

Rental Housing Development Program: City of Saint Paul Housing and Redevelopment Authority

I. Purpose

The purpose of this manual is to govern the implementation of rehabilitation or new construction and rental programs being carried out under Development, Loan, and Grant Agreements with the Housing and Redevelopment Authority of the City of Saint Paul, Minnesota (“Authority”). The manual includes policies and procedures to be followed regarding eligible uses of Authority funds, rehabilitation/construction, marketing, rental requirements, and applicable control mechanisms.

II. Definitions

Affordability Period: The period during which the project must remain affordable as required by the source of Authority Value Gap Financing.

Agreement: The Development, Loan and Grant Agreement or Development Agreement entered into by Authority and Developer for the purpose of carrying out eligible activities on one or more eligible properties.

Area Median Income (AMI): The median income for the Minneapolis-Saint Paul-Bloomington Metropolitan Statistical Area as published and updated annually by HUD and adjusted for household size.

Authority: Housing and Redevelopment Authority of the City of Saint Paul, Minnesota, 25 West Fourth Street, Suite 1100, Saint Paul, MN 55102

Authority Funds: Authority’s internal funds, received through bonds and non-federal program income. A portion of bond funds were established through the Invest Saint Paul program by the Saint Paul City Council in Resolution 07-08/08-3, as amended.

CDBG: HUD’s Community Development Block Grant (CDBG) Program, established by Title 1 of the Housing and Community Development Act of 1974, as amended. For more information see the CDBG website:

http://portal.hud.gov/hudportal/HUD?src=/program_offices/comm_planning/communitydevelopment/programs

Community Homeownership Impact Funds (CHIF): Authority receives funds through the Minnesota Housing CHIF fund, which is authorized annually by the Minnesota Legislature. For more information see:

<http://www.mnhousing.gov/wcs/Satellite?c=Page&cid=1358906164357&pagename=External%2FPage%2FEXTStandardLayout>

Developer: A developer subject to an Agreement funded at least in part by Authority.

Value Gap financing: The amount awarded to Developer through the RFP process intended to bridge development feasibility for a given property.

NSP: The Department of Housing and Urban Development (HUD)'s Neighborhood Stabilization Program, established by the Housing and Economic Recovery Act of 2008 to stabilize neighborhoods whose viability has been and continues to be damaged by the economic effects of properties that have been foreclosed upon and abandoned. Additional funding for an "NSP2" program was authorized by Title XII of Division A of the American Recovery and Reinvestment Act of 2009 and for an "NSP3" program authorized by the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010. For more information, see the NSP website: http://portal.hud.gov/hudportal/HUD?src=/program_offices/comm_planning/communitydevelopment/programs/neighborhoodspg

Renter: The renter of a rehabilitated or newly constructed Rental Unit.

Rental Unit: A dwelling unit in a property that will be occupied by a Renter.

Project Development and Operating Budget: A sources and uses budget that includes acquisition, rehab/construction and soft costs for a particular property, along with a cash flow projection for rental operations over a period of at least fifteen (15) years, that Developer must submit to Authority prior to committing to purchase any property for use in the program (see Appendix A).

Project Funding: Any and all governmental and private funds, including Developer's cash, projected to be used to pay for the costs to carry out the redevelopment of a property.

Property: A one-to-four unit building that will be rehabilitated, or newly constructed in cooperation with Authority and occupied by a Renter.

III. Key Terms of Authority Financing

Developer's expenditures for program delivery will be limited as follows:

A. Approval and Funding of Demolition Costs

Primary structures on properties acquired may not be demolished unless they are: 1) declared as blighted in a written notice provided by Authority or 2) determined and agreed to by Authority not to be economically feasible to rehabilitate to a condition in which the property is marketable.

B. Maximum Development Subsidy Per Unit

The development subsidy per Rental Unit payable to Developer may not exceed \$150,000.00. Funded investment shall include eligible expenses of appraised property value, demolition, hard costs, and soft costs.

C. Developer Fee

Developer fee per project is not to exceed 10% of total development costs less the acquisition purchase price.

D. General Contractor Fee

If Developer is acting as general contractor and thus hiring and managing subcontractors, Developer may charge a general contractor fee in the amount of 6% of net construction costs, and charge a 2% mark up for overhead based on net construction costs. Such markup may not be applied to non-construction costs such as taxes, insurance, security, general requirements, or working capital costs. No such fees will be paid to Developer for any property that is rehabilitated or built by a third-party general contractor.

E. Design and Construction Management Fee

Developer may pay no more than 6% of hard costs for architectural services and construction management services payable to a third party.

F. Contingency

Developer may designate a contingency of 10% of hard costs for rehabilitation and 5% of hard costs for new construction.

G. Allowable Marketing Costs

Developer may expend up to \$500 per unit for marketing costs such as advertisements and flyers. Marketing costs in excess of \$2,000 per property must be approved in writing by Authority. If marketing is funded for multiple properties, the costs of such marketing must be allocated to each property.

H. Permitted Rents

Rents are subject to change depending on Project Funding sources. In all cases, the most restrictive applicable regulations prevail. Properties with NSP Project Funding will be required to adjust maximum rental amounts annually within 30 days of publication of new rents by HUD or Minnesota Housing Finance Agency, and apply the adjusted amount to all new leases executed after that time.

Project Funding	AMI Level	Maximum Rent
NSP	≤ 50% AMI	Low HOME Rents ¹ less the utility allowance ⁴
	> 50% but ≤ 120% AMI	Fair Market rent ² less the utility allowance ⁴
CDBG	≤ 80% AMI	60% Tax Credit Rents ³ less the utility allowance ⁴
Authority Funds	No maximum	No maximum

¹ Low HOME Rents are defined by HUD and updated annually

² Fair Market rents are defined by HUD and updated annually

³ Tax Credit Rents are defined and updated annually by Minnesota Housing Finance Agency

⁴ Utility allowances are defined and updated annually by the Saint Paul Public Housing Agency

I. Trends and Reserves

The following trends and figures are acceptable for use in the Project Development and Operating Budget and cash flow statement:

- Expense trend factor: 1– 2% higher than the income trend factor
- Income trend factor: 2 – 4%
- Operating reserves: minimum of 2 months of debt service and operating expenses; for projects with no debt service, 6 months of operating expenses are required
- Property management fee: up to \$60 per unit per month
- Replacement reserves: minimum of \$250 per unit per year
- Vacancy rate: 5% - 7%

Any variations must be approved in writing by Authority.

Pre-funded reserves are not an eligible use of Value Gap Financing.

Developer must provide an asset management plan and include any applicable fees in the Project Development and Operating Budget.

J. Additional Income

Laundry, parking, garage or storage space, etc. must be anticipated and included in the Project Development and Operating Budget.

K. Form of Assistance

Value Gap Financing will be structured as a deferred loan, due on the maturity date. Developer will execute a Mortgage and Note to the benefit of Authority for the amount of the Value Gap Financing. The loan term will be 15 years at 0% interest. For those projects with CDBG or Authority Funding, the 15 year term will begin at the time of sale to the Developer. For those projects with NSP Project Funding *and* a 15 year Affordability Period, the 15 year loan term will run concurrently with the Affordability Period and will begin at the point the Rental Units are at least 50% leased.

If a property with CDBG or Authority Funding is sold prior to the end of the loan term, the full value of the loan will become due and payable. In the event that a property with NSP Project Funding is sold prior to the end of the loan term, the full value of the loan must be assumed by the buyer to ensure the Affordability Period is met.

IV. Property Acquisition

Eligible Properties have already been acquired and identified by Authority.

V. Rehabilitation, New Construction and Reconstruction

A. General Responsibilities

Respective responsibilities of Developer and Authority are as follows:

1. Developer shall be responsible for preparing plans and specifications that conform to program Design Standards (see Appendix B), estimating rehab/construction costs, managing contract awards, and managing the construction process. Developer assumes all risks of cost overruns in excess of the construction and contingency budget line item in the approved Project Budget, unless Authority approves a revised Project Budget.
2. Authority is responsible for approval of project, providing and interpreting Design Standards; approving plans, specifications, estimates and cash flow statements for projects; monitoring the work; and approving draw requests.

B. Plans and Specifications

Developer is responsible for completing plans and specifications which conform to Authority's Design Standards and which are in a form approved by Authority. See Appendix B. Plans/specifications will include the following:

1. General requirements for which the builder is responsible (permits, fees, mobilization, site utilities, site security, builder's risk insurance, etc.);
2. Site plans, if new structures, fencing, landscaping or other site improvements are being proposed;
3. Working drawings and materials specifications, for any new construction or substantial rehabilitation;
4. Rehab specifications that show quantity, size, and materials specification for each item to enable Developer to create accurate cost estimates;
5. For structures built before 1978, the plans and specifications must address remediation of any lead paint or other environmental hazards. See Authority's Design Standards for required methods of inspection, testing and abatement.

C. Cost Estimates

Developer is responsible for producing cost estimates including builder overhead and profit in a form approved by Authority, as follows:

1. Rehab cost estimates will be completed in a line-item, sworn construction statement with one work item per line unless an alternative form of estimate is approved in writing by Authority;

2. Cost estimates for construction of new structures and substantial rehabilitation will be based on take-offs from the working drawings of the quantities of materials and labor required or compilations of costs for similar and recently-built or renovated structures;
3. Site improvement cost estimates will be completed for each improvement and based on take-offs of quantities of materials and labor required;
4. Construction work must be competitively bid. The cost estimate will be used to determine the cost reasonableness of bids;
5. Work to be completed by Developer acting as general contractor. The cost estimate for each project must be reviewed by Authority to determine cost-reasonableness and approved by Authority. When approved, the cost estimate becomes a schedule of values which is used by Authority's representative to determine the value of work completed for the purpose of approving draw requests.
6. Likewise, if a contractor has been simply designated and not selected through a competitive bidding process, the price proposal of such contractor must be reviewed by Authority to determine cost-reasonableness and approved by Authority. When approved (and possibly amended by Authority), the price proposal becomes a schedule of values which is used by Authority's project manager to determine the value of work completed for the purpose of approving draw requests.

D. Bid Packages

Developer will prepare bid packages with the following components for all work being performed by third party firms and ensure that two bids are received, as required by the Authority's Two Bid Policy:

1. A request for bid narrative that includes a general description of the processes for bidding, awards, construction monitoring, lien waivers, and construction draws. The narrative will state that retainage equal to 10% of the contract amount will be held back until the punch list is completed. The narrative will include the method of submitting proposals, a due date, and criteria for selection;
2. Plans and specifications including general requirements, site plans, materials specifications;
3. A form for describing the bidder's experience and licenses;

4. Evidence of required insurance;
5. A price proposal form;
6. Applicable compliance must be included in bidding packages. They may include:
 - Section 3
 - Affirmative Action
 - SBE/WBE/MBE Vendor Outreach
 - Vicinity Hiring
 - Limited English Proficiency
 - Saint Paul Sustainable Building Policy

See Appendix C

E. Bid Solicitation

Bid packages must be sent to at least three qualified contractors and bids must be received from at least two such contractors. If Section 3 compliance applies, developer shall notify the Section 3 administrator with the City of Saint Paul about the bid advertisement date at least one week prior to bid advertising.

F. Contract Awards and Contracts

Construction contracts will be awarded by Developer. Copies of all proposals received and the executed contract will be submitted to Authority electronically prior to the first draw.

G. Construction Monitoring Inspections

Authority's and Developer's roles and responsibilities are as follows:

1. Developer is responsible for monitoring the quality, completeness and conformity to specifications of all work performed by third party contractors, and-if Developer is also the general contractor-all work performed by Developer's personnel or subcontractors;
2. Authority shall assign a representative or representatives to accompany Developer's representative in construction meetings, construction draw inspections, and the punch list inspection as needed. Authority may approve draw requests or deny all or a portion of a draw request for cause.

H. Construction Draws

Draw requests during construction will be presented to Authority on the form attached as Appendix D along with lien waivers and any other required attachments described on that form or in the Agreement. Construction draw requests may include requests for reimbursement of soft costs in the approved Project Budget, up to the aggregate total

amount of the line item budget amounts for construction and soft costs. See Section VI for additional requirements for draws of Value Gap Financing. Authority is responsible for reviewing, approving and processing draw requests in a timely manner.

I. Change Orders

Developer may approve change orders up to a combined amount equal to the contingency budget line item. Developer is responsible for all construction costs exceeding the budgeted contingency amount, unless Authority at its sole discretion approves a revised Project Budget and reviews and approves a change order for additional improvements and costs in excess of the total construction budget.

J. Punch List, Final Inspection and Final Draw

Developer and Authority representatives must jointly approve the punch list during or immediately after the punch list inspection and approve the clearing of punch list items after subsequent inspection(s). All punch list items reasonably required by Authority must be included. Upon satisfactory completion of the punch list items, and all applicable paperwork, Authority will issue a notice of final completion to Developer (see the form in Appendix E). The final draw will include the payment of any remaining eligible construction costs, construction retainage, applicable soft costs and the portion of the developer fee payable upon completion of construction.

VI. Funding of Construction Work and Soft Costs

Developer is responsible for obtaining project financing as required by the Project Budget. Value Gap Financing may be used for construction and soft costs indicated in the Project Budget, up to the amount stated in the Agreement. Developer will follow these procedures for draws of Value Gap Financing:

A. Fees and Interest Payments

Fees and interest payments for lines of credit and construction loans are not eligible costs for reimbursement by Authority but must be counted toward the total cost basis of the redevelopment of the property. Authority's intent is to pay for these costs indirectly through payment of the developer fee.

B. Construction Costs

Construction costs will be funded by Authority as follows:

1. All construction draws will indicate a 10% retainage for all items, including general contractor fee, permits, and overhead. The aggregate retainage amount for a contractor will be included in contractor's final draw request or invoice, which will be presented to Authority after final completion of the project;

2. Disbursement of Authority funds will be on a reimbursement basis. Eligible costs can be reimbursed on a per property basis according to the following schedule:

- **1st disbursement:** at the time the property is sold to the Developer, Developer may finance up to the full amount of Authority's sale price.
- **2nd disbursement:** up to ½ of remaining Value Gap Financing requested can be distributed at the time the property is sold to the Developer or upon sufficient expenditures to justify reimbursement.
- **3rd disbursement:** remaining Value Gap Financing will be distributed upon lease up of the property and submission of all required tenant and closeout documentation.

3. Requests for funding of soft costs must be accompanied by invoices or other documentation from subcontractors or other third parties indicating payment of eligible rehab/construction and soft costs as indicated by the line items in the Project Budget.

VII. Accounting for Expenditures

Developer will account for total expenditures per property and retain necessary back up documentation in the event of an audit of program activities by Authority or HUD. No more than 60 days after a Property is fully leased, Developer will provide Authority with a complete accounting of expenditures.

VIII. Marketing

A. Responsibility for Marketing of Rental Units

Developer is responsible for marketing Rental Units to qualified Renters. If lease up does not occur within the anticipated timeframe and results in depletion of the rent reserve account, if any, or insufficient cash flow from operations, Developer will be responsible for paying the additional costs.

B. Marketing Plan and Budget

Prior to marketing the first Rental Unit, Developer must obtain written approval from Authority for a marketing plan and budget. The marketing plan will include the following elements:

1. Methods of affirmative outreach to residents of target areas;
2. Other means of advertising rental units, including such means as advertising, flyers and printed materials, rental housing listing services, etc. All marketing materials must include equal opportunity language;

3. Language for use in flyers, advertising and listings regarding income qualifications of Renters and advertised rental rates;
4. Method of income-qualifying prospective Renters;
5. Policy for managing a waiting list of potential Renters or interested parties;
6. Sample form of tenant lease.

IX. Rental Applications and Income Certification

Developer is responsible for the following tasks except those tasks to be carried out by Developer's rental management company. Developer will obtain and transmit to Authority all income certification documentation along with the page(s) of each signed lease indicating the Renter's name and the address of the property.

A. Application for a Rental Unit

The information obtained in the application will be used-along with verifications-to determine a household's eligibility to lease a Rental Unit.

B. Certifying the Income Eligibility of Prospective Renters

Developer will use the methods described in Authority's NSP Income Verification and Documentation policy in Appendix F (applicable to all Project Funding with income restrictions) to verify and certify the income-eligibility of applicants. Required documentation (copies of driver's licenses, paystubs, etc.) will be kept in the files of the Developer or Developer's management agent and copies sent to Authority as described elsewhere in this manual. The income certification may be no more than six months old at the time that the Renter and Developer enter into a lease. If older, the applicant must be recertified. An applicant whose application fails to meet any applicable eligibility requirements will be given a written notice of denial as described below.

C. Notification of Approval or Denial

Upon completion of the tasks described above, Developer will inform applicants in writing of their eligibility or ineligibility to rent a Rental Unit.

X. Confidentiality of Client Data

Developer will observe all Privacy Act requirements and keep client data in locked file cabinets or password-protected electronic files.

XI. Management of Resale Controls

Authority will be solely responsible for enforcing the provisions of restrictive covenants regarding resale controls for the purpose of maintaining long-term affordability, to the extent that these covenants are imposed on Developers by the Project Funding.

XII. Reporting and Recordkeeping Requirements

Developer will be required to establish and maintain accurate and complete books, accounts and records pertaining to each Property. Specific recordkeeping and reporting requirements may vary by Project Funding source and will be described in the Agreement. The Authority and their representatives will have the right, but not the obligation, at all reasonable times to inspect, examine and copy all books and records of Developer relating to each Property. Developer shall establish a method for obtaining and tracking tenant data related to household income and demographics as required by the Agreement.

XIII. Declaration of Covenants

A Declaration of Covenants, if applicable, will require the property owner to offer Rental Units at an affordable level to income eligible Renters for the Affordability Period.

Appendices

- A. Project Budget and Proforma example
- B. Design Standards Version 7
- C. Compliance Requirements
- D. Draw Request Form
- E. Certificate of Substantial and Final Completion
- F. NSP Income Verification and Documentation policy and Income Calculation Worksheet