

City of Reading HOME Investment Partnership (HOME) Program Guidelines

Introduction

Thank you for your interest in developing affordable homeownership housing in the City of Reading. Each year, the City receives an allocation of HOME Investment Partnership funds (HOME) from the U.S. Department of Housing and Urban Development (HUD). The City's Community Development Department administers the HOME allocation to expand the supply of quality affordable housing and to stabilize City of Reading neighborhoods.

Purpose of this Manual: This manual contains the basic program guidelines for the City's HOME program. The purpose of this manual is to introduce you to the program, insure you understand the requirements of the program, and instruct you on how to apply for and administer funding. Please note that the information presented in these pages should not be construed as an exhaustive list of the regulations and requirements governing City of Reading financing for this program. Developers assume all risk of any predevelopment funds expended before funding is formally approved and are ultimately responsible for compliance with all applicable regulations. This information should be taken only as a general guideline is not a substitute for a thorough understanding of the regulations. The City of Reading will make every effort in assisting developers and subrecipients with program compliance issues. Upon filing an application, you acknowledge that once the grant has been accepted, you assume all risks of change in rules and regulations or policies concerning this program, together with any adverse effects upon you and any resulting costs thereof.

How to Apply for Funds:

A. Get an Electronic Copy of the HOME Application and HOME Development Proposal

Electronic and hard copies of the City's HOME Application and Excel-based HOME Development Proposal template may be obtained from the City of Reading website at http://www.readingpa.gov/community_development.asp Questions may be directed to Steve Haver, Community Development Specialist (phone) 610-655-5336, or steven.haver@readingpa.org

B. Before Completing an Application

1. Read through these Program Guidelines and the application materials
2. Talk with Mr. Haver to discuss your project's eligibility and feasibility.
3. Review program information on the HUD web site at <http://www.hud.gov/offices/cpd/affordablehousing/programs/home/>

C. Submit a Complete Application

You must submit one original hard copy of your complete application AND an electronic version of the HOME Application and the Excel-based City of Reading HOME Program Development Proposal. Applications, exhibits and the Development Proposal should be submitted to:

Community Development Department
 Attn: HOME Program Administrator
 County Services Center
 14th Floor,
 633 Court Street,
 Reading, PA 19601

HOME Program Overview

PROGRAM POLICIES

The City of Reading HOME Program provides financing to developers for the acquisition and rehabilitation and/or new construction of homeownership housing in the City of Reading for low- and moderate-income households. The program’s primary purpose is to expand the supply of affordable homes and redevelop vacant, abandoned, and blighted buildings into safe and sanitary homeownership units.

Program Goals	To improve the City’s housing stock through the rehabilitation of blighted properties or the construction of new homes to create vibrant and safe neighborhoods.
Target Geography	Citywide Program, with a focus on the Ricktown and Centre Park areas
Funding Preferences and Evaluation Criteria	<ul style="list-style-type: none"> • Rehabilitation of existing structures • Redevelopment of properties listed by the Blighted Properties Committee • High quality designs that respect historic character • No displacement of existing residents • Encouraging conversion to owner-occupancy • Reduction of density and unit count • Development experience and track record of successfully completing development projects • Ability to leverage HOME funds with other financing • Universal design and energy-efficient/low maintenance design features <p><i>All projects funded by the HOME Program must be consistent with the City and County Comprehensive and Consolidated Plans and the City of Reading Housing Strategy as adopted November, 2011. When identifying a project, please check with the City and County Planning Commissions.</i></p>

<p>Eligibility Who Can Apply:</p> <p>Eligible Activities:</p> <p>Homebuyers:</p>	<p>Private builders, developers, nonprofit organizations, CBDOs, CHDOs & Faith-based Organizations. Developers must demonstrate housing development experience and financial capacity.</p> <p>Rehabilitation and New Construction of For-Sale Housing</p> <p>Households earning 80% of Area Median Income or Less if HOME funds;</p>
<p>Developer Assistance</p>	
<p>Types:</p> <p>Amount:</p>	<p><u>Construction and/or Development Gap Subsidy</u></p> <ul style="list-style-type: none"> • <u>Construction Financing</u>: Up to 80% LTV; rate is prime (LIBOR) + 1% • <u>Development Gap Subsidy</u>: Covers gap between appraised value & total development costs. Subsidy will be recorded as lien against the property and released upon completion and sale to an eligible buyer. <p>Gap Subsidy is determined based upon the project pro forma, not to exceed 50% of Total Development Cost</p>
<p>Homebuyer Affordability Assistance</p>	
<p>Type:</p> <p>Amount:</p>	<p>Down payment assistance, Mortgage Buy-Down. Recorded as a loan forgiven over 5-15 years, depending on the amount of subsidy to buyer (See chart on following page.)</p> <p>No more than 10% of sales price or the amount needed to achieve a 90% loan-to-value ratio. Housing-to-income ratio must be less than 30%.</p>
<p>Factors that help a project move through the process</p>	<ul style="list-style-type: none"> • High quality site plans, construction drawings & specs • Reasonable construction costs • Familiarity with all requirements outlined in this manual • Timely submission of required documents
<p>Definition of Subrecipient and Developers</p>	<p>The City of Reading accepts applications from developers and subrecipients.</p> <ul style="list-style-type: none"> • Developers are applicants who apply for and receive funds from the City for a specific project. The Developer is directly responsible for performing the work and signs a Developer Agreement with the City. • Subrecipients are for profit or nonprofit agencies that apply for and receive an allocation of HOME funds and they enter into separate agreements with developers to perform individual projects.

Site and Neighborhood Standards	The City of Reading requires all applicants for HOME funds to demonstrate how their proposed projects address the City's goals to eliminate blight and upgrade neighborhoods. Applicants should address their approach to meeting site and neighborhood standards in the Narrative section of the HOME Application.
--	---

Regulatory Compliance

Because the City of Reading is utilizing Federal funds for the HOME Program, a number of regulations and requirements apply. Following is a list of the key compliance areas you should understand before applying for funding.

A. Type & Amount of Assistance

Funds may be utilized to assist with acquisition, construction financing, development gap subsidy (difference between appraised value and development costs), and homebuyer assistance to insure affordability. The City will conduct a subsidy layering analysis to determine the amount of HOME financing for the project and to ensure the project is financially feasible.

Type of Assistance	Maximum
<u>Affordability Subsidy</u> : Direct assistance to buyer Down Payment, Deferred 2 nd Mortgage, Closing Costs	10% of sale price or the amount needed to achieve a 90% loan-to-value ratio. Buyer's housing-to-income ratio must fall between 20% and 30%.
<u>Development Subsidy</u> : Assistance to developer for Construction Financing & Development Gap Subsidy	Up 50% of Total Development Costs, but no more than is required to achieve fair market value for properties constructed or rehabilitated with HOME funds

B. Eligible Activity and Homebuyers

Funds under this program may be used for the rehabilitation and/or new construction of homeownership units that must be sold to households earning incomes at or below 80% of Area Median Income (AMI) for HOME as determined using IRS 1040 AGI calculations. Income must be verified with supporting documents or tax returns obtained from the IRS using form 4506. Income must be verified no more than 6 months prior to beneficiary occupancy.

The current income limits for the City of Reading are as follows:

Household Size (persons)	100% AMI (Approximate)	HOME 80% HUD AMI Income Limit	NSP 120% AMI Income Limit
1		\$38,100	\$57,100
2		\$43,550	\$65,300
3		\$49,000	\$73,450
4	\$68,000	\$54,400	\$81,600
5		\$58,800	\$88,150
6		\$63,150	\$94,650

last updated: December 2011

C. Term of Assistance

Units developed with HOME funds must remain affordable to income qualified purchasers for varying lengths of time depending upon the amount of HOME funds provided as assistance to buyers. All homebuyer assistance loans will be secured by a lien on the property coinciding with the HOME Period of Affordability. Upon sale or transfer of the home to a non-income-qualified owner-occupant, some or all of the homebuyer assistance may be recaptured by the City, subject to available proceeds.

Direct Assistance to Homebuyer Per HOME-Assisted Unit	Period of Affordability (Secured via Lien)
Less than \$15,000	5 years
\$15,000 to \$40,000	10 years
More than \$40,000	15 years

D. HOME Program Development and Loan Agreement

Successful applicants will be required to enter into a HOME program agreement that incorporates Regulatory Compliance, Disbursements, Affordability, and project-specific information. In addition, restrictive covenants may be filed on any property acquired with HOME funds as loan collateral or to secure affordability.

GENERAL REGULATIONS & REQUIREMENTS

A. Development & Property Standards

All developments to be funded with HOME funds must, at the time of completion, comply with all local building codes, rehabilitation standards, ordinances, zoning and federal regulations regarding hazardous materials. Energy Star certification is also required for all projects as certified by a RESNET energy auditor.

The City’s goal is to provide efficient, affordable housing that respects neighborhood context and provides enhancement of property values and quality of life. The City will review development proposals to ensure that projects meet these site and neighborhood standards.

B. Environmental Review

In accordance with HUD regulations, the environmental effects of each activity carried out with federal funds must be assessed. The City of Reading is responsible for conducting an environmental review of projects selected for funding. Compliance with environmental review requirements is mandatory prior to the applicant entering into any choice-limiting agreements or taking any physical action on a site. The selected applicant(s) shall be responsible for providing information and relevant documents necessary to accomplish the environmental review. For some projects the City will require a Phase I environmental assessment conducted in accordance with standards developed by the American Society for Testing and Materials, and if applicable, a follow-up Phase II assessment.

C. Historic Preservation

Section 106 of the National Historic Preservation Act of 1966 (revised) requires that all federally funded agencies consider the effect of the proposed project on existing historic resources. Any rehabilitation or new construction project subsidized by the City must be reviewed under the Section 106 procedures established by the Federal Advisory Council on Historic Preservation.

D. Utilities and Energy Efficiency Review

The City of Reading encourages building and rehabilitating ENERGY STAR qualified homes. These homes are independently verified to be at least 30% more energy efficient than homes built to the 1993 national Model Energy Code or 15% more efficient than state energy code, whichever is more rigorous. These savings are based on heating, cooling, and hot water energy use and are typically achieved through a combination of:

- building envelope upgrades
- high performance windows
- controlled air infiltration
- upgraded heating and air conditioning systems
- tight duct systems and
- upgraded water-heating equipment
- Specify ENERGY STAR Qualified Products

E. Lead-Safe Housing

Any project involving the rehabilitation of a property built before 1978 must comply with the Residential Lead-Based Hazard Reduction Act of 1992 and the EPA's *Lead Renovation, Repair, and Painting Program*. Residential developments funded with HOME funds must result in lead-safe housing. Depending on the amount of Federal funds used on a project, lead requirements range from lead-safe work practices to testing and clearance procedures through full lead abatement.

G. Handicap Accessibility

HOME funding requires that projects meet the accessibility requirements of the Fair Housing Act of 1968 and Section 504 of the Rehabilitation Act of 1973. Projects of five (5) or more units are required to have a minimum of 5% of total units (or at least one unit) accessible to the physically handicapped and an additional 2% of total units equipped for those with hearing or visual impairments. The 2009 International Building Code also contains accessibility requirements for all buildings and structures.

H. Outreach to Minority and Women Owned Businesses

The City of Reading requires developers to make a good faith effort to utilize minority- and women-owned businesses in all City- assisted housing projects. All recipients of City funds will be required to keep records of participation by certified MBEs & WBEs.

I. Section 3: Employment and Economic Opportunity for Low and Very Low Income Persons

The City of Reading requires developers to make good faith efforts to comply with the federal Section 3 requirements and to take steps to ensure employment and other economic opportunities are directed to low- and very low-income persons.

J. Audit Requirements

Applicants for HOME funds may be subject to the audit requirements of OMB Circular A-133.

OTHER IMPORTANT REQUIREMENTS

A. Applying for State Tax Credits & Local Abatement

Local tax abatements may be available for certain rehabilitation and new construction of residential properties. Inquire in the Community Development office for additional information.

B. Debarment

An applicant may not receive City funds if any affiliated entity, board member, or member of the development team (including consultants) has been debarred and listed on EPLS (Excluded Parties List System), available at <https://www.epls.gov>.

E. Prevailing Wage Requirement

Developments of twelve (12) units or more financed with HOME funds are required to pay at rates not less than the prevailing wages as determined by the Secretary of Labor. For more information contact the Community Development department. A wage determination will be issued by the department prior to the bidding and award of any contract covered by Davis-Bacon wage requirements.

F. Citizen Participation Plan

This plan describes how the City of Reading will involve the residents of the community in the planning, implementation, and monitoring of the Action Plan. Citizens will be consulted during the development of the Plan. There will be three (3) general venues of public involvement:

- public hearings;
- community meetings and committees; and
- individual citizen contact in the form of comments, complaints, or inquiries submitted directly to the Community Development Department.

Any awards made under the HOME program will be subject to the provisions of this plan, a complete copy of which is available in the Community Development office.

G. Tax Abatement

The City of Reading has two tax abatement programs that are available to developers in the City:

LERTA, which stands for Local Economic Revitalization Tax Assistance Program, applies to owners of industrial, commercial, or residential properties of 6 or more units that are contemplating repair, construction, or reconstruction of such property within the City of Reading. Owners can receive a pro-rated ten (10) year tax abatement on the assessed valuation of the improvements to the real property.

ReTAP is the Reading Residential Tax Abatement Program, which applies to residential property owners that are contemplating repair, construction, or reconstruction of such property within the City of Reading. Owners can receive a pro-rated ten (10) year tax abatement on the assessed valuation of the improvements to the residential real property, or a three (3) year 100% tax abatement on the construction of new residential dwelling units.

H. CHDO Certification

Organizations certified as Community Homeownership Development Corporations (CHDOs) are required to submit a copy of the City's certification documenting the organization is currently certified as a CHDO. Submission of this form is required with an application.

REQUIREMENTS REGARDING ONGOING MANAGEMENT**A. Affirmative Fair Housing Marketing Plan**

All developments of five (5) units or more financed with HOME funds are required to submit an Affirmative Marketing Plan to the City outlining methods for providing information and otherwise attracting eligible persons in the market area to the available housing without regard to race, color, national origin, sex, sexual orientation, religion, familial status or disability.

The Affirmative Marketing Plan must include methods to be used by owners to inform and solicit applications from persons not likely to apply for the housing unit without special outreach (e.g., use of community organizations, places of worship, employment centers, fair housing groups, or housing counseling agencies).

B. Nondiscrimination Against Rental Assistance Subsidy Holders

The owner cannot refuse to lease HOME assisted units to a certificate or voucher holder under Section 8 Tenant-Based Assistance based on the status of the prospective tenant as a holder of such certificate, voucher or comparable document.

C. Management and Maintenance Service Standards

All developments financed with City funds must provide management and maintenance services to the housing provided. The developer will be required to submit a Management Plan and Agreement for review and approval.

D. Annual Re-Certification

Projects funded by the City are audited each year for compliance in the following areas:

- Certification of tenant income
- Rent and utility allowances
- Compliance with Local building codes and Housing Quality Standards
- Owner's Written Agreements including Affirmative Fair Housing Marketing Plan, Management Plan and Management Agreement.

Requesting Payment, Fund Disbursement, and Record Keeping**A. Requesting Payment**

Requests for disbursement of funds:

- Disbursement of funds will only occur under this agreement at such time as funds are needed for reimbursement of eligible costs
- Project draws available for acquisition, lead abatement and clearance, rough-in inspection and issuance of a Certificate of Occupancy by the City
- Completion reports are to be submitted and verified by City staff or contractor prior to payment
- Retainage of 10% to be held until project is occupied and completion data submitted

When an applicant has completed a project, the City requires developers to submit the following items when requesting HOME funds:

1. Homebuyer Completion Report
2. Owner Occupancy Certification
3. Income Certification
4. Deed with HOME Deed Restrictions
5. HUD-1 Form
6. Property Closing Statement
7. The Job Ledger Report
8. LBP Clearance Test
9. Contractor Agreement to use Lead Safe Practices
10. If applicable, inspection report documenting lead has been removed
11. Certificate of Occupancy

B. Project File Materials/Record Keeping

HOME recipients will be required to maintain the following items about each HOME-funded project and have these items available upon request from the City of Reading:

1. Development proposal
2. Beneficiary application
3. Counseling certification
4. Income determination documentation
5. Pre-acquisition appraisal
6. Work write-up
7. Bid specifications
8. Contractor bid submittals
9. Bid tabulation and notice of award
10. Contractor eligibility certification
11. Construction Contract(s)
12. Notice to proceed
13. Progress payment requests, inspection reports and authorizations
14. Change order documentation and approval
15. Final inspection and punch list
16. Certificate of Occupancy
17. Waiver of Liens
18. Warranty information (if applicable)
19. Affirmative marketing agreement and questionnaire
20. Completed File checklist

The City of Reading will maintain the following items about each subrecipient and HOME-funded project:

1. Environmental Review
2. Application with exhibits
3. Development Proposals with attachments
4. Written Agreements
5. Monitoring and compliance reports

C. Compliance Monitoring

Subrecipients and developers will be monitored by the City for compliance with the regulations of 24 CFR 92 for the period specified in the HOME agreement based on the affordability period of the project. This will include monitoring of both the acquisition, procurement and construction process, as well the homebuyer eligibility, income verification and sales process.

D. Record Keeping

Subrecipients and developers will maintain records and reports and allow access to project files as requested by the City during the PROJECT and for Five (5) years after completion and closeout of the agreement and end of the associated affordability period.

Evaluation Criteria

Applicants will be evaluated under the following criteria. These are not stringent requirements, but fulfilling one or more may increase the likelihood that a project is funded and is ready to close more promptly by the City.

A. Readiness to Proceed

Proposals will be evaluated on the overall status of the project and likeliness to proceed smoothly during the current construction season. Specific items that work in an applicant's favor include:

1. Firm funding commitments
2. Application is made in response to a current City Request for Proposals
3. Clear title to property if not publicly owned
4. Reasonable timeline showing that work can commence promptly upon receipt of award

B. High Quality Site Plans, Construction Drawings, and Specifications

Applications with professionally-prepared design and construction documents will move more quickly through the design and construction review processes and will therefore be given preferential treatment.

C. Financial Feasibility

Proposals will be measured by the extent to which the applicant has demonstrated the overall soundness of the financial assumptions and that the request from the City is gap funding/financing.

1. Leverage of other funding sources. Combining other public and/or private funds to minimize the amount requested from the City is encouraged.
2. Financial viability. A sources and uses, pro forma, and construction budget will be submitted electronically and in hard copy utilizing the Excel-based "City of Reading Development Proposal." All costs and assumptions must be consistent with industry standards and standards outlined in the next section of this guide.
3. Funding sources are documented, indicating exact level of commitment, conditions and time frame for expending funds. This may also be evaluated based on experience of applicant(s) in obtaining these commitments.

D. Other Considerations

1. Developments that create mixed-income housing environments.
2. Materials and construction standards exceeding Energy Star standards.
3. Projects developed in coordination with other targeted neighborhood investments

Development Cost Standards

The following table and descriptions delineate the City’s guidelines and requirements for development costs. Unless indicated as a “recommendation only,” standards below should be interpreted as requirements.

	Minimum Required	Maximum Allowed	Notes
<u>Construction Contingency</u>			
New Construction	5.0%	7.5%	of Total Development Costs (TDC) <i>recommendation only</i>
Rehab	7.5%	10.0%	
<u>Developer Fee</u>			
New Construction	-	12%	of TDC, excluding acquisition
Rehab	-	15%	
<u>Contractor's Fees</u>			
Profit	-	8.0%	of TDC
Overhead	-	2.0%	
General Conditions	-	6.0%	

Construction Contingency: Contingency should be 5%-7.5% of the total construction costs for new construction and 7.5% to 10% for rehabs. Numbers outside of those ranges require an explanation for the variance.

Developer Fee: For new construction projects, the developer's fee and overhead, including any consultant fees, may not exceed 12% of total development costs excluding acquisition costs. For rehabilitation projects, the developer's fee cannot exceed 15% of non-acquisition total development costs.

Contractor Fees: The City may allow a maximum of 8% contractor's profit, 2% builder overhead and 6% general requirements. Contractor's profit, builder overhead, and general requirements may not exceed 16% of the total construction costs less the sum of the contractor profit, builder overhead, and general requirements. General requirements must include the cost of builder's risk insurance, all bonding costs, and temporary utilities.

Maximum Allowable Sales Price: Units rehabilitated or constructed with HOME assistance for low and moderate income home purchasers must be sold at prices not exceeding current HUD Section 221(d) 3 non-elevator mortgage limits listed below.

# of Units in Home	Maximum Sale Price
1 Family	\$158,630
2 Family	\$191,314
3 Family	\$244,887
4 Family	\$272,813
Last updated:	July 2011

Conclusion: Thank you for your interest in the City of Reading’s HOME program! Please feel free to contact the CD office or HOME program specialist with any questions or concerns. We stand ready to assist you with the successful development of affordable housing in Reading.