

**Guidance For Multi-Family (Rental) Unit Production – w/Low Income
Housing Tax Credits 2011**

- Submit your proposals to the IDEED by no later than March 8, 2011.

This CDBG Disaster Recovery activity will only be allowed for projects located in one of the 2008 Presidentially Declared Disaster Recovery Counties and is open to for-profit or non-profit multi-family (rental) housing developers to newly construct, rehabilitate, or convert multi-family rental dwelling units. Amount set aside for activity is \$12,000,000.

Applications may qualify as either: a) Replacing units lost; or b) Impact on area recovery.

Developers who have not successfully placed-in-service a project using Federal funds in the form of HOME or CDBG must partner with a consultant experienced with HOME or CDBG project development and contract with a management company experienced in HOME or CDBG management to be considered for funding.

All individual projects must have written concurrence and acceptance of the project from the local government entity in which the project will be located.

Applications will be reviewed on a date received basis, in consultation with the Iowa Finance Authority, and funded as they meet requirements for approval.

- This activity is limited to newly construct, rehabilitate, or convert multi-family housing.
- Definitions:

“Adaptive Re-use” means those projects converting non-residential use structures or buildings into residential use structures or buildings.

“Affordable Rental Units” means those units contained in the mortgaged property and contained in the agreement for covenants and restrictions that are occupied by low and moderate income persons or households at any given time. Affordable rental units (in the appropriate number as described later in these guidelines under the CDBG National Objective criteria) are to be retained at all times as affordable rental units throughout the period of affordability (15 or 30 years as required through the Low Income Housing Tax Credit Application) through income limitations of the tenants occupying those units and through rent limitations for the tenants occupying those unit

“Crosscutting Regulations” means Federal regulations which have applicability across other Federal programs and include HUD’s Lead Safe Housing Regulations, Rights and Fair Housing, Labor Standards for projects with 8 units or more, Acquisition and Relocation and are requirements of this program.

“Project” means a site or sites together with any building or buildings located on a site or sites that are under common ownership, management, and financing and are to be assisted with CDBG Supplemental funds as a single undertaking, and includes all activities associated with the site(s) and building(s).

- Applicants, prior to application submission, need to determine the development team that will be involved in each project and prior to proposal submission to the IDEED. Applicants will need to be able to convey the development team members and their respective roles and responsibilities in the proposed projects within the application submitted to the IDEED. Development team members may include, but are not limited to:
 - Owner (or eventual owner);
 - Program administrator / overseer from start to finish, including throughout the prescribed period of affordability, if different from the owner;
 - Developer(s) and/or builder(s) of the multi-family (rental) housing;
 - Architectural / Engineering (A/E) or design services, as applicable;
 - Construction Lender(s);
 - Permanent Lender(s), as applicable;
 - Property Manager(s);
 - Energy Rater/Consultant Firm;
 - Other Team Members

- There is a maximum per project cap limitation of \$1,500,000 on the CDBG Disaster Recovery funds.

- There is a maximum per unit development cost cap of \$60,000 on the CDBG Disaster Recovery funds. The maximum per unit cost cap for adaptive re-use types of projects will be \$66,000 on the CDBG Disaster Recovery funds.

- Any and all additional costs of the project above the stated CDBG Supplemental funds limitations of \$1,500,000 shall come from other financial resources. Projects should reflect a Debt Service Coverage Ratio between 1.20 and 1.50 for the first fifteen years of affordability. All other necessary financial resources shall be committed and secured prior to the commitment of CDBG Supplemental funds to the rental project.

- CDBG National Objective - All assisted multi-family (rental) new production projects shall meet the national objective of “Primarily benefits persons of low and moderate income – Housing”. Effectively, this means that no less than 51% of the rental units in an assisted rental project shall be occupied by persons or households whose incomes are at or below 80% of the area median income limits (LMI) by household size as established by HUD for the jurisdiction in which the rental project is located.
 - 51% of all rental units in the project (rounded up to the nearest whole number) shall be made available to and occupied by a low and moderate (LMI) tenant (e.g., in a thirty-two unit project, seventeen units shall be made available to and occupied by LMI tenants).
 - For rental projects that contain residential units of varying bedroom sizes, to the extent possible, the 51% criteria needs to be applied (i.e., a proportional share) to all sizes (number of bedrooms) of units.

Scattered site projects accomplished as a single undertaking shall take into consideration the individual properties on the various sites when determining national objective compliance (i.e., the 51% criteria).

Mixed use properties will be allowed under this activity under the following conditions:

- ✓ A unique occupant (with unique EIN/Social Security Number) must occupy each of the applicable residential unit(s) and commercial unit(s).
- ✓ Each unit must have a unique mailing address.
- ✓ Each unit must have a separate entrance.
- ✓ The Residential unit will be required to comply with all HUD rules and regulations (rent and income requirements).
- ✓ The business unit will be subject to DOB processing.
- ✓ Square footage of respective spaces (Rental vs Commercial/Business) must be documented. Costs for common space used by both entities (roof, hallways, maintenance space/equipment, etc.) must be allocated based on percent of square footage of each entity.

Following the provision of CDBG Supplemental Funds assistance to a rental project, when all work has been completed and accepted and the mortgage and agreement for covenants and restrictions has been recorded; the 15 year or 30 year (as applicable) term of affordability begins. It is at this juncture (initial occupancy following the provision of assistance) that the appropriate number of units in the project needs to be occupied by the appropriate number of LMI tenants and the subsequent rents limited on those units.

- Projects constructed under this activity may result in mixed-income projects, in that, only a percentage (51%) of the total number of units are required to meet the activity income and rent requirements (i.e., the “assisted” units). In the design of projects under this activity, consideration needs to be given to keeping all units in the project, not just the assisted units, consistent with each other in terms of bedroom sizes, square footage, similar design features, similar amenities, etc. This will allow assisted property owners units to maintain the required percentage of assisted units within the project and at the same time be able to use any of the units in the project to meet the required percentage. If unit design is not consistent, applications may be rejected; awards reduced and/or contain other restrictions to ensure appropriate use of funds for affordable units.
- Maximum (gross) rent limits on the CDBG Supplemental Funds assisted (affordable) rental units (by bedroom size) shall not exceed the most current LIHTC 60% rent limits.
- Rental property owners of CDBG Supplemental funds assisted rental projects shall agree to a 15 year or 30 year (as applicable) period of affordability in terms of tenant income restrictions (limitations) and through affordable rent limitations (controls) on all CDBG Supplemental funds assisted rental units (i.e., the affordable rental units) serving LMI tenants, maintaining the appropriate number of affordable rental units for the entire 15 year or 30 year (as applicable) period of affordability.

Long-term affordability requirements shall be secured through an agreement for covenants and restrictions that ride with the assisted rental property owner’s land.

Throughout the period of affordability, assisted rental property owners shall ensure that the appropriate number of rental units remains affordable to, and are occupied by, income eligible and verified LMI tenants. All assisted rental units shall be subject to the maximum rent limitations (by bedroom size) applicable to all assisted rental units for the entire 15 year or 30 year (as applicable) period of affordability. Applicants will need to identify who will be responsible for the long-term affordability requirements and oversight for all funded new construction multi-family (rental) projects.

- Throughout the period of affordability, assisted rental property owners shall agree to periodic reporting requirements and compliance monitoring and/or inspections (for tenant incomes and rents on the affordable units, appropriate unit mix, property standards compliance, tenant demographics, etc.).

- The CDBG Supplemental funds subsidy amount provided must be secured as a mortgage lien on the assisted multi-family property.
- The CDBG Supplemental funds deferred loan may be recorded in junior position to the principal conventional loan (if there is one). Additionally, recipients must maintain their assistance security agreements in the above-stated recording position throughout the 15 year or 30 year (as applicable) period of affordability.
- Form of assistance – The form of financial assistance (CDBG funds) will be a 15 year or 30 year (as applicable) zero percent (0%) deferred loan (non-receding), payable in full at the end of the 15 year or 30 year compliance period.

Upon mutual agreement and consent between the IDED and the originally assisted rental property owner; the assisted rental project may be sold or transferred, but, only if the new purchaser agrees to continue with the terms of the loan agreement and the agreement for covenants and restrictions, to complete the remainder of the 15 year or 30 year (as applicable) period of affordability (tenant income and rent limitations on 51% of the rental units).

- Multi-family dwelling units under this activity shall not be constructed in a 100-year flood plain or within buy-out areas (those buying out properties in a 100-year flood plain), known or proposed. No adaptive re-use multi-family proposals located within the 100-year flood plain will be allowed under this activity.
- All multi-family units shall be designed and constructed in accordance with all locally adopted and enforced building codes and standards. In the absence of any locally adopted and enforced building codes or standards, the requirements for new construction will be based on the Iowa State Building Code. The requirements for conversion, rehabilitation and historic will be based upon the Iowa's Minimum Housing Rehabilitation Standards.
- It is the IDED's goal to utilize the CDBG Supplemental Funds in a manner that results in green-built, sustainable multi-family structures. All multi-family housing shall meet the requirements of the Iowa Green Streets Criteria. All proposals must submit a completed Green Development Plan and Checklist.
- Lots (land) on which to construct the multi-family housing proposed need to be identified and where possible site control (not ownership) obtained, prior to application submission, and be identified (property address and

legal description) within the application. This is particularly important with regard to the requirements of the Iowa Green Streets Criteria.

- The owner and/or the developer / builder of the multi-family housing shall obtain their own construction financing.
- All Federal Crosscutting Regulations required under the CDBG Program Disaster Recovery Fund General Provisions Dated September 23, 2008 shall apply. See definition of Crosscutting Regulations.
- Environmental requirements under 24 CFR Part 50 and 24 CFR Part 58 shall apply. [Caution: Do not commit or expend funds before the environmental review is complete and a Request for Release of Funds (RROF) is submitted and a Release of Funds letter is issued by the State of Iowa. However, you may incur costs for those certain activities that are “exempt” from the environmental review requirements under 24 CFR Part 58.34. These costs include administration, environmental review, engineering and design. Costs for exempt activities may be incurred as of the date of this letter but cannot be reimbursed by IDED until execution of the contract.]
- Program Income. As the landlord/owner of low-income rental housing, profits generated from the leasing of your CDBG Supplemental funds assisted project are considered “Program Income” and must be returned to the Iowa Department of Economic Development. When program income is generated by an activity that is only partially assisted with CDBG funds, the income shall be prorated, and therefore the program income is prorated to reflect the percentage of CDBG funds used. If all amounts determined to be program income received by the recipient in any year are less than \$25,000, then the recipient is considered to have no program income for such year.