Due Diligence Considerations for HOME-ARP Non-Congregate Shelter (NCS) Activities

A guide for Participating Jurisdictions (PJs), developers, owners, and other parties interested in developing and operating HOME-ARP Non-Congregate Shelters.

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Background and Essential Requirements for HOME-ARP NCS

This guidebook is intended for Participating Jurisdictions (PJs), developers, owners, property managers, and other parties interested in developing and operating HOME-ARP Non-Congregate Shelters (NCS).

CPD Notice 21-10 Section VI.E outlines the NCS requirements and defines NCS as “one or more buildings that provide private units or rooms as temporary shelter to individuals and families and does not require residents to sign a lease or occupancy agreement”.

HOME-ARP funds may be used to acquire and develop NCS for individuals and families in qualifying populations. This activity may include, but is not limited to:

- The acquisition of land and construction of NCS or
- Acquisition and/or rehabilitation of existing structures such as motels, hotels, or other facilities to be used for NCS

As detailed in the NCS Activities – Project Development Due Diligence section of the HOME-ARP Notice, *before awarding funds for NCS, the PJ must:*

1. Require that the developer submit evidence of appropriate skills and experience related to the development of shelters or similar activities.
2. Require the owner to submit evidence of prior experience operating shelters.
3. Require:
    - An acquisition budget
    - A development budget
    - A sources and uses statement
    - A timeline for the acquisition and/or development of the building
4. Require the owner to submit a proposed operating budget indicating anticipated sources and timing of commitments. In the event of a funding shortfall in the operating budget, the PJ should mandate that the owner provide a plan to secure additional funding to ensure the activity’s successful operation throughout the HOME-ARP NCS restricted use period.

Considerations Related to Future Conversion of HOME-ARP Units to Permanent Affordable Housing

During the restricted use period, the HOME-ARP Notice permits the conversion of HOME-ARP NCS units into permanent housing, as defined in the McKinney-Vento Homeless Assistance Act (42 U.S.C. §11383 (a)(2)) under subtitle C of title IV of McKinney-Vento, or permanent affordable housing if the minimum use period has been met. If this future conversion is a possibility, before committing funds, *the written agreement between the PJ and owner should describe conversion as a possible outcome of the NCS activity, specify the conditions under which conversion will be permitted, and require that the PJ approve any conversion in advance.*

Restricted *vs.* Minimum Use Period

Restricted Use Period

Minimum amount of time projects must comply with the Notice

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Minimum Use Period

Amount of time NCS properties MUST operate as emergency shelter before they may be converted to permanent housing

Allocation Plan Accepted. Now What?

In order to receive HOME-ARP funding, each PJ submitted a HOME-ARP Allocation Plan for HUD approval. Following allocation plan acceptance, PJs acquiring and developing NCS must conduct due diligence to foster successful production and ongoing operation of compliant HOME-ARP NCS.

The due diligence considerations described in this guidebook will help PJs determine that:

- Acquisition and/or development of an NCS activity is financially feasible.
- QPs will have access to the NCS via referral methods as outlined in the PJ's accepted allocation plan.
- The NCS will meet the Minimum HOME-ARP NCS Property Standards prior to occupancy and ongoing property standards throughout the restricted use period.
- The NCS activity can be completed within 4 years of the date of commitment (execution of the written agreement).
- The NCS activity is positioned for successful long-term operation, with the owner demonstrating the ability to secure operating funding. Remember: Operating costs cannot be paid with HOME-ARP.

Due Diligence Considerations

The PJ may request the following Due Diligence Considerations as portions of a comprehensive package. Additional information may be requested. To ensure that the PJ can adequately review the activity for funding and project feasibility considerations, provide as much detail up front as possible.

1. Developer's Prior Experience Developing Shelters

The NCS developer is responsible for:

- Securing all financing necessary for development of the NCS
- Obtaining necessary reviews and approvals of plans and permits for construction
- Confirming that minimum property and habitability standards are met
- Ensuring that all necessary development milestones are met in time for the activity to meet its activity completion deadline of no later than four years from commitment of HOME-ARP funding

The same entity may function as the developer and owner-operator.

The PJ must evaluate the developer's ability to carry out the NCS development activity in compliance with HOME-ARP requirements. It is up to the PJ to define appropriate experience and financial capacity based on the size, scope, and complexity of the activity. Questions to consider during this assessment include:

Does the developer have a history of successfully developing similar activities?

- Have they completed similar activities on time?
- Have they completed simliar activities within budget?
- Have they successfully complied with HUD crosscutting requirements (e.g., Environmental Review, Section 3, URA, Davis Bacon, and Federal Labor Standards) in the past?

Has the developer demonstrated that they understand, and can construct the NCS to comply with, the property and habitability standards outlined in the Notice?

Has the developer demonstrated the fiscal strength to complete past projects in the face of unforeseen costs or delays, minimizing risk to the PJ?

Before awarding funds for NCS, *the PJ must require the developer to submit evidence of skills and experience related to the development of similar facilities.*

Evidence may include:

- Information on past activities, such as similar developments (e.g., congregate, and non-congregate shelters, publicly subsidized affordable housing, and rental housing), which may include:
  - Acquisition and development budgets
  - Operating budgets
  - Project descriptions, write ups, and accomplishment data
  - Organizational chart, including roles and responsibilities of the key development team as they relate to the NCS activity
  - Resumes/CVs of organization's leadership and staff that will have roles related to the NCS activity
- Evidence demonstrating the developer's fiscal strength to complete the activity regardless of unforeseen costs or delays, which should include:
  - Most recent audited financial statements, with:
    - A summary risk assessment based on organizational activity
    - Auditor notes
    - Single audit, if required
  - Recent unaudited cash flow statement and balance sheet

2. Owner's Prior Experience Operating Shelters

The NCS owner owns the property and is responsible for its long-term viability, including ongoing compliance with property standards and occupancy requirements. The owner may enlist a separate entity to operate the NCS, but *the owner is ultimately accountable to the PJ for the success of the activity* as codified in the written agreement between the owner and the PJ. The owner must ensure that QPs have access to and benefit from the NCS according to the PJ's preferences and referral methods described in its allocation plan.

The owner must also have the capacity to ensure that financial, administrative, and client-level record-keeping and reporting responsibilities for the NCS activity are fulfilled and comply with HOME-ARP regulations, including documentation of occupants' eligibility.

Before committing funds to an NCS activity, the PJ must evaluate the owner's ability to maintain ongoing operations of the NCS activity in compliance with HOME-ARP regulations. The PJ must determine what constitutes appropriate experience and financial capacity based on the size, scope, and complexity of the activity.

Questions to consider during this assessment include:

Does the owner have a history of operating and maintaining similar activities?

- Have they successfully complied with HUD crosscutting requirements (such as Violence Against Women Act (VAWA) and Fair Housing) in the past?

Does the owner have a sustainable operating plan and budget?

Has the owner successfully served QPs in the past?

Has the owner successfully applied the PJ's referral method in the past?

Has the owner demonstrated that they can successfully meet ongoing property standards like those in the Notice or other similar federal housing programs?

Is the owner fiscally sound and able to meet financial obligations and minimize risk?

Before awarding funds for NCS, *the PJ must require the owner to submit evidence of prior experience operating shelters*.

- Evidence can include:
  - Resumes/CVs of leadership, relevant staff that with responsibility to oversee the activity, and partner organizations, including their roles and qualifications
  - Information on *prior* relevant activities, such as similar developments (e.g., congregate and non-congregate shelters, publicly subsidized affordable housing, and rental housing), which may include:
    - Population(s) served and experience with client-level eligibility determination/recordkeeping
    - Program outcomes and key metrics, including (HMIS and/or IDIS) accomplishment data
    - Budget with sources and expenditure rates
    - Operating statements
    - History of fundraising to support activities with ongoing operating costs
    - Results of any relevant HUD monitoring
  - Operating plan, including:
    - Activity description
    - Program design
    - Shelter operating policies & procedures
    - Evidence of low-barrier, housing-focused shelter model implementation
  - Operating budget

3. Budgets and Timeline

Before awarding funds for NCS, *the PJ must require the developer to submit an acquisition budget or an acquisition and development budget, sources and uses statement, and activity development timeline. The PJ must also require the owner to submit an operating budget.*

PJs must review all projected costs to ensure that they are reasonable, allowable, and necessary to develop an activity that will remain viable for at least the restricted use period, including the funding of a replacement reserve, if applicable. The HOME-ARP Notice allows developers to capitalize a replacement reserve with HOME-ARP funds to pay reasonable and necessary costs of replacing major systems and their components whose useful life will end during the restricted use period.

For information on eligible costs for acquiring and developing NCS, please see the NCS eligible costs handout and NCS eligible costs information detailed in the Notice.

The PJ must evaluate the detailed development budget, including all acquisition costs, demolition costs, hard costs, site improvements, and related soft costs. For sufficient evaluation, to support that costs are necessary and reasonable, the PJ should review the following:

- Acquisition documentation, including third-party appraisal or other documentation of property value, purchase agreement, and title search
- Independent Cost Estimate for construction or rehabilitation costs
- Construction cost estimate and preliminary bid(s) if applicable
- Contracts, quotes or other documentation substantiating professional costs and the basis for estimating other soft costs and working capital line items, including capitalized reserves. Key professional costs can include:
    - Environmental review
    - Market study
    - Architectural or engineering studies or plans
    - Relocation plan and budget (if applicable)
- Documentation demonstrating commitment of funds from other sources necessary to complete the activity

This detailed information informs the PJ's determination of the final HOME-ARP funding award. Through an analysis of development costs and other committed funds, the PJ evaluates cost eligibility and reasonableness to avoid over-subsidizing the NCS activity.

PJs that plan to capitalize a replacement reserve must determine that costs are necessary and reasonable and include them in the finalized development budget and written agreement. Determination must be made through a Capital Needs Assessment or other inspection by PJ staff or a PJ-selected contractor, and documented in writing in accordance with requirements for capitalized replacement reserve costs in VI.E.3 of the Notice.

Budgets which the PJ may need to review will depend on the activity specifics, and may include:

Acquisition Budget

PJs may require the developer to submit only an acquisition budget when the activity includes acquisition but where *no rehabilitation is needed.* In this case, the existing condition of the property meets HOME-ARP NCS property standards for habitation.

An acquisition budget should include all eligible and non-eligible costs and fees associated with the acquisition of the NCS space. The developer should indicate which funding source(s) will be used to pay for each line item.

PJs should review the detailed acquisition budget to confirm all anticipated costs are necessary and reasonable.

For this acquisition-only activity, the budget includes expenses such as:

- Acquisition costs, such as the cost of the land and/or existing structures
- Predevelopment costs such as environmental review, capital needs assessment, and appraisals
- Financing costs, such as origination fees and closing costs
- Project reserves, such as replacement reserve (which can be capitalized at the beginning of the activity) or operating reserves (which cannot be funded with HOME-ARP dollars)
- Developer fee, a permitted development cost under HOME-ARP. The PJ must review the fee to determine that it is reasonable

For an acquisition-only activity where items not requiring permitting are required, such as NCS unit furnishing, painting, and door locks, PJs must complete a development budget rather than an acquisition budget.

In the following example, Harrisville NCS is an acquisition-only activity.

Sample Acquisition Budget – HOME-ARP NCS Activity					
Activity Name: Harrisville NCS			**Date:** 10/23/24		
		Total Units: 10	Acquisition Cost Per Unit: $102,040		
Budget Categories	**Source:**	**HOME-ARP**	**Philanthropic Organizations**	**State Funding**	**Total**
Acquisition Costs	**Land**				$0
	Improved Property	$900,000			$900,000
Other Owner Costs	**Environmental Review**		$5,000		$5,000
	Capital Needs Assessment		$5,000		$5,000
	Appraisal		$1,000		$1,000
Interim/Perm Financing	**Origination Fees**		$1,100		$1,100
	Closing Costs		$5,000		$5,000
Project Reserves	**Replacement Reserves**			$20,000	$20,000
	Operating Reserve	***HOME-ARP funding cannot be used to fund operating costs.**		$35,000	$35,000
Developer Fee	5.00%		$48,300		$48,300
Other:					$0
	Total:	**$900,000**	**$65,400**	**$55,000**	**$1,020,400**

PJs, owners, and developers should work closely with local planning, zoning, and building codes officials to ensure that the NCS activity is accurately categorized as an acquisition-only activity requiring no rehabilitation to change the building use to NCS.

Development Budget

PJs must require developers to submit a development budget when the NCS activity includes rehabilitation or new construction. The development budget should include all acquisition costs, hard costs, soft costs, and other eligible costs associated with developing NCS. PJs should evaluate the detailed development budget to confirm all costs are necessary and reasonable.

NCS activities involving rehabilitation or new construction must meet NCS minimum property standards as outlined in the HOME-ARP NCS Minimum Habitability Standards Checklist and must comply with the Lead Safe Housing Rule at 24 CFR Part 35. Additionally, NCS rehabilitation and new construction activities must meet all applicable state and local codes, ordinances, and requirements. In the absence of such codes, the International Residential Code (for one to two household dwellings) or the International Building Code (for NCS activities serving more than two households) must be met.

If HOME-ARP funds the capitalization of replacement reserve for the activity, that replacement reserve should be included as a part of the development budget. In this case, the activity budget within the written agreement should include a detailed list of significant systems that are slated for replacement, along with a forecasted replacement schedule during the period of restricted use (also known as a reserve for replacement analysis). Any rehabilitation activities that are scheduled to be conducted using NCS reserve funds at a future date must be entered into the Integrated Disbursement and Information System (IDIS) as a rehabilitation activity at the time of the initial commitment.

> HOME-ARP funds cannot be used to fund a replacement reserve for newly constructed HOME-ARP NCS.

PJs should review the detailed development budget to confirm all anticipated costs are allowable, necessary and reasonable per the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (2 CFR Part 200).

In the following example, the Edgarville NCS is a new construction activity. The developer is proposing to purchase a motel that is vacant and condemned. The activity will involve demolishing the existing structure, making upgrades to the on-site infrastructure, and constructing the 20-unit NCS. For this new construction activity, the budget includes:

- Acquisition Costs: The purchase price of the motel
- Site Work Costs: Demolition and On-Site Improvements
- Construction/Rehab Costs: New Building, General Requirements, Builder’s Profit and Overhead, and Furnishings
- Architectural, Engineering, and Other Owner Costs (professional fees)
- Lender Origination, Capitalized Replacement Reserve and Operating Reserve, and Developer Fee

> Include line items that do not require a permit, like furnishings, painting, and door locks, in the development budget if needed to occupy the NCS units.

Sample Development Budget – HOME-ARP NCS Activity					
Activity Name: Edgarville NCS			**Date:** 04/26/24		
		Total Units: 20	Development Cost Per Unit: $105,600		
Budget Categories	**Source:**	**HOME-ARP**	**Philanthropic Organizations**	**State Funding**	**Total**
Acquisition Costs	**Land**				$0
	Improved Property	$500,000			$500,000
Site Work Costs	**Demolition**	$50,000			$50,000
	Site Improvements		$100,000		$100,000
Construction/ Rehabilitation Costs	**New Building**	$1,000,000			$1,000,000
	Rehabilitation				$0
	General Requirements			$50,000	$50,000
	Furnishings			$25,000	$25,000
	Other: Builder's Overhead & Profit			$75,000	$75,000
Architectural/ Engineering Fees	**Architect Fees**	$20,000			$20,000
	Engineering Fees	$15,000			$15,000
Other Owner Costs	**Consultants**	$25,000			$25,000
	Market Study				$0
	Survey	$10,000			$10,000
	Appraisal Fees	$3,000			$3,000
	Permits	$4,000			$4,000
	Environmental Study	$8,000			$8,000
	Capital Needs Assessment	$2,000			$2,000
Interim Financing	**Construction Interest**				$0
	Construction Origination				$0
Permanent Financing			$3,000		$3,000
Project Reserves	**Replacement Reserve**		$5,000		$5,000
	Operating Reserve*	***HOME-ARP funding cannot be used to fund operating costs.**	$25,000		$25,000
Developer Fees	10%		$192,000		$192,000
	Total:	**$1,637,000**	**$325,000**	**$150,000**	**$2,112,000**

Sources and Uses

HOME-ARP funding can be used to provide up to 100% of total development costs (TDC) for NCS. If, however, 100% of TDC are not being funded with HOME-ARP funds, PJs are required to verify that firm commitments of other, non-HOME-ARP acquisition/development funds are in place before committing HOME-ARP funds via written agreement. The following documents need to be reviewed and kept in file for each non-HOME-ARP funding source:

- Commitment letters, including all associated terms, conditions, and key dates
- Evidence of equity committed to the activity by the owner, developer, or other entity

See the Sources and Uses statement for the Edgarville NCS below. Remember that this is a new construction activity, and the development budget totaled $2,112,000. The sources and uses statement below will help identify, at a glance, the funding needed for development (uses) and where that funding is coming from (sources).

Sources and Uses Statement – HOME-ARP NCS Activity		
Activity Name: Edgarville NCS		
Date (mm/dd/yy): 04/26/24		
HOME-ARP NCS Development Sources		
Source 1:	**HOME-ARP**	$1,637,000
Source 2:	**Philanthropic Organizations**	$325,000
Source 3:	**State Funding**	$150,000
	Total Sources:	$2,112,000
HOME-ARP NCS Development Uses		
Use of Funds	**Acquisition Costs**	$500,000
Use of Funds	**Hard Costs**	$1,300,000
Use of Funds	**Soft Costs**	$90,000
Use of Funds	**Reserves**	$30,000
Use of Funds	**Developer Fee**	$192,000
	Total Uses:	$2,112,000
	Gap Between Sources and Uses	**$0**

Considerations Related to Activity Sources:

- Are total funding sources adequate to cover all phases of development (acquisition, construction/rehabilitation) and any permanent loans (if applicable)?
- Are all other funding sources firmly committed and available (or will be available) so the activity can meet its development timeline?

- Do any other committed funds carry requirements that conflict with HOME-ARP regulations?
- What are the terms of any grants, loans, or other forms of development sources, and are they accurately represented in the associated budgets?

Considerations Related to Activity Uses:

- Are all proposed costs allowable, necessary, and reasonable (in accordance with Office of Management and Budget (OMB) cost principles contained in 2 CFR Part 200)?
- Are the proposed costs sufficient to carry out the activity (through the development phase)?
- Are all costs proposed eligible under HOME-ARP regulations? For more information on HOME-ARP eligible development costs, please refer to the HOME-ARP NCS: Eligible Costs Handout.

4. Operating Costs **Cannot Be Funded Using HOME-ARP*

Before awarding funds for NCS, the PJ must require the developer/owner to submit a proposed operating budget. *HOME-ARP funds cannot be used for operating expenses*, so the PJ must consider the commitments and availability of ongoing operating funds from other sources to ensure that the NCS activity can remain financially viable through the HOME-ARP restricted use period.

Applicable Restricted Use Period by NCS Activity Type	
Activity Type	**Applicable Restricted Use Period**
Acquisition-Only – Units acquired for use as NCS that *do not require rehabilitation* for occupancy.	Acquisition-only activities must serve the QPs for a restricted use period of 10 years.
Rehabilitation – Units which receive *any* amount of HOME-ARP funds for rehabilitation but are not designated as new construction by the PJ's state or local building code requirements.	Rehabilitation activities must be operated as NCS units for QPs for a restricted use period of 10 years.
New Construction – Units designated as new construction by the PJ's local code requirements based on work to be completed.	New construction activities must be operated as NCS units for QPs for a restricted use period of 15 years, regardless of the amount of HOME-ARP funds invested in the activity.

If there are gaps in operating funds, the owner will need to submit a plan and timeline for securing additional funding sufficient for the successful operation of the activity as outlined in section VI.E.6 of the HOME-ARP Notice. The developer/owner must keep the PJ fully apprised of efforts to reduce/eliminate any operating funding gap and must present a written plan and budget intended to cover the gap in operating funds for as long as possible.

Ongoing operating funds must be secured from funding sources other than HOME-ARP.

See below for an example Operating Budget for our 20-unit Edgarville NCS.

Sample Operating Budget – HOME-ARP NCS Activity (Reminder: Operating Costs cannot be funded by HOME-ARP)			
Activity Name: Edgarville NCS	**Date: 04/26/24**		
Total Units: 20			
Operating Expenses	**TOTAL (Annually)**	**TOTAL (Monthly)**	**Per Unit (Annually)**
Salaries, Benefits, and Other Staff Costs	$120,000	$10,000	$6,000
Security Contract	$21,900	$1,825	$1,095
Electricity	$4,400	$367	$220
Water/Sewer	$1,800	$150	$90
Internet	$1,400	$117	$70
Office Supplies/Furniture	$1,800	$150	$90
Repairs Contracts and Supplies	$5,000	$417	$250
Extermination Fees	$1,000	$83	$50
Hygiene Supplies	$2,000	$167	$100
Cleaning Supplies	$2,000	$167	$100
Insurance	$3,900	$325	$195
Legal Fees	$2,000	$167	$100
Real Estate Taxes	$8,000	$667	$400
Total Operating Expenses:	$175,200	$14,602	$8,760
Replacement Reserves Deposit	$3,000	$250	$150
Total Operating Expenses + Reserves:	**$178,200**	**$14,852**	**$8,910**

**The figures provided are illustrative and may not accurately represent costs in different jurisdictions.*

Sustaining Support for Operating Funds and Supportive Services for Families and Individuals:

- Have funds been identified to cover operating costs?
- For how many years have 100% of projected operating costs been secured?
- What is included in the owner's plan to meet any gap in operating funds?

Exploring Options to Ensure Ongoing Funds for Operating Costs:

- Work with the Continuum of Care and the current shelter providers in your community to assess the need, and the plans for shelter expansion, renovation, or adding to the NCS stock.
  - The PJ's consultation and needs assessment in their HOME-ARP Allocation Plan is a good starting point to join the conversation with the local Continuum of Care and local service providers to figure out how HOME-ARP funds can be used to provide gap funding needed to create, rehab, or convert a shelter to NCS, or to incorporate NCS units into a congregate shelter plans.
- Emergency Solutions Grant (ESG)
  - ESG funds may be used to operate emergency shelters and to provide essential services to homeless families and individuals in emergency shelters. Owners should pursue consistent funding sources like ESG and other state, city, and/or local funding. Please refer to 24 CFR 576.102(a)(1-4) for eligible ESG activities and costs related to shelter operations, repairs and services.
- The Community Development Block Grant (CDBG) supports community development activities to build stronger and more resilient communities and can be used for public services offered at shelters.
- Other City/State/Local funds that can be used for Operating Costs, such as:
  - State Housing Trust Funds (SHTF) may provide opportunities to cover the costs of operations and/or supportive services. State governments allocate these funds to support local organization efforts to provide wrap around client-focused services to end homelessness and promote housing stability. States often leverage their SHTF with other federal funds.
  - National Opioid Settlement Fund awarded to State and Local governments from opioid-related lawsuits to reduce opioid-related deaths. Each state participating in the National Opioid Settlement has information on the allocated funding and use of funds (State Opioid Settlement Spending Decisions). It is mandated that at minimum 70% of the funds be spent on opioids remediation efforts, each state is in the process of making plans for distribution and awarding the funding.
  - State and Local Fiscal Recovery Funds (SLFRF) is a part of the American Rescue Plan Act (ARPA) provided through the U.S. Treasury to support state and local governments economic recovery and well-being initiatives because of Coronavirus pandemic impact. Funds can be used for operating costs such as utility payments,

food assistance, childcare, program, or services to support long-term housing security, payroll and benefits for staff supporting activity efforts.

- Substance Abuse and Mental Health Services Administration (SAMSHA) provides funding to address behavioral health challenges including prevention and treatment services to improve the well-being of individuals and families experiencing mental health and substance related disorders. NCS can coordinate with community-based organizations to address the needs of participants needing harm reduction activities, behavioral health services, and treatment for substance use disorders.
- Area Agencies and State Departments on Aging, which can provide pro bono health staff

- Fundraising and philanthropy - For small NCS activities, smaller philanthropy and fundraising may be enough to support operating costs, although PJs and owners must ensure the NCS operating budget has sufficient funds to support the NCS and its occupants.
  - Local Community Foundations
  - Direct Fundraising from Individuals
  - Healthcare Organizations such as the Kaiser Permanente's Thriving Communities Fund
  - Private Industry Foundations such as the Bezos Day One Fund
  - Banking Industry Funds such as TD Bank's Housing for Everyone competition

Timeline

PJs should ensure that each NCS developer provides a reasonable and achievable timeline to complete and place the NCS in service, as failure to complete the activity within required timeframes may result in repayment of HOME-ARP funds invested in activity.

- The activity timeline should outline milestones and their anticipated dates.
- A best practice is to include anticipated percent complete milestones within the timeline, as tracking the percent complete allows the PJ to evaluate whether the activity is on schedule or not.
- Other critical milestones may include acquisition closing, construction start, construction completion, obtaining a Certificate of Occupancy, property placed in service, and percent occupied.

> For both rehab/construction activities and acquisition-only activities, if the activity is not operating as a NCS within 6 months of acquisition or construction completion, HUD may require the PJ to submit a schedule for placing the activity into operation as an active NCS within a period determined by HUD.
>
> HUD has the right to require the PJ to repay the HOME-ARP funds.

HOME-ARP NCS Activity Timing and Considerations:

- HOME-ARP funds are committed to an NCS activity on the date that the PJ executes a legally binding written agreement that meets the requirements of the HOME-ARP Notice.

- HOME-ARP funds may be committed to NCS activities that require rehabilitation and/or new construction if development is anticipated to begin *within 12 months* of commitment.
- If the HOME-ARP NCS is not in use within 6 months following completion of rehabilitation or new construction, HUD may require the PJ to submit a schedule for placing the NCS into operation within a period determined by HUD or may require the PJ to repay the HOME-ARP funds to its HOME-ARP Treasury Account.
- All HOME-ARP NCS development activities must be completed within 4 years of the date of commitment of the HOME-ARP funds based on the dated signature of the last signatory on the written agreement.

Sample Timeline – HOME-ARP NCS Activity			
Activity Name: Edgarville NCS		**Date: 04/26/24**	
	Task	**Timeline for Completion**	**Estimated % Complete**
Feasibility	Obtain site control		
	Assemble development team		
	Complete activity plan with development and operating budgets		
	Develop initial financing strategy		
	Secure appraisal		
	Assess zoning requirements		
	Complete environmental review		
	Gain/Assess community support		
Go-Ahead	Finalize development and operations budgets		
	Secure financing		
	Meet all applicable loan requirements (if applicable)		
	Continue to gain/assess community acceptance		
Construction & Readiness to Open	Complete construction		
	Secure Certificate of Occupancy (CO) and other licenses		
	Furnish and equip facility		
	Close permanent financing		
	Finalize procedures for eligibility screening and recordkeeping		
	Hire and train staff on relevant topics, to include HOME-ARP requirements		
	Put in place referral method and solidify understanding of responsibilities for recordkeeping		
Sustaining Operations & Support	"Move in" for first group of eligible NCS residents		
	Put in place funding/MOU for supportive services and ensure its operation		
	Completely and accurately maintain records required by HOME-ARP, including QP eligibility documentation		

Important questions to consider when planning and implementing an NCS activity in your community:

- Will HOME-ARP serve as gap funding for development, or will it be the sole funding source? If additional funding sources are involved, what restrictions and requirements will they impose, and how will these impact the overall activity?
- What community resources are available considering the proposed shelter size?
- Is there neighborhood opposition? If so, what ongoing community engagement strategies can be implemented to address and mitigate any concerns?
- Is there support from local government, local officials, and local funding sources?
- Does the CoC and its organizations support the NCS activity? If not, how can you nurture support for the proposed NCS?
- Does the proposed building meet the appropriate building code for NCS?
  - If the property is changing use, such as from hotel/motel to NCS use, it may be subject to different building code requirements than during the building's initial construction.
  - The difference in requirements may substantially affect rehabilitation costs.
- Does the proposed building conform to local land use requirements or will discretionary approval from the jurisdiction's zoning board be required?
  - For example, NCS activities involving redevelopment of former hotels/motels in a commercially zoned district may not permit residential and/or shelter use.
  - The developer should determine whether the activity can either proceed "as-of-right", under regulatory requirements as written, or whether the NCS activity requires a variance in order to proceed.
  - Non-conforming projects that seek variances, amendments, and special exceptions will take longer to develop and are often more costly than as-of-right development.
- Will the NCS provide Supportive Services (SS) for residents and, if so, have funds been identified?
- Is the NCS located in an area proximal to services, jobs, community amenities, and community service providers serving the needs of QPs?
- NCS residents should be able to access transportation alternatives, such as walking or taking public transportation, to reach needed services.
  - The cost of program participants' transportation, in connection to physical healthcare, behavioral and mental healthcare, job training, access to offices that provide benefits such as SNAP, TANF, SSI/SSDI, and Veterans Benefits, is an eligible cost under HOME-ARP supportive services.

Due Diligence Considerations for HOME-ARP Non-Congregate Shelter (NCS) Activities

Key Takeaways

The HOME-ARP Notice specifies how PJs can use HOME-ARP funding to acquire and develop NCS and ensure that these activities remain financially sustainable.

PJs should undertake the initial activity assessment and due diligence with a clear understanding of HOME-ARP NCS requirements. Specifically:

1. *The PJ is responsible for determining* whether the acquisition and development of the NCS activity is financially feasible *and for ensuring* the continued operation of the NCS in accordance with the Notice throughout the restricted use period.

2. *HOME-ARP funds can be used for property acquisition and development.* HOME-ARP funding for NCS may include, but is not limited to, the acquisition of land and construction of NCS or acquisition and/or rehabilitation of existing structures such as motels, hotels, or other buildings to be used for NCS.

3. *HOME-ARP funds cannot be used to operate the NCS activity.* Non-HOME-ARP funds must be identified and secured to cover the costs of operating the NCS activity. NCS operating costs include personnel costs as well as non-personnel costs such as meals and food, cleaning supplies, office supplies, furniture, wi-fi, hygiene supplies, utilities, rent or mortgage, and maintenance, repairs, and custodial fees.

4. *The owner must successfully operate the NCS throughout the restricted use period,* which begins at project completion, as follows:

Restricted Use Periods for HOME-ARP NCS	
New Construction	15 years
Rehabilitation	10 years
Acquisition-Only	10 years

Note: PJs may impose longer restricted use periods but must require that the activity remain financially viable for that time.

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