may be used for acquisition of vacant land only if construction will begin on a HOME project within 12 months of purchase. Land banking is prohibited.

- Demolition: Demolition of an existing structure may be funded through HOME only if construction will begin on the HOME project within 12 months.

- Relocation costs: The Uniform Relocation Act and Section 104(d) apply to all HOME-assisted properties. Both permanent and temporary relocation assistance are eligible costs. Staff and overhead costs associated with relocation assistance are also eligible.

- Refinancing: HOME funds may be used to refinance existing debt on single-family, owner-occupied properties in connection with HOME-funded rehabilitation. The refinancing must be necessary to reduce the owner's overall housing costs and make the housing more affordable, and if the rehabilitation cost is greater than the amount of debt that is refinanced. Refinancing for the purpose of taking out equity is not permitted. HOME may also be used to refinance existing debt on multi-family projects being rehabilitated with HOME funds, if refinancing is necessary to permit or continue long-term affordability, and is consistent with PJ-established refinancing guidelines.

- Capitalization of project reserves: HOME funds may be used to fund an initial operating deficit reserve for new construction and rehabilitation projects for the initial rent-up period. The reserve may be used to pay for project operating expenses, scheduled payments to a replacement reserve and debt service for a period of up to 18 months.

- Project-related soft costs: These must be reasonable and necessary. Examples of eligible project soft costs include:
  - Finance-related costs;
  - Architectural, engineering and related professional services;
  - Tenant and homebuyer counseling, provided the household receiving the counseling ultimately becomes the tenant or owner of a HOME-assisted unit;

- Affirmative marketing and fair housing services to prospective tenants or owners of an assisted project; and
- Staff costs directly related to projects (not including TBRA.)

Prohibited Activities

The HOME Program regulations explicitly prohibit certain activities which are outlined below:

- Project reserve accounts: HOME funds may not be used to provide project reserve accounts (except for initial operating deficit reserves) or to pay for operating subsidies.

- Tenant-based rental assistance for certain purposes: HOME funds may not be used as rental assistance in conjunction with the federal Rental Rehabilitation Program to prevent displacements. They also may not be used for certain mandated existing Section 8 Program uses, such as Section 8 rent subsidies for troubled HUD-insured projects.

- Match for other programs: HOME Program funds may not be used as the "nonfederal" match for other federal programs except to match McKinney Act funds.

- Development, operations or modernization of public housing: HOME Program monies may not be used to provide assistance authorized under section 9 of the 1937 Act (Public Housing Capital and Operating Funds).

- Properties receiving assistance under 24 CFR Part 248 (Prepayment of Low-Income Housing Mortgages): Properties receiving assistance through the Low Income Housing Preservation and Resident Homeownership Act (LIHPRHA) or the Emergency Low Income Preservation Act (ELIHPA) are not eligible for HOME assistance except if the HOME assistance is provided to priority purchasers. These programs are no longer funded.

- Additional investment of HOME funds (double-dipping): During the first year after project completion, the PJ may commit additional funds to a project. After the first year, no additional HOME funds may be provided to a HOME-assisted project during the relevant period of affordability, except that:
  - Rental assistance to families may be renewed.
  - Rental assistance may be provided to families that will occupy housing previously assisted with HOME funds.
  - A homebuyer may be assisted with HOME funds to acquire a unit that was previously assisted with HOME funds.

- Acquisition of City-owned property: The City may not use HOME Program funds to reimburse itself for property in its inventory or property purchased for another

purpose. However, in anticipation of a HOME project, the City of Bethlehem may use HOME funds to:
  - Acquire property.
  - Reimburse itself for property acquired specifically for a HOME project with other funds.

- Project-based rental assistance: HOME funds may not be used for rental assistance if receipt of the funds is tied to occupancy in a particular project. Funds from another source, such as Section 8, may be used for this type of project-based assistance in a HOME-assisted unit. Further, HOME funds may be used for other eligible costs, such as rehabilitation, in units receiving project-based assistance from another source -- for example, Section 8 or state-funded project-based assistance.

- HOME funds may not be used to pay delinquent taxes, fees or charges on properties to be assisted with HOME funds.

- State recipients, subrecipients, community housing development organizations (CHDO), housing non-profits, and for-profit developers may not charge servicing, origination, or other fees for the purpose of covering costs of administering the HOME program.

The Property

Property Types

Depending on the nature of the program activity, HOME rules specify the types of property that are eligible for funding. Public facilities are not eligible under HOME even if constructed to serve a HOME-assisted project.

Property Value

For owner-occupied and homebuyer properties, HOME limits the value or purchase price of the property. The price or, in the case of rehabilitated properties, the value may not exceed 95 percent of the area median purchase price.

Property Standards

HOME-funded properties must meet certain minimum property standards.

New Construction:

- Housing must meet all applicable State and local codes, ordinances, and zoning requirements or in absence of State or local building code, the International Residential Code or International Building Code (as applicable to the type of housing) of the International Code Council.

- All new construction work must also conform to the International Energy Conservation Code (IECC) and applicable state or local energy conservation codes.

- Site and neighborhood standards: The site and neighborhood standards of 24 CFR 983.57(e)(2) and (3) applies only to the new construction of rental housing.

- Housing must meet the accessibility requirements of 24 CFR part 8, which implements Section 504 of the Rehabilitation Act of 1973, Americans with Disabilities Act implemented at 28 CFR parts 35 and 36, as applicable, and covered multifamily dwellings must meet the design and construction requirements at 24 CFR 100.205, which implements the Fair Housing Act.

- Disaster Mitigation: Housing must be constructed to mitigate the impact of potential disasters in accordance with State and local codes, ordinances or other requirements as HUD may establish (where applicable).

- Written cost estimates, construction contracts and construction documents. The City will ensure the construction contract(s) and construction documents describe the work to be undertaken in adequate detail so that inspections can be conducted. The City will review and approve written cost estimates for construction and determine that costs are reasonable prior to reimbursement.

- Construction progress inspections. The City will conduct progress and final inspections of construction to ensure that work is done in accordance with the applicable codes, the construction contract, and construction documents. Final reimbursement will be dependent on the issuance of a Certificate of Occupancy by the City.

Rehabilitation:

- Housing must meet all applicable State and local codes, ordinances, and zoning requirements or in absence of State or local building code, the International Existing Building Code of the International Code Council.

- All rehabilitation work must also conform to the International Energy Conservation Code (IECC) and applicable state or local energy conservation codes.

- Housing must address life-threatening deficiencies and code violations immediately, if housing is occupied.

- Uniform Physical Condition Standards -- The properties must be free of deficiencies established in 24 CFR 5.703 (Uniform Physical Condition Standards).

- Major Systems: Major systems are: structural support; roofing; cladding and weatherproofing (windows, doors, siding, gutters); plumbing; electrical; heating, ventilation, and air condition.
    - Major systems for rental housing – Upon project completion of each major system, the City must estimate (based on age and condition) the remaining useful

life of the major systems. For multifamily projects of 26 units or more, Bethlehem will determine the useful life of the major systems through a capital needs assessment.
    - Major systems for homeownership housing – Upon project completion, each major system must have a remaining useful life of at least five years or the major system must be rehabilitated or replaced as part of the rehabilitation work.

- Housing must address all work identified in the capital needs assessment.
    - A capital needs assessment will be completed for multifamily rental housing projects of 26 units or more to determine all work to be performed and identify and address the long-term physical needs of the project.

- Lead-based paint – Housing must meet the lead-based paint requirements at 24 CFR part 35.

- Disaster Mitigation -- Housing must be improved to mitigate the impact of potential disasters in accordance with State and local codes, ordinances or other requirements as HUD may establish (where applicable).

- Housing must meet the accessibility requirements of 24 CFR part 8, which implements Section 504 of the Rehabilitation Act of 1973, Americans with Disabilities Act implemented at 28 CFR parts 35 and 36, as applicable, and covered multifamily dwellings must meet the design and construction requirements at 24 CFR 100.205, which implements the Fair Housing Act.

- The work to be completed must meet the City's rehabilitation standards. The construction documents must be in sufficient detail to establish the basis for a uniform inspection of the housing to determine compliance with these standards.

- The City will conduct an initial property inspection to identify the deficiencies that must be addressed. The City will also conduct progress and final inspections to determine that work was done in accordance with work write-ups. A certificate of final inspection shall be issued after all work is satisfactorily complete and the project complies with all local codes.

Acquisition of Standard Housing

- Existing housing that is acquired for rental housing, and that was newly constructed or rehabilitated less than 12 months before the date of commitment of HOME funds, must meet the above property standards for new construction or rehabilitation projects, as applicable.

- All other existing housing that is acquired with HOME assistance for rental housing must meet the rehabilitation property standards requirements.

- Existing housing that is acquired for homeownership (e.g., down payment assistance) must be decent, safe, sanitary, and in good repair.

HUD property standards are found in the HUD Handbook, Minimum Property Standards for Housing.

City Definition of Standard Housing

The City considers housing "standard" when the units are structurally sound, provide safe and adequate shelter, do not endanger the health, safety or well-being of the occupants and are in compliance with municipal housing and property maintenance codes.

Manufactured Housing

Construction of all manufactured housing including manufactured housing that replaces an existing substandard unit under the definition of "reconstruction" must meet the Manufactured Home Construction and Safety Standards at 24 CFR 3280. The following requirements must also be met:

- Installed according to State and local laws or codes. In the absence of state or local laws or codes the unit must be installed according to the manufacturer's written instructions.
- At time of project completion, must be on a permanent foundation that meets the requirements for foundation systems as set forth in 24 CFR 203.43f(c)(i).
- At time of project completion, be connected to permanent utility hook-ups.
- At time of project completion, be located on land owned by the manufactured housing unit owner or has a lease equal to the applicable period of affordability.
- Existing manufactured housing, the foundation and anchoring must meet all applicable State and local codes, ordinances, and requirements or in the absence of local or state codes, the Model Manufactured Home Installation Standards at 24 CFR 3285.

Tenant-Based Rental Assistance

All housing occupied by tenants receiving HOME tenant-based rental assistance must meet the Housing Quality Standards at 24 CFR 982.401, or the successor requirements as established by HUD.

The Applicant/Beneficiary

The HOME Program is designed to provide affordable housing to low-income and very-low-income families and individuals. Therefore, the program has rules about targeting program resources and establishing applicant eligibility.

Program Targeting

- The City must use 100 percent of its HOME funds to assist families with incomes at or below 80 percent of the area median income (AMI).

- When HOME funds are used for rental housing or for TBRA, the City requires that at least 90 percent of HOME-assisted rental and TBRA households be at or below 60 percent of AMI.

- 20 percent of the units in each rental housing project containing five or more units must be occupied by tenant families with incomes at or below 50 percent of AMI.

<u>Applicant Income Eligibility</u>

Income eligibility: Beneficiaries of HOME funds -- homebuyers, homeowners or tenants -- must be low-income or very-low-income. Their income eligibility is determined based on annual income.

Annual income is the gross amount of income anticipated by all adult household members during the 12 months following the effective date of the determination. Annual income is sometimes referred to as gross income or annual (gross) income.

Calculating annual income: To calculate annual (gross) income, the City and subrecipients may choose among two definitions of income listed below. Subrecipients must clearly document the way in which they have calculated income for tenants or homebuyers.

1. Section 8 (Part 5) annual (gross) income: The HOME program has always used the Section 8/Part 5 definition of annual income. It is still an acceptable definition to use for funded activities.
2. IRS adjusted gross income: The final rule allows HOME participants to determine annual income by using the calculation for “adjusted gross income” (“annual income” under HOME) outlined in the federal income tax IRS Form 1040.

Only one definition of income may be used for each program administered.

<u>Income Verifications</u>

Initial Verification: To determine if program applicants are income-eligible, Recipients must verify income using at least 2 months source documentation evidencing annual income such as wage statements, interest statements, and unemployment compensation statements for the family.

Note: Annual income should include all adult household members, including nonrelated individuals living in the household.

- Income eligibility is based on anticipated income. When collecting income verification documentation, also consider any likely changes in income. For example, last year’s tax return does not establish anticipated income; nor is it adequate source of sole documentation.

- Once initial income verification is completed, a subrecipient is not required to re-examine the applicant’s income unless six months has elapsed before assistance is provided.

Annual Re-examinations: For rental and TBRA programs, annual re-certifications of income are required. The HOME Program regulations require that income must be verified with source documentation every six years.

Long-Term Affordability

To ensure that HOME investments yield affordable housing over the long term, HOME imposes rent and occupancy requirements over the length of an affordability period.

Affordability Periods

For homebuyer and rental projects, the length of the affordability period depends on the amount of the HOME investment in the property and the nature of the activity funded. The table below provides the affordability periods.

ACTIVITY	AVERAGE PER-UNIT HOME $	MINIMUM AFFORDABILITY PERIOD
Rehabilitation or Acquisition of Existing Housing for Rental or Homebuyer Programs	<$15,000/unit $15,000-$40,000/unit >$40,000	5 years 10 years 15 years
Refinance of Rental Rehabilitation Project	Any $ amount	15 years
New Rental Construction or Acquisition of New Rental Housing	Any $ amount	20 years

Occupancy

Throughout the affordability period, the HOME-assisted housing must be occupied by income-eligible households.

- Rental housing: When units become vacant during the affordability period, subsequent tenants must be income-eligible and must be charged the applicable HOME rent.
- Homebuyer assistance: If a home purchased with HOME assistance is sold during the affordability period, recapture provisions apply to ensure the continued provision of affordable homeownership.

Cost Allocation and Subsidy Layering

As described in this chapter under "Project Subsidy Limits", the City performs a cost allocation and subsidy layering review of HOME projects to determine the appropriate subsidy amount to the project. The developer of the project should submit their own analysis with their project proposal. The City will review this analysis and may elect to perform its own to verify the proposal is requesting the appropriate amount of subsidy.

The actual HOME Investment in a project depends on the following factors.

- The proportion of the total project cost that is HOME-eligible.
- How many of the units in the project are HOME-assisted.
- The financial needs of the project. HOME projects may not receive more subsidy than is required to make them financially feasible.

To determine what is required and reasonable, the City will complete a cost allocation and subsidy layering review.

Cost allocation and subsidy layering are impacted by any changes in the proportion of HOME-assisted unit to total units in the project, development cost or financing sources.

Because of these requirements, HOME subrecipients are obligated to contact the City's Department of Community and Economic Development as soon as there are any changes in project size/scope, cost or financing sources at any point during the development of the project. The changes should be incorporated into a revised project budget and Subsidy analysis if additional funds are being requested as a result of the changes.

<u>Cost Allocation</u>

HOME rules create a minimum number of HOME-assisted units a project must have. This amount is based on the proportional share of total eligible costs to be paid with HOME funds.

Example: The City is considering a request for HOME funds from a housing developer for a 20-unit building. The HOME-eligible development costs total $400,000. The developer has requested $100,000 in HOME funds. Since the HOME funds represent one-fourth of the total eligible development costs, the City must require the project to have at least five HOME-assisted units, the "floor."

Example: When a CHDO approached the City for development funds for a 30-unit rehabilitation project, the City decided to subsidize half of their units. All of the units were comparable in size, features, number of bedrooms and development cost. Consequently, the City provided half of the $600,000 in HOME-eligible development costs (i.e., $300,000) to the developer and 15 of the 30 units were designated HOME-assisted.

Before determining the allowable HOME subsidy amount, the City establishes the total HOME-eligible cost for the project. Once the total HOME-eligible costs are established for the project, the City then must allocate costs across units.

If both the assisted and non-assisted units are comparable in size, features and number of bedrooms, the HOME-eligible costs can be pro-rated across units. (Since *floating* units, by definition, must be comparable, costs should always be pro-rated.)

If the assisted and non-assisted units are not comparable, the actual costs must be determined and allocated unit-by-unit. The specific units identified to "receive" HOME funds must be *fixed* -- that is, designated as HOME-assisted and subject to compliance for the entire affordability period.

HUD Notice CPD 98-02 provides further guidance on allocating costs in projects with HOME and non-HOME units. A copy of the notice can be located online at https://www.hudexchange.info/resources/documents/Notice-CPD-98-02-Allocating-Costs-HOME-Assisted-Multi-Unit-Projects.pdf

Underwriting and Subsidy Layering

The 2013 HOME Final Rule requires underwriting for all HOME projects (rental and homebuyer) whether or not the projects are assisted with other governmental assistance.

Before committing funds to a project, the City evaluates the project in accordance with guidelines that it has adopted for determining a reasonable level of profit or return on owner's or developer's investment in a project and must not invest any more HOME funds, alone or in combination with other governmental assistance, than are necessary to provide quality affordable housing that is financially viable for a reasonable period of time (at minimum, the period of affordability).

The City conducts the subsidy layering review in accordance with the guidelines presented in HUD Notice CPD-98-01. These guidelines include review of the following project documents:

- Sources/uses of funds: Subrecipients are required to provide the City with the sources/uses of funds statement for the project with supportive documentation. This statement should reflect the project development budget and should list:
    - All proposed sources (both private and public) of funds and the dollar amounts for each respective source; and
    - All proposed uses of funds (including acquisition costs, rehabilitation/or construction costs, financing costs and professional fees) associated with the project.

- Certification of governmental assistance: Subrecipients must provide a formal certification as to whether or not (and in what form) additional governmental assistance will be provided to the project.

- Project development budget: Subrecipients must provide the City with the project development budget so that the City can determine whether the development costs are necessary and reasonable. The budget should include all costs associated with the development of the project, regardless of the funding sources. "Reasonableness" of costs will be based on all of the following factors:
    - Costs of comparable projects in the same geographical area;
    - Qualifications of the cost estimators that developed the various budget line items
    - Comparable costs published by recognized industry cost index services.

- Proforma: The City will determine the reasonableness of the rate of return on equity investment by looking at the Subrecipient's proforma.
    - The proforma should include achievable rent levels, market vacancies and operating expenses.
    - It should also specify the consequences of tax benefits, if any, and any other assumptions used in calculating the project cash flow.

- The proforma should represent, at a minimum, the term of the HOME affordability requirements, or longer if other funding sources require longer affordability terms.

As mentioned above, the City conducts its cost allocation and subsidy review upfront to determine the appropriate HOME subsidy to the project; however, cost allocation and subsidy layering are impacted by any changes in the proportion of HOME-assisted unit to total units in the project, development cost or financing sources. This means all HOME subrecipients are obligated to contact the City's Department of Community and Economic Development as soon as there are any changes in project size/scope, cost or financing sources at any point during the development of the project.

Full project underwriting and subsidy layering procedures are located in Appendix A.

CHAPTER 4: HOMEOWNER HOUSING REHABILITATION PROGRAM--OWNER-OCCUPANTS

The City of Bethlehem's Housing Rehabilitation Program can help eligible owner-occupants to rehabilitate or reconstruct their homes. This chapter covers the specific rules that apply to this activity and the HOME requirements involved with housing rehabilitation.

Program Assistance Available

The City of Bethlehem may structure HOME assistance for owner-occupied rehabilitation using any of the following forms of assistance:

- Grants;
- Deferred-payment loans;
- Direct Loans; and
- Interest subsidies or Loan guarantees.

When using HOME funds for housing rehabilitation, the residence must have all code deficiencies remedied or the program may not be used. Rehabilitation must be performed according to the City's written property standards and undergo an environmental review prior to the approval of any project.

Eligible Recipients

The HOME Program and the City rules and regulations define both eligible recipients of the housing rehabilitation program as well as the eligible activities these recipients may undertake.

General Eligibility

To be eligible for HOME funds, the homeowner must:

- Be low-income; having an annual (gross) household income that does not exceed 80 percent of median for the area, adjusted for family size
- Occupy the property as their principal residence at the time of City approval
- Complete the appropriate program application and furnish all required documents

Income Eligibility Requirements

- Source documents, such as wage statements, interest statements, unemployment compensation statements, and other appropriate source documentation, must be reviewed to determine annual (gross) income.
- Eligibility is based on anticipated income during the next 12 months.
- Income verifications must be completed before HOME assistance is provided, and must be sent to the City for their records each year.

Ownership Requirements

The homeowner must provide proof of fee simple title or 99-year lease and owner occupancy for the past three (3) consecutive years to the City or subrecipient. A family or individual owns the property if they have fee simple title or 99-year leasehold to the property, and there are no restrictions or encumbrances that would unduly restrict the good and marketable nature of the ownership interest. To ensure proper ownership, a title search must be performed prior to funding the activity.

If refinancing is involved, a mortgage history letter on the current lien is due at the time of application submission to the City. Existing mortgages may be acceptable, but will be reviewed for acceptability on a case-by-case basis provided documentation is submitted from the mortgagee showing current loan status.

The homeowner must provide proof of hazard insurance at an amount sufficient to cover replacement of the structure prior to release of retainage for all housing projects.

Life estates, land installment contracts, or contracts for deeds are not eligible forms of ownership.

Affordability Period Terms and Conditions

During the loan term, homeowners must maintain the unit as their principal residence and abide by certain rules in the event of a refinancing or change in ownership. The applicant must sign an agreement to reside in and maintain the property for a period of ten (10) years or until property is sold, whichever occurs first.

Principal Residence Requirement

During the loan term the homeowner must maintain the unit as their principal residence and as a result, may not rent out their unit to another household.

The City may verify this requirement annually by:

- Certified letter sent to the homeowner
- Verification of insurance on the property
- Review of annual tax records.

Temporary Non-Compliance Status – Principal Residency

City of Bethlehem will waive residency requirements for a homeowner who is unable to reside in the home as their principal residence due to heath conditions or a life threatening for up to six months. The homeowner is required to contact the City and provide documentation such as a physician's order, rehabilitation facility confirmation, etc.

Changes in Ownership

Any change to the deed of the property during the loan term constitutes a default on the part of the homeowner, allowing the entire amount of the loan to be called for repayment.

Eligible Activities

Home funds may be used to assist existing homeowners with the repair, rehabilitation or reconstruction of owner-occupied units.

Whenever HOME funds are used for rehabilitation, the work must be performed according the City's written rehabilitation standards and the unit must be brought up to the applicable local codes.

This means that the City may not undertake some forms of special purpose homeowner repair programs, such as:

- Weatherization programs
- Emergency repair programs
- Handicapped accessibility programs

Weatherization, emergency repairs, and accessibility are only permitted if part of a larger scope of work to bring the property to applicable property standards.

Reconstruction

Reconstruction is defined as the rebuilding of housing on the same lot that is standing on a site at the time of application approval by the City. The dwelling must also be owner-occupied at the time of approval.

Reconstruction is considered homeowner rehabilitation even though this activity involves construction of a new housing unit, so long as the following requirements are met:

- The number of housing units on the lot are not decreased or increased as part of a reconstruction project
- Note that the number of rooms per unit may be increased or decreased
- An existing substandard unit of manufactured housing is replaced with a new or standard unit of manufactured housing

Refinancing

In certain instances, the City will allow the homeowner to refinance their first mortgage during the loan term. This is permitted only to allow the owner to obtain a lower interest rate on the first mortgage. The owner cannot receive cash proceeds from the transaction, and total indebtedness cannot exceed the value of the property.

Refinancing is eligible for existing secured debt if:

- The housing is owner-occupied;
- The primary activity is rehabilitation;
- HOME funds are loaned for rehabilitation;
- The cost of rehabilitation exceeds the amount of debt to be refinanced; and
- Refinancing allows the borrower's overall housing costs to be reduced and the housing is made more affordable.

HOME funds cannot be used to refinance Federal debt (e.g. FHA loan).

Eligible Costs

Eligible costs under the HOME Program may include the hard costs and soft costs of rehabilitation as well as project-related soft costs, as defined below. Subrecipients must ensure only these eligible costs are incurred.

Hard Costs

Eligible hard costs are the actual costs associated with the rehabilitation or reconstruction of owner-occupied housing units. Hard costs include:

- Construction costs required to meet the rehabilitation standards and/or applicable codes, standards, and ordinances,
- Essential improvements,
- Energy-related improvements,
- Lead-based paint hazard reduction,
- Accessibility modifications for disabled persons,
- Repair or replacement of major housing systems,
- Repairs and general property improvements of a non-luxury nature, and
- Site improvements and utility connections.

Soft Costs

Soft costs are related costs in a rehabilitation project that are not direct construction costs. Eligible soft costs include:

- Financing fees,
- Credit reports,
- Insurance,
- Recording fees,
- Appraisals,
- Pest Inspections,
- Water and well testing,
- Work write-ups,
- Initial and job progress inspections,
- Project costs incurred by the PJ that are directly related to a specific project,
- Relocation costs.

Cost and Assistance Limits

Costs on all City assisted owner-occupied rehabilitation/reconstruction units are subject to minimum and maximum per unit subsidy limits. The minimum per unit subsidy limit is $1,000. The maximum per unit subsidy limit (as established under the FHA 221(d)3 program) varies by PJ. The City will provide this information for the project year.

Eligible Properties

To be eligible for HOME assistance, a property must be occupied by an income-eligible homeowner and the owner's principal residence.

The following property types may be included under the program for either rehabilitation or reconstruction:

- Traditional, single-family housing with one to four dwelling units that is owned fee simple or homeowner may have a 99-year lease
- A condominium unit that is owned fee simple or homeowner may have a 99-year lease
- A manufactured housing unit, including a mobile home or trailer, is eligible only for reconstruction.

If HOME funds are used to assist the attached rental units in a two-to-four-unit residence, the HOME rental requirements apply to the units. This means that the property owner will become a landlord and be responsible for compliance with the HOME rental rules during the rental affordability period. For instance, owners will need to determine initial and annual income-eligibility of tenants, set rents that comply with the HOME rent restrictions, and maintain the units in accordance with the PJ's applicable property standards. The PJ will need to monitor the owner/property throughout the affordability period, to ensure compliance with these rental requirements.

Ineligible Properties

The following are ineligible for either rehabilitation or reconstruction:

- Properties that are not the owner's principle residence (i.e. vacation homes)
- Rental properties
- Manufactured housing units (mobile homes or trailers) are ineligible for rehabilitation.

Maximum Property Value

The value of the assisted property after rehabilitation/reconstruction must not exceed the 95% of the area median purchase price existing housing in the area. HUD will provide these on a yearly basis.

To establish project eligibility, the subrecipient must establish the after-rehabilitation value prior to initiating work on a unit. The after-rehabilitation value may be established by one or more of the following methods:

- Estimates of value: Estimates of value may be used. Project files must contain the estimate of value and document the basis for the value estimates. A comparable sale is defined as sales within the last six to twelve months in an adjacent neighborhood of similar property type that involve the same features, amenities, and square footage.
- Appraisals: Appraisals establishing the "post rehabilitation value", prepared by a licensed fee appraiser for appraiser of the subrecipient, may be used. Project files must document the appraised value and the appraisal approach used. The proposed scope of work must be provided to the appraiser prior to site visit.

- Tax assessments: Tax assessments for a comparable property located in the same neighborhood may be used to establish the after-rehabilitation value if the assessment is current and accurately reflects market value after rehabilitation.

The City requires the subrecipient to submit prior documentation of maximum property value and method used to establish value at the time of application.

Property Standards

Standards applicable to both rehabilitation and reconstruction projects:

- International Code Council's (ICC) International Residential Code;
- International Code Council's (ICC) International Building Code
- All applicable state and local property codes, and
- All applicable state and local property codes and zoning ordinances
- Handicapped accessibility requirements (where applicable)
- Disaster Mitigation Standards (when applicable)

Standards applicable to rehabilitation projects only:

- Rehabilitation standards, the method, materials and techniques used in the renovation, remodeling and repair of a unit, and
- Health and Safety
- Major Systems
- Uniform Physical Condition Standards (UPCS) pursuant to 24 CFR 5.703
- Handicapped accessibility requirements (where applicable)
- Lead-Based Paint if the building was constructed before 1978.
- Disaster Mitigation Standards (when applicable)

Standards applicable to reconstruction projects only:

- Handicapped accessibility requirements (where applicable)
- Disaster Mitigation Standards (when applicable)

Lead Based Paint

If the dwelling unit was built prior to 1978, the subrecipient must comply with the rehabilitation requirements of the Lead Safe Housing Rule (24 CFR Part 35, Subpart J). The purpose of the regulation is to identify and address lead-based paint hazards before children are exposed to lead. The requirements of the Lead Safe Housing Rule depend on the level of assistance provided to the unit. The summary below provides a brief overview of the regulations.

- For units with a level of assistance less than $5,000, paint testing must be conducted on all painted surfaces to be disturbed or replaced during the renovation, or it must be presumed that all these painted surfaces are coated with lead-based paint. Safe work practices must be employed during the rehabilitation work, and upon completion, a clearance examination of the worksite is required. Clearance of the worksite is required prior to the unit being reoccupied.

- For units with a level of assistance over $5,000 and up to $25,000, lead hazards must be identified by a risk assessment (or presumed to be present) and then addressed through interim controls or standard treatments. Proper safe work practices, trained staff, and unit clearance are also required.
- For units with a level of assistance over $25,000, lead hazards must be identified through a risk assessment (or presumed to be present) and addressed through abatement by a certified abatement contractor. Clearance is required.

The level of assistance is defined as the lesser of the per unit Federal assistance or the per unit hard costs of rehabilitation. When calculating the per-unit hard costs of rehabilitation, do not include the lead hazard reduction costs.

CHAPTER 5: HOMEOWNER HOUSING PROGRAM- HOMEBUYER

The City of Bethlehem's HOME program can help eligible homebuyers purchase a home. This chapter covers the specific requirements that apply when assisting homebuyers.

Assistance to homebuyers may involve development activities (acquisition and new construction or rehabilitation) or simple help with financing. Subrecipients and developers that participate in this program are responsible for screening homebuyers for eligibility and administering the homebuyer development activities in compliance HOME Program requirements. This chapter discusses HOME requirements including

- Eligible subrecipients and activities
- Forms of financial assistance
- Eligible costs
- Cost and assistance limits
- Eligible properties
- Eligible homeowners
- Affordability period

Eligible Subrecipients and Activities

Under the City program guidelines, eligible subrecipients are the owner/developer/sponsors of the affordable housing project. These may be public housing authorities, Community Housing Development Organizations (CHDOs) and other nonprofits, and for-profit entities. In particular, the eligible subrecipient will be the entity responsible for project development, but may also include all affiliated entities, such as an owner that is also the property manager.

Eligible Activities

The City's HOME program allows for a variety of homebuyer activities including acquisition, rehabilitation and resale, new construction of affordable homes, and direct assistance to eligible homebuyers.

NOTE: A CHDO's set-aside funds may not be used for a down payment program alone, however the CHDO may, in the capacity of a subrecipient, administer such a program, or provide such assistance in connection with a homebuyer development project.

- Acquisition, Rehab, and Resale
    - HOME funds may be provided to a private or non-profit developer, including a CHDO, to acquire and rehabilitate substandard properties.
    - To be eligible for HOME rehabilitation funds, the repairs to the existing home must address all health, safety and property code problems identified at inspection.
    - Rehabilitation must be performed in compliance with all City codes and regulations.
    - When rehabilitation is complete, the property must be sold to an eligible low-income homebuyer

- New Construction
  - New construction involves the development of new housing units on vacated or improved land.
  - Improved land that has existing structures must be either owner occupied or vacant at the time of purchase.
  - If the construction involves replacing an existing manufactured housing unit with a newly constructed housing unit, the program defines this activity as new construction and must meet the requirements for new construction.
- Direct Homebuyer Assistance
  - Direct homebuyer assistance may be provided in the form of down payment and/or closing cost assistance or gap financing
  - The home must meet all applicable safety and code standards and be in move-in condition
  - If HOME funds are used to assist a homebuyer who has entered into a contract to purchase housing to be constructed, the homebuyer must qualify as a low-income family at the time the contract is signed
  - This is not an eligible standalone activity for CHDO set-aside funds, however the CHDO may provide direct HOME assistance to a homebuyer purchasing a unit the CHDO acquired under the acquisition/rehab/resale program.

Forms of Financial Assistance

Eligible forms of assistance for homebuyer programs include:

- Grants
- Deferred Payment Loans
- Direct Loans

The form of assistance may depend on the type of homebuyer project being delivered and the needs of the target recipients.

Eligible Costs

Under HOME, a variety of costs are eligible for homebuyer housing including hard costs, soft costs, and relocation costs.

Hard Costs

These are the actual costs associated with the acquisition and rehabilitation or new construction of homebuyer housing units such as:

- Acquisition of land and existing structures,
- Site preparation or improvement, including demolition,
- Construction materials and labor, and
- Utility connections, including from the property line to the adjacent street

For acquisition and rehabilitation projects, the cost of the rehabilitation must be reasonable compared to the value of the house. (i.e., the level of rehabilitation is intended to allow continued owner occupation for at least the affordability period as required by the HOME Program).

Soft Costs

- Soft costs include the following:
- Financing fees,
- Credit reports,
- Title binders and insurance,
- Surety fees,
- Recording fees,
- Legal and Accounting fees,
- Appraisals,
- Architectural/engineering fees,
- Initial and job progress inspections,
- Environmental investigations,
- Developer fees,
- Affirmative marketing costs,
- Homebuyer counseling,
- Project costs incurred by the PJ that are directly related to a specific project

Project-related soft costs are eligible only for costs directly associated with the HOME Program funded development project and must be allocated on a prorated basis among HOME-assisted units. Administrative and project-related soft costs must be supported by a copy of a detailed bill or invoice highlighting the costs to be reimbursed. Additionally, all invoices must have an authorized signature of the Subrecipient's Executive Director, or their designee.

Relocation Costs

Relocation costs associated with homebuyer projects that trigger relocation, such as displacement of an existing tenant, are eligible HOME costs. Eligible relocation costs may include:

- Replacement housing costs,
- Moving costs,
- Out-of-pocket expenses,
- Advisory services, and
- Staff and overhead costs related to relocation assistance and services.

Projects are typically designed to include only owner-occupied or vacant units to avoid the displacement of existing tenants.

Eligible Properties

The HOME Program has requirements for properties regarding the type of property and the physical standards they must meet. Subrecipients or developers must ensure these requirements are met prior to and post application.

To be eligible for HOME assistance, a property must be the homebuyer's principal residence for the affordability period. The home may be:

- Traditional, single-family housing with one to four dwelling units that is owned fee simple or homeowner may have a 99-year lease
- A condominium unit that is owned fee simple or homeowner may have a 99-year lease
- A manufactured home

When HOME funds are used to purchase a property with two to four units, certain rules apply. The project is strictly a homebuyer project if HOME funds are used for a portion of the purchase and pay ONLY for the unit that will be occupied by the homebuyer as his or her principal residence. The long-term affordability requirements apply to the assisted ownership unit only. However, if HOME funds are used to help a purchaser acquire an additional units in the structure, then the HOME rental requirements apply to the additional units.

When HOME funds are used to purchase a manufactured home, at the time of project completion the housing unit must be on a permanent foundation and connected to permanent utility hook-ups. The unit must be located on land that's owned by homebuyer, or on land that has a lease for a period at least equal to the applicable period of affordability.

Maximum Property Value and Sales Price

Housing that is acquired, newly constructed, and/or acquired and rehabilitated with HOME funds must be modest. Modest means that the property value cannot be greater than 95% of the area median purchase price. To be considered for HOME funding, the proposed sales price or after rehabilitation value must be within the 95% area median purchase price limits. HUD provides these limits on an annual basis for both new construction and existing housing.

Property Standards

The required property standards that must be met at project completion depend on the activity type undertaken. Activity types include new construction, acquisition and rehabilitation of existing housing, or acquisition only.

New Construction must:

- Meet state and local residential building codes, ordinances, and zoning requirements
- Meet the energy efficiency standards in compliance with the 2009 International Energy Conservation Code and the American Society of Heating, Refrigerating, and Air-Conditioning Engineers (ASHRAE) standard 90.1-2007

Acquisition and Rehabilitation must:

- Meet state and local residential building codes, ordinances, and zoning requirements
- Be free of specific deficiencies identified by HUD pursuant to [24 CFR 5.705]
- Provide for a minimum of 5 years of useful life of major systems including
    - Structural support,
    - Roofing,
    - Cladding and weatherproofing,
    - Plumbing,
    - Electrical, and
    - HVAC

  Systems of components not meeting this standard must be included in the scope of work for replacement

Acquisition Only must:

- Meet state and local residential building codes, ordinances, and zoning requirements
- Be free of specific deficiencies identified by HUD pursuant to [24 CFR 5.705]

The PJ must inspect the housing and document compliance with its property standards based upon an inspection that is conducted no earlier than 90 days before the commitment of HOME assistance. If the housing does not meet these standards, the housing must be rehabilitated to meet property standards for existing homebuyer housing.

Lead-Based Paint

If the dwelling unit was built prior to 1978, the subrecipient must comply with the rehabilitation requirements of the Lead Safe Housing Rule (24 CFR Part 35, Subpart J). The purpose of the regulation is to identify and address lead-based paint hazards before children are exposed to lead. The requirements of the Lead Safe Housing Rule depend on the level of assistance provided to the unit. The summary below provides a brief overview of the regulations.

- For units with a level of assistance less than $5,000, paint testing must be conducted on all painted surfaces to be disturbed or replaced during the renovation, or it must be presumed that all these painted surfaces are coated with lead-based paint. Safe work practices must be employed during the rehabilitation work, and upon completion, a clearance examination of the worksite is required. Clearance of the worksite is required prior to the unit being reoccupied.
- For units with a level of assistance over $5,000 and up to $25,000, lead hazards must be identified by a risk assessment (or presumed to be present) and then addressed through interim controls or standard treatments. Proper safe work practices, trained staff, and unit clearance are also required.
- For units with a level of assistance over $25,000, lead hazards must be identified through a risk assessment (or presumed to be present) and addressed through abatement by a certified abatement contractor. Clearance is required.

The level of assistance is defined as the lesser of the per unit Federal assistance or the per unit hard costs of rehabilitation. When calculating the per-unit hard costs of rehabilitation, do not include the lead hazard reduction costs.

Eligible Beneficiaries

To be eligible for HOME funds, the homebuyer must:

- Be low-income, with an adjusted gross income as defined under IRS Form 1040 that does not exceed 80 percent of median for the area, adjusted for family size;
- Occupy the property as a principal residence through the period of affordability
- Complete all required applications and provide all necessary documents for the program.
- Receive housing counseling provided by a HUD-Certified Housing Counselor.

Housing Counseling

Housing counseling programs address financial and credit issues as well as homeowner maintenance and repair. PJs can pay for the housing counseling associated with a HOME homebuyer program with HOME funds either:

- As an eligible project cost, for people assisted with HOME funds, or
- As an administrative cost (including counseling costs for people not assisted.

Additionally, PJs can charge a reasonable fee to the homebuyer for counseling. However, HOME funds cannot be used to pay for a stand-alone housing counseling program.

Income Eligibility Requirements

Subrecipients are required to use income verification forms, including a verification of employment, for calculating and verifying the annual incomes of the family. Annual income shall include the income of *all persons in the household*, *which includes all adult nonrelated individuals living in the household.* Subrecipients must *e*xamine at least two (2) months of source documents, such as wage statements, interest statements, unemployment compensation statements, or other supporting income documentation, to determine annual (gross) income. Income eligibility is based on anticipated income during the next 12 months.

Timing of income verification varies by type of activity:

- For participants in the DPCAP or housing rehabilitation programs, income verifications must be completed before HOME assistance is provided.
- For new construction purchased from a subrecipient, income verification must be completed before the contract to purchase is signed.

Note that in either instance, income need does not be re-examined at the time HOME assistance is actually provided unless more than six months has elapsed since the initial verification by the homeowner.

Homebuyer Underwriting

Each project must be underwritten to ensure a proper amount of HOME subsidy is provided to each individual homebuyer and that the affordability is sustainable for the household. The following will be examined as part of the beneficiary underwriting process:

- Housing and overall debt;
- Monthly expenses;
- Assets or cash reserves;
- Appropriateness of the amount of assistance.

Affordability Period

The City requires an affordability period for homebuyer projects. During this period, homebuyers must maintain the unit as their principal residence and abide by certain rules in the event the unit is sold, is no longer the homebuyer's principal residence, or is refinanced. Subrecipients or developers must ensure these requirements are described to prospective homeowners prior to application and then met post application. Homeowners are required to execute an agreement regarding the recapture of HOME assistance should the unit not comply with the affordability period.

The affordability periods for homebuyer loans are summarized in the table below:

ACTIVITY	**AVERAGE PER-UNIT HOME $**	**MINIMUM AFFORDABILITY PERIOD**
Rehabilitation or Acquisition of Existing Housing	<$15,000/unit $15,000-$40,000/unit >$40,000	5 years 10 years 15 years

Principal Residence Requirement

During the affordability period, the homebuyer must occupy the unit as its principal residence.

The City or developers should have a method for annual principal residence verification. Some options include:

- Certified letter sent to the homebuyer
- Verification of hazard insurance on the property and/or
- Review of annual tax records

Refinancing Policy for Homebuyer Programs

To maintain affordability of the HOME unit, a homebuyer may elect to refinance their first mortgage during the deed restriction period.

The first mortgage may be refinanced to obtain a better rate or term, or to collateralize home improvements. The new loan may not exceed 90% loan-to-value. To ensure that any new loan is reasonable and sustainable, the following terms apply:

- Fully-amortized fixed-rate
- Term up to 30 years
- Rate not to exceed 1.5% above current Average Prime Offer Rate
- New debt-to-income ratio not to exceed 33%

Terms of the refinance must be provided to the City of Bethlehem along with any subordination request.

IDIS Project Completion

Complete project information must be entered into IDIS within 120 days of the final project drawdown. Per 24 CFR 92.2, a project is considered complete when all construction work has been performed, necessary title transfer requirements have been completed, the project complies with all HOME requirements including property standards, and accomplishment data has been entered into IDIS. To be considered complete, CPD staff must receive a copy of the Certificate of Occupancy for the completed unit. Ten percent (10%) of the HOME award shall be retained until the project meets all of the requirements for completion including requirements that a homebuyer unit must be under an approved sales contract within 9 months of construction completion.

Recapture Requirements

The HOME Program requires that if a property is sold, either voluntarily or involuntarily (e.g., foreclosure) during the affordability period, the HOME investment must be repaid. The HOME Program refers to this repayment requirement as “recapture.”

This “direct HOME assistance” is defined as a “mortgage subsidy” and includes the following Bethlehem programs:

- DPCAP down payment and closing costs
- Homeowner rehabilitation
- Reduction in purchase price from market value to an affordable sales price

Under the City’s recapture policy, any unforgivable portion of an amount of direct HOME assistance is due when the property is sold (or title is transferred) during the period of affordability, subject to net proceeds, to protect the HOME investment throughout the period of affordability.

Net proceeds are defined by the sales price minus superior loan repayment (other than HOME funds, if applicable) and any seller’s closing costs. If the net proceeds exceed the amount of HOME assistance, the homebuyer will receive the balance of these proceeds. If the net proceeds are less than the amount of HOME assistance, the amount available will be repaid to the City and the loan will be considered satisfied.

The recaptured amount shall be determined by the following formula:

HOME direct subsidy/Total project cost x net proceeds = Recapture amount

Resale Requirements

When HOME funds are provided to a CHDO/Developer/Owner to develop homebuyer unit(s) with no additional assistance paid to the homebuyer, the City elects to implement resale provisions to meet the affordability requirements applicable to the project.

Resale Terms and Conditions

1. Homebuyer Household Income must be less than 80% AMI adjusted for family size.
2. Affordability Period – a low-to-moderate household must occupy the residence during the entire affordability period
3. The homebuyer must occupy the property as their principal residence
4. Upon sale of the property the initial homeowner must receive a "fair return"
   Fair Return – homeowner's return on original investment including down payment and any capital improvements, less the amount of deferred maintenance that does not meet local code requirements and remediation of all deficiencies identified during inspection.
5. **Capital Improvements** – Homebuyer would obtain approval from City prior to work being completed
   a. Energy upgrades – HVAC, Water Heater, Insulation
   b. Home modernization
6. **Consumer Price Index –** used to calculate the percent gain which applies to sales within the affordability period
7. Resale Process – When a Resale is triggered during the Period of Affordability, the homeowner and developer shall immediately notify the City and HOME Program staff.
   a. The City shall agree to the new sale price with professional consultation and appraisal
   b. Confirm the fair return calculation
   c. Verify income eligibility of the subsequent homebuyer
   d. Confirm principal residency requirement
   e. Ensure property is affordable to a reasonable range of low-income homebuyers
   f. New HOME funds invested for the subsequent low-income homebuyer will extend the period of affordability according to HOME regulations.
8. Default – failure to comply with the period of affordability requirements may result in demanding repayment of the development subsidy provided to the homebuyers.

CHAPTER 6: RENTAL HOUSING ACTIVITIES

HOME funds may be used for the acquisition, new construction or rehabilitation of affordable rental housing. This chapter covers the basic HOME program requirements that apply to rental housing activities.

The City of Bethlehem uses HOME funds to expand the supply of affordable rental housing for low-income and very low-income households. To ensure that HOME funds are used effectively and efficiently, and to meet the requirements of the HOME Program, subrecipients of rental funds must meet the rules set forth in this chapter. Generally, the HOME program requires the following of rental projects:

- Adherence to the requirements regarding eligible subrecipients and activities, forms of assistance, eligible costs and property type and property standards.
- Once established, it must be leased up in accordance with HOME occupancy requirements.
- Over the course of its affordability period, the project must be managed to maintain compliance with HOME rent and occupancy requirements. This means continued attention to eligible tenants; income verification and recertification, adjusting rents as tenant income increases and the requirements for proper leases.
- Recordkeeping responsibilities include the maintenance of records at the property and program level to document compliance with all program requirements.

Additionally, to extend the impact and reach of these funds, the City encourages the use of HOME funds with other resources (both public and private) available for the development of affordable rental housing.

Eligible Subrecipients and Activities

The HOME Program and City rules and regulations define both eligible subrecipients of the rental program as well as the eligible activities these subrecipients may undertake. For the City of Bethlehem, “subrecipient” traditionally means the owner/developer/sponsors of the affordable housing project. These may be Community Housing Development Organizations (CHDOs), other nonprofits, and for-profit entities.

Eligible Activities

The City uses HOME funds to support a range of rental activities including:

- Acquisition of land or existing structures
- New construction
- Rehabilitation of existing structures
- Reconstruction of both multi-family and single family structures

For multi-family rental projects, the number of units designated as HOME-assisted may only be reduced for troubled projects in accordance with §92.210.

Terminated Projects

If HOME funds are expended for projects that are terminated before completion, voluntarily or involuntarily, the HOME funds that have been expended are ineligible and must be repaid. The developer must terminate any project that does not meet the HOME requirements for affordable housing (affordability provisions, income targeting, property standards etc.) and repay the HOME funds expended for the project.

The termination of affordability restrictions does not relieve the developer of its repayment obligations for housing that does not remain affordable for the required period.

Forms of Assistance

The City provides permanent loans which are proceeds used to repay the construction, bridge and predevelopment loans (CHDO only). HOME assistance is gap financing and as such will not finance all of the total development costs.

All loans must be evidenced by full executed HOME agreement a term that coincides with the affordability period.

Eligible Costs

Eligible expenses for rental property include hard costs, soft costs, and relocation costs, as listed in the previous chapter on Homebuyer Programs. However, rental programs include additional eligible costs such as predevelopment costs and operating deficit reserves.

Predevelopment expenses include staff costs of the developer, legal fees, architectural and engineering fees, appraisals, and loan application fees. These expenses cannot be incurred before completion of the applicable level of environmental review unless they are non-site-specific or have no choice-limiting impact and are no more than 24 months prior to commitment of HOME funds. No payment may occur until after the written agreement is executed. The written agreement must explicitly permit HOME funds to pay for any professional services if incurred prior to the execution of the written agreement.

Operating Deficit Reserves – While units are still being marketed and the project is leasing up, the property may not be generating cash flow sufficient to pay operating costs. This initial lease up operating reserve may be funded with HOME funds and should be estimated for the length of the projected lease-up period.

Prohibited Fees

Subrecipients, community development housing organizations (CHDO), housing non-profits, and for-profit developers may not charge servicing, origination, or other fees for the purpose of covering costs of administering the HOME program.

Cost and Assistance Limits

The HOME program imposes maximum and minimum per-unit subsidy limits for all HOME-assisted projects. The minimum HOME investment in a property is an average of $1,000 per unit assisted in the project. In a multi-unit project, any single unit may receive less than $1,000, but the overall investment in the project must average at least $1,000 of HOME funds per HOME-assisted unit.

The maximum per-unit HOME subsidy limit varies by PJ. HUD updates and issues these limits annually. The City will provide this limit for the applicable program year.

Property Types and Standards

Eligible Property Types

HOME rental projects may be one or more buildings on a single site, or multiple sites that are under common ownership, management and financing.

- The project must be assisted with HOME funds as a single undertaking.
- The project includes all activities associated with the site(s) or building(s).
- HOME funds may be used to assist mixed-income projects (only HOME-eligible tenants may occupy HOME-assisted units). Common area costs must be prorated based upon the number of HOME-assisted units and non-HOME-assisted units.
- Permanent housing (housing that offers long term leases; typically 12 months), including group homes and SROs, is allowed.
- Assisted Living projects are eligible, however HOME rent does not include the cost of supportive services. The owner may not make tenancy of the unit conditional on the tenant's participation in the assistant living and/or supportive services.

Ineligible Property Types

- Properties previously financed with HOME during the affordability period cannot receive additional HOME assistance unless assistance is provided during the first year after project completion
- HOME funds may not be used for development, operations or modernization of public housing financed under the 1937 Act (Public Housing Capital and Operating Funds)
- Projects assisted under 24 CFR Part 248 (Prepayment of Low-Income Housing Mortgages) may not receive HOME funds, unless assistance is provided to "priority purchasers" of such housing
- Projects assisted under Title VI of NAHA (prepayment of mortgages insured by HUD)
- Emergency shelters with limited occupancy requirements

Property Standards

As with all HOME-assisted properties, rental properties must meet certain written standards.

Acquisition: If no rehabilitation or construction is planned, the housing acquired must meet State and local housing quality standards and code requirements.

New Construction Projects: Housing that is being newly constructed or was constructed within 12 months of HOME funding commitment must meet all applicable State and local codes and zoning ordinances, and adhere to the following requirements:

- The property must meet the International Energy Conservation Code and the American Society of Heating, Refrigerating, and Air-conditioning Engineers.
- All newly constructed multifamily rental projects must include the installation of broadband infrastructure, for all projects to which HOME funds are committed on or after January 19, 2017.
- All housing must meet the accessibility requirements of Section 504 of the Rehabilitation Act of 1973 and the requirements of Titles II and III of the Americans with Disabilities Act.
- Projects must also comply with the design and construction requirements of the Fair Housing Act. In general, this includes that for projects with 5 or more units, at least 5% of the units (or at least one unit) must be accessible to persons with mobility impairments and an additional 2% of the units (or at least one unit) must be made accessible to personas with sensory impairments.
- Site and Neighborhood Standards. The site and neighborhood standards of 24 CFR 983.6(b) ensure the project site is adequate in terms of size, topography and location for the proposed number and type of units and targeted tenants, and the site is sufficiently supported by adequate utilities and infrastructure. Additionally, these requirements ensure that, except in approved circumstances, the project is not located in an area of minority concentration. Records that document the results of the site and neighborhood standards review will be maintained by the City.

Rehabilitation Projects: All rehabilitation projects must meet the applicable State and local codes and zoning ordinances, and adhere to the following requirements:

- Remaining Useful Life of Major Systems – Major systems include structural support, roofing, cladding and weatherproofing, plumbing, electrical, and heating, ventilation and air conditioning (HVAC). If the remaining useful life of one or more major systems is less than the applicable period of affordability, a replacement reserve must be established and budgeted for as part of the project application to ensure adequate capital to address needed repairs and replacement.
- Broadband Infrastructure, Lead Paint, Accessibility and Disaster Standards – All substantially rehabilitated projects with four or more rental units must include the installation of broadband infrastructure. All properties constructed before 1978 must meet the lead-based paint requirements found in 24CFR Part 35.
- Health and safety concerns. All areas and components of the housing must be free of health and safety hazards. These areas include, but are not limited to, air quality, electrical hazards, elevators, emergency/fire exits, flammable materials, garbage and debris, handrail hazards, infestation, and lead-based paint.
- All housing must meet the accessibility requirements of Section 504 of the Rehabilitation Act of 1973 and the requirements of Titles II and III of the Americans with Disabilities Act.
- Projects must also comply with the design and construction requirements of the Fair Housing Act. In general, this includes that for substantial rehab projects with 15 or more units, at least 5% of the units (or at least one unit) must be accessible to persons with mobility impairments

and an additional 2% of the units (or at least one unit) must be made accessible to personas with sensory impairments.

- Construction documents and cost estimates. The construction documents (i.e., written scope of work to be performed) must be in sufficient detail to establish the basis for a uniform inspection of the housing to determine compliance with the City's standards. The City must review and approve a written cost estimate for rehabilitation after determining that costs are reasonable.
- Required Methods and Materials – The methods and materials used in a HOME-assisted rental rehabilitation project must comply with local building codes including performance and installation standards for all major systems.

Owners must maintain properties in accordance with property standards throughout the affordability period, which may require periodic property inspections.

Long-Term Affordability

In return for providing HOME funds to a project, the City requires that the HOME-assisted units remain affordable to income eligible applicants for a specified period of time called the affordability period. HOME-assisted rental units carry rent and occupancy restrictions for varying lengths of time, depending upon the average amount of HOME funds invested per unit:

ACTIVITY	AVERAGE PER-UNIT HOME $	MINIMUM AFFORDABILITY PERIOD
Rehabilitation or Acquisition of Existing Housing	<$15,000/unit $15,000-$40,000/unit >$40,000	5 years 10 years 15 years
Refinance of Rehabilitation Project	Any $ amount	15 years
New Construction or Acquisition of New Rental Housing	Any $ amount	20 years

While HUD establishes these minimum affordability requirements, the City reserves the right to establish longer terms of affordability for programs. In such case, the City will establish a separate written agreement to address the terms of this extended use period to allow for more flexibility in funding, restrictions and project oversight.

Affordability restrictions remain in force regardless of transfer of ownership. At the City's discretion, the restrictions may be terminated upon foreclosure or transfer in lieu of foreclosure, however the termination of the affordability restrictions does not terminate the requirement that the units remain affordable (i.e. the City's responsibility to repay HOME funds invested in projects that are no longer affordable).

Determining the HOME-Assisted Units

The HOME Program distinguishes between the units in a project that have been assisted with HOME funds and those that have not -- hence the term HOME-assisted unit. This distinction between HOME-assisted and unassisted units allows HOME funds to be spent on mixed-income projects while still targeting HOME dollars only to income-eligible households. This distinction is important for compliance during the affordability period.

- The number of HOME-assisted units in a given project must be specified at project commitment.
  - HOME rules create a floor for the number of HOME-assisted units a project must have. This floor is based on the proportional share of total eligible costs to be paid with HOME funds. (i.e. a development project that includes $400,000 in HOME-eligible costs and is assisted with $100,000 in HOME funds must have 25 % of the units designated as HOME-assisted)
- The HOME rent and occupancy rules apply only to HOME-assisted units
- For properties with both assisted and non-assisted units, the City will determine whether the HOME assisted units will be "fixed" or "floating" units.
  - Fixed: When HOME-assisted units are "fixed," the specific units that are HOME-assisted (and, therefore, subject to HOME rent and occupancy requirements) are designated and never change.
  - Floating: When HOME-assisted units are "floating," the units that are designated as HOME-assisted may change over time as long as the total number of HOME-assisted units in the project remains constant.
    - If the floating designation is used, the owner must ensure that the HOME-assisted units remain comparable to the non-assisted units over the affordability period in terms of size, features and number of bedrooms.
    -

Leasing Mixed-Income Projects

The City requires owners to maintain a mix of units throughout the affordability period that ensures that the project always has the correct number of HOME-assisted units. If a project has 10 of 15 units designated as HOME-assisted units when HOME funds are awarded, the project must have 10 HOME-assisted units with income eligible tenants throughout the affordability period.

When leasing mixed-income 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 income targeting requirements of the program and
- Rents charged to tenants in the HOME units are within the rent limits published by HUD

Allocating Costs to the HOME-Assisted Units

Cost allocation is a process for ensuring that HOME only pays the costs of the HOME-assisted units and an appropriate share of common costs in a multi-unit development that has both assisted- and non-assisted units. There are three methods for determining the allocation of costs to HOME-assisted units:

- Standard Cost Method – can be used for any project and must be used when units are not comparable. Standard Method calculates the cost of the specific HOME-assisted units plus a share of the common costs
- Proration Cost Method – used when units are comparable and there is equal distribution of HOME units among unit types. Proration Method calculates the proration of total eligible development costs. (ex. In a mixed-unit development, 1/3 of 1BR/1BA and 1/3 of 2BR/2BA are HOME-assisted, so total % of HOME-assisted units across types is 1/3 and HOME costs = 1/3 of total eligible development costs.)
- Hybrid Cost Method – used when units are comparable but distribution across unit types is not equal. Hybrid Method calculates the per-unit cost for a unit within each unit type and multiplies that by the number of units within each type.

Comparable units consist of similar size, configuration, amenities, finishes and market value.

Rent and Occupancy Requirements

During the affordability period, the City requires that rent and occupancy agreements for HOME-assisted units be enforced through Deed restrictions.

Timelines

If units are not occupied by an eligible tenant within 6 months following the date of project completion, The City will require the owner to submit current marketing information and, if appropriate, submit a revised marketing plan to lease the housing units as quickly as possible.

If the housing units are not occupied by an eligible tenant within 18 months following the date of project completion, The City will require the repayment all HOME funds invested in the project. A project is considered complete when all construction work is done, the HOME property standards are met, the property is ready for occupancy, and the City has taken its final drawdown of funds. The timeline for lease-up begins at project completion.

Rent Limits

The HOME Program establishes HOME rent limits that are published by HUD annually for each area. The rent limits are designed to make rents affordable to low- and very low-income households. The rent limits set the maximum rent that can be charged for HOME-assisted units and are adjusted by bedroom size.

The HOME rent limits are called High and Low HOME rents. Low HOME rent limits apply to units that are designated for very low-income tenants and the High HOME rent limits apply to units designated for low-income tenants. All HOME-assisted units must be occupied by low- or very low-income tenants.

The City will provide these rent limits to the project owner each year once they are published by HUD and must review and approve the rents for each HOME-assisted rental project annually to ensure that they comply with the HOME limits. These limits are published on the HUD Exchange website – HOME Rent Limits.

Utility Allowance

The published rents are *inclusive* of utilities. The rents must be reduced for any tenant paid utility. The amount of this reduction is the Utility Allowance (UA). Subrecipients must use the UA sent by the City each year. The City may utilize the HUD Utility Schedule Model or other project-based UA methodology approved by HUD in HOMEfires-Vol-13-No2. Alternatively, property owners may be required to submit their calculations for review and approval by the City prior to implementation.

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.

HUD may permit adjustments to the rent structure if the financial feasibility of the project is threatened. This is important to lenders providing financing to HOME-assisted projects and must be brought to the attention of the City once known.

Only tenant paid utilities are included in HOME rent limits. Assisted living projects may not add food or services to the HOME rent nor require the food services or supportive services as a condition of a tenant's occupancy.

Group Homes and Single Room Occupancy (SROs)

Special rent limits apply to group homes and SROs. If a project falls into this category, Fair Market Rates (FMR) issued by HUD may apply. The City will work with the developer/owner to determine appropriate rent limits for projects including group homes or SROs.

Income Eligibility and Targeting Requirements

Program participants are required to lease HOME assisted units to income eligible households, specifically low-income households (with incomes at or below 80% of AMI) and very low-income households (with incomes at or below 50% of AMI) at the time of initial occupancy of the family in a HOME-assisted unit. To accomplish this, HOME-assisted rental projects must comply with two income targeting rules: the Program rule and the Project rule. These requirements restrict the income levels of the tenants who are permitted to initially occupy HOME-assisted units.

Program Rule: 90% of all initial tenants of HOME-assisted units must have gross incomes that are at or below 60% of area median income (AMI).

Project Rules:

- In projects with five or more HOME-assisted units, at least 20% of the HOME-assisted rental units must have tenants that are very low-income and be rented at the Low

HOME rents. This means the tenant's household income must be at or below 50% of AMI. These units are designated as "Low HOME rent units."

- The balance of HOME-assisted units (80%) may be designated as "High HOME rent units." To comply with the program rule, these units must be occupied by persons or families whose adjusted income does not exceed 60% of AMI, up to the number of units required to meet the 90% threshold.
- Once the Program and Project rules are satisfied, any remaining HOME-assisted units may be rented to tenants whose adjusted income does not exceed 80% AMI.
- All the HOME-assisted units in projects with fewer than five units must be occupied by persons or families whose adjusted income does not exceed 60% of AMI.

The Program Rule no longer applies once the rental units have been rented for initial occupancy. This may allow a project owner to rent any High HOME unit to low-income households, or those whose income does not exceed 80% AMI.

Through its written agreement with project owners, the City may designate more than the minimum HOME units in a rental housing project, regardless of project size, to Low HOME Rents.

Where HOME Program funds are used in conjunction with Federal or State project based rental assistance, 100% of the assisted units must be restricted to persons or families whose adjusted income does not exceed 50% of AMI.

Affirmative Marketing Plan

For affordable rental housing with 5 or more HOME assisted units, the developer must create an Affirmative Marketing Plan and a set of procedures for implementing the plan. These plans are to be submitted to the City and should include:

- Methods to inform the public and potential tenants about fair housing laws and the developer's policies
- A description of the activities owners will do to affirmatively market housing assisted with HOME funds such as distribution of flyers, outreach to local organizations, etc.
- A description of what owners will do to inform persons least likely to apply for the HOME assisted housing without special outreach
- Maintain records of the plan and the marketing activities to assess its effectiveness and a system for adjusting the plan if results are not achieved

Tenant Selection Policy & Criteria

To ensure that units are made available in a manner that is fair and consistent with HOME requirements, every property owner must adopt a written tenant selection policy and criteria that the property manager follows when leasing HOME-assisted units. Several components of this written policy is required including any preference to specific populations, availability and selection of accessible units, non-discrimination and provisions for VAWA protections.

HOME Lease Terms

Property owners/managers must use leases for HOME-assisted units that comply with the following requirements:

Length of Lease – The lease must be for at least one year unless the owner and tenant mutually agree to a shorter term.

Prohibited Lease Terms - The lease may not contain language that restricts the legal process on behalf of the tenant. See 24 CFR 966.4 for a full listing of prohibited terms and conditions.

VAWA Protections – The lease must contain specific language to protect victims of domestic violence from eviction. A full list of VAWA protections and provisions can be found in 24 CFR § 5.2005

The lease must also state that tenants will be provided 30 days' notice of termination or non-renewal and adhere to any other state or local tenant-landlord laws.

Determining and Verifying Income Eligibility of HOME Tenants

The City requires owners to verify and certify that tenants occupying the HOME assisted units meet income guidelines.

Income Definitions

- The City requires the use of the IRS 1040 Adjusted Gross Income definition of income.
- For up-to-date rules and requirements, consult the regulations at 24 CFR Part 5 (subpart F).

Initial Income Verification

- Before the tenant occupies a unit, tenant income eligibility must be documented with at least 2 months of source documentation evidencing annual income, such as wage statements, interest statements and unemployment compensation statements for the family.

Note: Annual income should include all adult household members, including nonrelated individuals living in the household.

- The project owner is responsible for collecting this information and determining eligibility. Documentation must remain available to the City upon request.
- The City, or designated subrecipient, is responsible for monitoring the project owner to ensure that initial income verifications are performed correctly.
- It is important for the City or subrecipient to periodically review the income verification process and expectations with property management staff in order to properly train new staff members.

Annual Recertification of Income

Once a tenant resides in a HOME-assisted unit, their income must be re-determined annually to be sure the tenant continues to be income-eligible for their unit. The City or property owner/manager must review source documentation for all tenants at initial occupancy and then ***every 6th year*** of the period of affordability. Source documentation will be required for all tenants in year 6, 12 and 18 regardless of the project year in which a tenant occupied the HOME-assisted unit. In the alternate years, income determinations may be made by a written statement and tenant self-certification or with 2 months of source documentation.

Addressing Increases in Tenant Income during the Affordability Period

A tenant's income is likely to change over time. If these changes occur during the affordability period, the project owner must take certain steps to maintain compliance with HOME rent and occupancy requirements.

- The project must maintain the total number of HOME-assisted units, as required in the written agreement with the City or the subrecipient.
- The project must maintain the correct proportion of High and Low HOME rent units.

Property managers must take steps to remedy any project that is out of compliance by correcting the mix, the rents, or both.

Inspections

The City shall inspect each project within 12 months of project completion and at least once every three years during the period of affordability to determine that the project meets the property standards applicable under CFR 24 §92.251. Inspection form HUD-52580 may be used for such inspections. All units shall be inspected for projects with less than 5 units. For projects with 5 or more units a sample of units shall be inspected.

Record Keeping

The property owner must submit at least annually:

- A rent and occupancy report
- Certification that the property and HOME-assisted units are suitable for occupancy
- Documentation about the financial condition of the property for properties with 10 or more units

Property owners must adhere to the follow record retention schedule:

- General rental housing records must be kept for five years after project completion.
- Tenant income, rent and inspection information must be kept for the most recent five years, until five years after the affordability period.

Managing for Ongoing Compliance

To maintain compliance with HOME rules, property owners will need to ensure that:

- The project is marketed to qualified applicants,
- Tenants are screened for eligibility,
- Rent and occupancy targets are observed, and
- Adequate property maintenance is conducted.

Hiring a qualified property manager will help ensure all necessary actions are taken.

Additional guidance can be found at [HUD's Guide for Rental Property Owners].

CHAPTER 7 - COMMUNITY HOUSING DEVELOPMENT ORGANIZATIONS (CHDO)

A Community Housing Development Organization (CHDO) is a private nonprofit, community-based, service organization that has staff with the capacity to develop affordable housing for the community it serves. At least 15 percent of a HOME participating jurisdiction's (PJ's) annual allocation must be set aside for affordable housing activities to be undertaken by CHDOs. These set-aside funds must be invested in eligible housing.

Set-Aside Funds

Under HOME Program rules, at least 15 percent of a PJ's annual HOME allocation must be set aside for CHDO activities in eligible housing. These funds are called set-aside funds.

Eligible Housing

Set-aside funds must be invested in housing that is owned, sponsored, or developed by the CHDO. This means the CHDO serves in at least one of the following roles:

- **Owner** - The CHDO holds valid legal title to or has a long-term leasehold interest in the rental property. The CHDO may be an owner with more than one individual, corporations, partnerships, or other legal entities.
- **Sponsor** - The CHDO develops or owns a property and agrees to convey ownership to another nonprofit organization.
- **Developer** - The CHDO either owns a property and develops a project, or has a contractual obligation to a property owner to develop a project.

Eligible Set-Aside Activities

When using set-aside funds in eligible housing, the CHDO may perform one of the following activities:

- Acquisition, rehabilitation or new construction of rental housing,
- Acquisition, rehabilitation or new construction of homebuyer properties, and
- Direct financial assistance to purchasers of HOME-assisted housing sponsored or developed by a CHDO with HOME funds.

Ineligible Set-Aside Activities

The following activities are ineligible set-aside activities, but may be carried out by the CHDO as a subrecipient:

- Tenant-based Rental Assistance (TBRA)
- Homeowner rehabilitation
- Direct homebuyer assistance

Key CHDO Qualifying Requirements

To qualify as a CHDO, a nonprofit must demonstrate that meets certain requirements regarding its:

- Legal and tax-exempt status,
- Financial management capacity and accountability,
- Staff capacity to carry out HOME-funded activities,
- Experience serving the community,
- Board representation by community members, with at least one-third of its members low-income, and
- Lack of for-profit or public control.

As noted above, a minimum of one-third of the board must consist of representatives of the low-income community. There are three ways to meet this requirement:

1. Residents of low-income neighborhoods in the community and/or
2. Low-income residents of the community and/or
3. Elected representatives of low-income neighborhood organizations.

Eligible CHDO Capacity-Building Activities

In addition to its 15 percent set-aside, PJs may use HOME funds to provide special assistance to support and build the capacity of CHDOs. This assistance includes:

- **Project pre-development loans.** A PJ may loan CHDOs up to 10 percent of its annual allocation for up-front eligible project expenditures, seed money, or site control. Pre-development loans count toward the CHDO set-aside if the project moves forward; they are forgivable if the project does not move forward.
- **Operating assistance.** PJs may provide up to 5 percent of its annual HOME allocation for salaries, wages, employee education and training, rent and utilities, taxes and insurance, and materials. Assistance may not exceed the greater of $50,000 or 50 percent of the CHDO's total annual operating expenses for that year. Operating expenses are not an eligible cost for CHDO set-aside funds.
- **Use of HOME project proceeds.** At the discretion of the PJ, a CHDO may be authorized to retain some or all of the proceeds generated from development activity to support additional HOME-eligible activities or other low-income housing activities. Such funds, if retained by the CHDO, shall be considered CHDO proceeds and must be used in accordance to 24 CFR 92.300. Proceeds that are required to be returned to the PJ are considered HOME program income and are subject to all HOME program income requirements.
  A PJ must stipulate in its written agreement with the CHDO whether the CHDO may retain project proceeds and the eligible uses of those proceeds.
- **Capacity-building assistance.** Within the first two years of becoming a PJ, PJs that cannot identify a sufficient number of capable CHDOs may commit a limited amount of HOME funds for capacity-building assistance.

CHAPTER 8 - RECORD-KEEPING, REPORTING AND MONITORING

Under the HOME Program regulations, a PJ and its Recipients are required to meet certain record-keeping and reporting requirements. A PJ is also required to monitor their Recipients for compliance with these rules.

Record-Keeping

The HOME regulations define the following record-keeping categories:

- Program records;
- Project records;
- CHDO records;
- Financial records;
- Program administration records; and
- Records concerning other Federal requirements.

Program Records

The following program records must be maintained:

- Written agreement with the City and documentation of compliance with the written agreement;
- A copy of the application originally submitted to the City;
- Forms of assistance used;
- Procedures for establishing 95 percent of median value;
- Subsidy layering documentation; and
- Documentation of compliance with the City's matching requirements.

Project Records

Each HOME Program Recipient is responsible for maintaining records that are project-specific. The project records that must be maintained include:

- Description of each project:
    - Location (address and/or legal property description) (with a map),
    - Form of assistance,
    - Number and identification of units or tenants associated with HOME.
- Source and application of funds to include eligibility and permissibility of projects costs;
- Compliance with underwriting evaluation, maximum per-unit subsidy limits and subsidy layering guidelines;
- Compliance with property standards and lead-based paint requirements upon completion and for the duration of the affordability period;
- Compliance with income-eligibility requirements;

- For rental projects, compliance with income targeting, affordability, lease requirements and financial condition with 10+ units;
- If multi-family or single-family refinancing is provided, compliance with established guidelines and/or requirements;
- If multi-family new construction, results of the site and neighborhood standards review conducted;
- For homeownership projects, compliance with maximum property value and affordability requirements; and
- If pre-award costs, compliance with applicable requirements.

CHDO Records

There are additional records that CHDOs (when undertaking CHDO-eligible activities) must maintain. These CHDO records include:

- Written agreement with the City;
- Documentation of qualification as a CHDO, including:
    - Documentation of nonprofit status;
    - Documentation of paid staff with demonstrated relevant experience in undertaking the specific project for which the CHDO set-aside funds are being awarded;
    - Current board list that identifies low-income representation;
    - Documentation of low-income community input (e.g. minutes from community meeting);
    - Documentation of organizational capacity (e.g. resumes of staff members);
    - Documentation of Targeted Geographic Service Area(s) (with map);
    - Documentation of uses of CHDO set-aside funds, including funds for capacity-building (if applicable); and
    - Current project descriptions.

Financial Records

- The following financial records must be maintained:
- Source and application of funds;
- Treasury and local HOME accounts;
- Source and application of program income, repayments and recaptured funds; and
- Budget control measures, including periodic account reconciliations.

Program Administration Records

These program administration records must be maintained:

- Compliance with written agreements;
- Copies of written policies, procedures, and systems, including risk assessments and a system for monitoring entities;

- Compliance with applicable uniform administrative requirements; and
- Inspections, monitoring reviews and audits, and resolution of any findings or concerns.

Documentation Records

Records documenting compliance with the following additional Federal requirements must also be maintained:

- Equal opportunity and fair housing;
- Affirmative marketing and minority/women's business outreach;
- Environmental review;
- Acquisition, relocation, displacement and replacement of housing;
- Labor standards;
- Lead-based paint;
- Conflict-of-interest; and
- Debarment and suspension.

Record Retention

The record retention period is five (5) years. This is in keeping with Consolidated Plan requirements.

Rental: For rental housing records:

- General records must be kept for five years after project completion; and
- Tenant income, rent and inspection information must be kept for the most recent five years, until five years after the affordability period ends.

Homeownership: Homeownership records must be kept for:

- Five years after project completion; and
- For resale/recapture records, five years after the affordability period ends.

Written agreements: Generally, all written agreements must be maintained for five years after the agreement ends.

- Displacement and acquisition: Displacement and acquisition records must be kept for five years after final payment to displacees.

Access to Records

The Consolidated Plan regulations require that every HOME PJ, including the City, provide citizens, public agencies and other interested parties with reasonable and timely access to information and records relating to a PJ's Consolidated Plan and the use of assistance under the programs covered by the Consolidated Plan. These same requirements apply to HOME Program Recipients. Therefore, each Recipient should be able to produce organized records in a timely fashion upon request.

Reporting

HOME Program regulations require the City, as the PJ, to submit an annual report known as the Consolidated Annual Performance and Evaluation Report (CAPER), to HUD within 90 days of the close of the City's program year. The CAPER incorporates HOME Program information as well as the reporting requirements for the Community Development Block Grant (CDBG) program.

To meet these reporting requirements, HOME recipients shall submit the following:

- Periodic Project Status Report
- Project Completion Report
- Annual Compliance Report

HOME Program Staff will enter the data provided by all Recipients into the IDIS system and report completed projects to HUD.

Monitoring

To meet reporting requirements, Recipients must monitor their projects for HOME Program compliance and document the results. Monitoring reports should be kept in each project file. Monitoring responsibilities vary based on the activity.

<u>Owner Occupied Projects</u> - Homeowner Rehabilitation and Homebuyer: Recipients are required to monitor owner occupied projects for principal residency throughout the affordability period. See Chapters 4 and 5 for more information.

<u>Rental Projects</u>: Recipients (if applicable) are required to monitor rental projects throughout the affordability period for the following factors, all of which are described in more detail in Chapter 6: Rental Housing Activities:

- Occupancy (income requirements);
- HOME Rents; and
- Property standards (units must meet HQS.)

Monitoring performed by the City will include desk monitoring as well as on-site monitoring. The City may alternatively implement virtual on-site monitoring of HOME recipients.

CHAPTER 9: OTHER STATE AND FEDERAL REQUIREMENTS

Several additional federal rules apply to all HOME Program activities. Recipients must ensure that their programs comply with these additional federal requirements.

The other Federal requirements addressed in this chapter include non-discrimination and equal access, employment and contracting, environmental reviews, lead-based paint, and acquisition and relocation.

Nondiscrimination and Equal Access

No person in the United States shall on the grounds of race, color, national origin, disability, age, familial status, religion or sex be excluded, denied benefits or subjected to discrimination under any program funded in whole or in part by HOME funds.

Consequently, HOME Program Recipients must take measures to ensure non-discriminatory treatment, outreach and access to program resources. This applies to employment and contracting, as well as to marketing and selection of program participants.

Affirmative Marketing

Recipients and developers/owners/sponsors must create an affirmative marketing plan for all housing with five or more HOME-assisted units.

Elements: The plan will be reviewed for completeness in the following areas:

- Compliance with fair housing laws (for example: use of the Fair Housing logo, or equal opportunity language);
- Detailed description of what Recipients will do to affirmatively market housing assisted with HOME funds;
- Detailed description of what Recipients will do to inform persons not likely to apply for housing without special outreach; and
- Documentation of actions taken to affirmatively market HOME-assisted units and to assess marketing effectiveness.
- Additionally, Recipients have to describe how they will monitor the success of their affirmative marketing efforts, including the corrective actions that will be taken where affirmative requirements are not met and/or successful.
- All applicants are required to complete the Affirmative Fair Housing Marketing (AFHM) Plan for Single Family and/or Multi-Family Housing, as applicable to their programs.

Violence Against Women's Act (VAWA)

The Violence Against Women Act (VAWA) Reauthorization of 2013 protects victims of domestic violence, dating violence, sexual assault, and stalking, regardless of sex, gender identity or sexual orientation. VAWA applies to HOME rental housing and TBRA projects. The PJ and project owners of HOME-assisted rental housing and landlords that rent to recipients of HOME TBRA must comply with requirements of VAWA including lease provisions and emergency transfer plans. For HOME-assisted housing, VAWA requirements apply through the period of affordability.

Handicapped Accessibility

A number of laws and regulations require that housing be designed and constructed as accessible to those with disabilities. HOME is subject to Section 504 of the Rehabilitation Act of 1973. This law ensures that persons with disabilities have "full use and enjoyment" of federally financed property.

Applicability of Section 504

Projects and units constructed or rehabilitated with HOME funds must include units and common spaces that are accessible for people with mobility or sensory impairments. These accessibility features must comply with the Uniform Federal Accessibility Standard (UFAS). The applicability of these standard depend on the size and scope of the project as follows:

- Multifamily Rental Housing – the following rules apply to multifamily rental housing that is newly constructed and to rental projects with 15 or more units that are substantially rehabilitated:
    - 5% of the units, or at last 1 unit, must be accessible to people with mobility impairments
    - 2$ of the units, or at least one unit, must be made accessible to people with sensory impairments
    - There must be at least 2 accessible units, one for each type of impairment.
    - Common spaces must be accessible to people with mobility impairments.
- Homebuyer or Single Family Housing – must be made accessible upon request of the prospective buyer or tenant, if the nature of the disability requires accessibility.

Employment and Contracting

HOME PJs must comply with requirements related to Equal Employment Opportunity (EEO), Minority and Women Business Enterprises (M/WBE) outreach, and Section 3.

Equal Employment – When hiring, the EEO requirements prohibit the PJ and HOME recipients from discriminating against an applicant based on race, color, religion, sex, disability or national origin.

M/WBE – The City and its HOME recipients shall make job and contracting opportunities available to minority and women-owned business enterprises for the procurement of goods and services, construction contracts and professional services contracts.

Section 3 – The City and its HOME recipients shall make training, employment and contracting opportunities available to low-income residents and businesses to the greatest extent feasible.

Labor Laws – The following labor laws apply to the City and its HOME recipients:

- The Davis-Bacon and Related Acts
    - Laborers and mechanics shall be paid prevailing wages and fringe benefits
    - Applies to any project with 12 or more HOME-assisted unites, regardless of the amount of HOME funds
    - If the project contains 12 or more HOME-assisted units, Davis –Bacon applies to the entire project.

Environmental Reviews

The environmental review process must be completed by the City before any funds are committed to a HOME-assisted project. The review process includes:

1. Completing the appropriate level of environmental review per 24 CFR 58.34
2. Publishing required applicable public notices
3. Submitting a Request for Release of Funds and Certification form (HUD 7015.15)
4. Receiving a copy of Authority to Use Grant Funds form (JUD 7015.16) or equivalent

Activities that are exempt in accordance with 24 CFR 58.34(a)(1-11) require no environmental review, public notice, or submission of a Request for Release of Funds and Certification to HUD. The Environmental Review Record must document that such activities were determined to be exempt. The same applies to activities that are "categorically excluded not subject to 24 CFR 58.5" (CENST).

Activities that are determined categorical exclusions in accordance with 24 CFR 58.35 require a Compliance Determination review. If one or more of the federal laws and authorities listed in 24 CFR 58.5 require additional specialized reviews, a Notice of Intent to Request Release of Funds must be published and a Request for Release of Funds and Certification form must be submitted to HUD. HUD completes the process by executing a signed Authority to Use Grant Funds form. If the Compliance Determination review concludes that no additional reviews are required no public notice is published and no Request for Release of Funds and Certification form is executed.

Activities that require a full Environmental Assessment in accordance with 24 CFR 58.36 need to have a Finding of No Significant Impact Notice and Notice of Intent to Request Release of Funds published. A Request for Release of Funds form must be submitted to HUD. HUD completes the process by executing a signed Authority to Use Grant Funds form.

Activities that require an Environmental Impact Statement must follow the procedur3s identified in 24 CFR 58, Subparts F and G.

All environmental reviews after 2019 shall be entered using the HUD Environmental Review Online System (HEROS).

Lead-Based Paint

There are 2 key rules related to Lead-Based Paint (LBP) safety, HUD's Lead Safe Housing Rule (LSHR) and EPA's Renovation Repair and Painting Rule (RRP).

HUD's Lead Safe Housing Rule (LSHR) – When a HOME project involves a property built before 1978, the following LSHR requirements apply:

- Tenants and potential owners must be notified about LBP hazards
- A lead hazard evaluation must be conducted
- When lead hazards are identified lead hazard reduction and clearance must be completed
- The City must provide proper notifications to households and tenants after any lead hazard reduction work is completed.

EPA's Renovation Repair and Painting Rule (RRP) – The RRP program requires contractors to be trained in lead-safe work practices to minimize exposure from LBP dust during renovation, repair or painting activities. Only firms that are certified in lead safe work practices shall be utilized in HOME projects with a LBP exposure risk.

Acquisition and Relocation

The City shall ensure that it has taken all reasonable steps to minimize the displacement of persons (families, individuals, businesses, nonprofit organizations and farms) as a result of a project assisted with HOME funds. To the extent feasible, residential tenants must be provided a reasonable opportunity to lease and occupy a suitable, decent, safe, sanitary and affordable dwelling unit in the building upon project completion. Provisions shall also be made for temporary relocation and relocation assistance in accordance with 24 CFR 92.353.

In addition to the HOME Program regulations, the City shall also comply with the requirements of the Uniform Relocation Act and Section 104(d).

The Uniform Relocation Act (URA) Section 104(d) provide protections and assistance for people affected by the acquisition, rehabilitation or demolition of real property for federal-funded projects.

Uniform Relocation Act

The key objectives of the URA are:

- Establish uniform, fair, and equitable treatment of displaced persons,
- Minimize the hardship of displacement,
- Establish uniform, fair and equitable land acquisition policies, and
- Encourage and expedite acquisition by agreement to reduce litigation

The URA provides protections for both voluntary and involuntary acquisitions. Involuntary acquisitions will trigger the full acquisition requirements of the URA found in 49 CFR Part 24 Subpart B which include but are not limited to:

- Appraisal
- Appraisal Review
- Written Notices and Offer of Just Compensation
- Administrative Settlements
- Payment before Possession
- Payment of Incidental Expenses

Protections are also provided for residential and non-residential relocations as follows:

Residential relocation requirements for displaced persons include but are not limited to:

- Relocation advisory services,
- Written notices, including a minimum 90-day notice to vacate,
- Comparable replacement housing referrals before displacement,
- Reimbursement for moving expenses,
- Replacement housing payments for the increased cost of renting or purchasing replacement housing

Non-residential relocation requirements for the displacement of businesses, farms and nonprofit organizations include but are not limited to:

- Relocation advisory services,
- Written notices, including a minimum 90-day notice to vacate,
- Reimbursement for moving expenses,
- Reestablishment expenses for small businesses

<u>Section 104(d)</u>

Section 104(d) generally applies when lower-income dwellings are demolished or converted to a use other than lower-income housing in connection with HOME or CDBG-assisted activities. The key objectives of Section 104(d) are to:

- Minimize displacement through a Residential Anti-displacement and Relocation Assistance Plan (RARAP)
- Provide relocation assistance to displaced lower-income persons as an alternative to the URA
- Replace lower-income housing demolished or converted to another use.

CHAPTER 10: MATCHING FUNDS

Match is the local contribution to affordable housing that is required of all grantees participating in the HOME program. Every project selected for funding under the City's HOME Program should identify at least twenty-five percent (25%) in non-federal Match.

The match requirement is not triggered for administrative and planning costs or for operating expense and capacity building assistance provided to CHDOs.

Earning Match Credits

Match credits and debits are not necessarily linked to the same project. The match debit, or obligation to come up with matching contributions, is created by the draw-down of HOME funds for a particular project. The City expects that all recipients of HOME funds will secure matching contribution (match credit) equal to the matching obligation created by the programs they administer.

Match credit can be earned for investments in:

- Home-assisted projects: projects that receive assistance under the HOME program.
- HOME-eligible projects: a project that is not assisted with HOME funds, but that meets HOME requirements related to income, rent, quality standards and long term affordability.
- Partially-assisted HOME projects and mixed use projects: projects where some units are HOME-assisted and some are not, projects that are mixed HOME-assisted and commercial, and even projects that are mixed HOME-assisted, non-HOME residential and commercial.
- Investments in the commercial space in mixed-use developments can be counted as match as long as 51 percent or more of the project space is residential and 50 percent or more of the dwelling units are HOME-assisted.
- Investments in the non-HOME-assisted portion of mixed-income developments can be counted as match as long as 50 percent or more of the dwelling units are HOME-assisted. (If the non-HOME units meet the HOME eligibility requirements for affordability, then the contributions to any affordable non-HOME units apply, regardless of the percentage of HOME units in the project.)

Eligible Sources of Match

Non-federal match must be a permanent contribution to a project. The City will accept as non-federal match one or more of the following:

(a) Cash or cash equivalents from a non-federal source (including the match value of below market interest rate loans).
(b) Value of waived taxes, fees or charges normally imposed on a development.
(c) Costs of infrastructure improvements associated with the HOME project, provided those were paid from a non-federal source.
(d) Value of donations of land or real property.

(e) Value of sweat equity provided to a homeownership project.
(f) The direct cost of providing supportive services to residents of HOME assisted units, which are necessary to facilitate independent living.
(g) The direct cost of homebuyer counseling provided to families that acquire properties with HOME funds, provided the counseling is/was not paid for with HOME funds.
(h) Value of donated materials and equipment for site preparation and construction that were not acquired with federal funds.
(i) Value of donated and/or discounted professional services.

Timing Match Credits

The City must meet its match obligation to the federal government in the year the obligation was incurred. Funds drawn during a particular program year must be matched in that program year or with excess from previous years.
Example: All match obligations triggered by the draw-down of HOME funds between October 1, 2019 and September 30, 2020 must be met no later than September 30, 2020. Match contributions that exceed the City's match liability for the program year in which they were made will be carried-over and applied to future match liability. The point at which match is credited to a project shall depend on the source of the match. As a matter of policy the following will apply:

(a) A cash contribution will be credited when the funds are expended.
(b) The grant equivalent of a below-market rate interest loan will be credited at the time of the loan closing.
(c) Donated material will be credited as match at the time it is used for affordable housing.
(d) Donated and/or discounted professional services or voluntary labor will be credited at the time the work is performed.
(e) The present discounted value of foregone taxes, fees or other charges will be credited at the time it is officially waived, foregone or deferred and the owner is so notified.
(f) Donations of land or real property will be credited at the time ownership of the property is transferred.
(g) Infrastructure improvements will be credited when the funds are expended or, if the improvements were made prior to commitment of HOME funds, when the HOME funds are committed.

For purposes of crediting match contributions, the City will only count match credit for homeownership projects in the amount by which the investment reduced the sales price to the HOME-eligible homebuyer or in the amount by which the permanent contribution enabled the housing to be sold for less than its development cost in the event that the development cost exceeds the current fair market value of the housing established by an independent appraisal performed by a licensed appraiser.

Meeting the Match Obligation

Meeting the match obligation poses a challenge to many recipients. That is why it is important to have a strategy for managing the match. Recipients need to:

A. Plan ahead to meet match needs. Many community development activities offer opportunities to find matching contributions. For example, recipients can
   - Check local capital improvement budgets and plans for opportunities to use infrastructure improvements as a source of match.
   - Confer with the tax assessors' offices to identify tax foreclosed and delinquent properties that may be available for conveyance.
   - Network with local foundations, charities, others to identify grant funds, volunteer labor, services and even property that can be used as match.

B. Be creative when looking for matching contributions. Remember that some types of investments in HOME-eligible as well as HOME-assisted projects can be counted as match.
   - Look for projects supported with state funds and local public resources that might be HOME-eligible.
   - Review previous public improvement and infrastructure investments to determine if recent projects (those completed within the last 12 months) directly support HOME-assisted projects.
   - Look for opportunities to use donated labor, materials and services for upcoming projects.

C. Create a Match Record-keeping System that Works. The City's application form includes a Match Log. The City requires that all applicants report anticipated match sources and amounts. The match log should serve as a management tool for the recipient.
   - Recipients may also want to create a log that compares their anticipated match contributions against their actual, expended match contributions. This will help with planning for shortfalls, instances when committed sources of match contribution fall through.
   - Recipients may want to consider supplying potential match contributors with voucher slips and timesheets, so that they can easily report their contributions in a standard format. These documents should also be used by the Recipients in-house to document in-house contributions.
   - Don't wait to the last moment to identify new and viable sources of match if the anticipated match contributions reported in your application fall through and are no longer available. Given the obligation to make matching contributions within the same fiscal year that an obligation is occurred, it is easy to get caught short should your anticipated match become no longer available.

Appendix A

Project Underwriting, Subsidy Layering and Risk Analysis