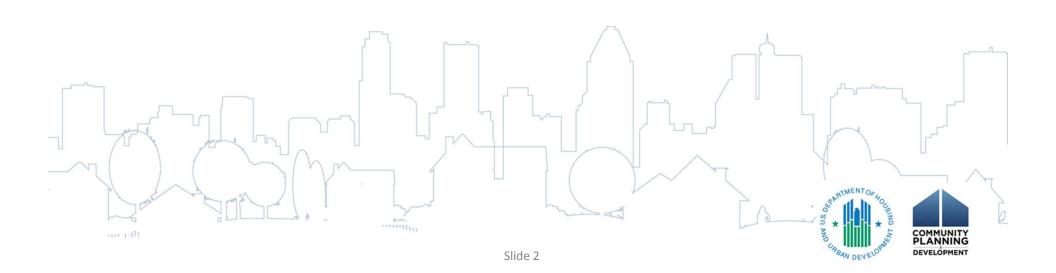


Basic HOME & CDBG: An Overview of Program Requirements



A Little About Us ...

- HUD's Community Planning and Development training initiative
- Course developed nationally by HUD
- Who are we?



How About You

Years of experience with HOME

Years of experience with CDBG

Expertise in combining HOME & CDBG

- Novice
- Some experience
- I can cite Parts 570 and 92 in my sleep





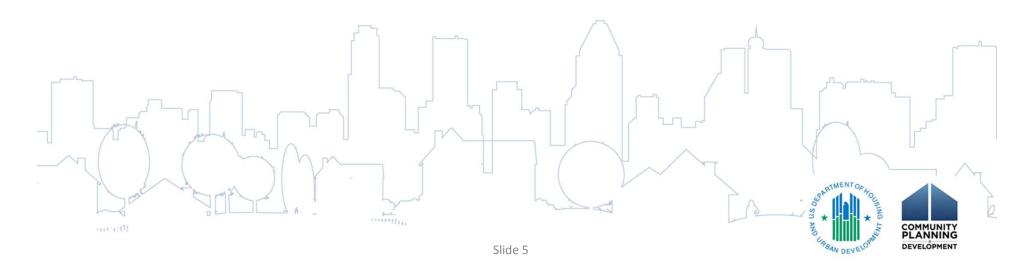
The Thing I Really Need To Know Is

- CDBG questions
- HOME questions
- Issues with combining the programs



Course Objectives

- Share information on:
 - The basics of HOME
 - The basics of CDBG
 - Rules when combining the funds for affordable housing activities



Course Structure

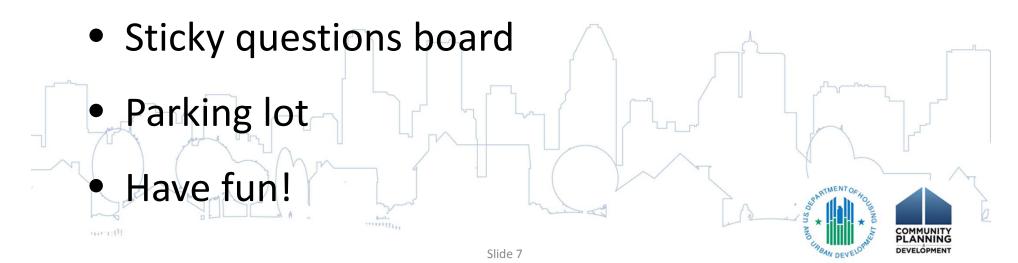
- Agenda
 - Overview of HOME & CDBG
 - Affordable housing activities
 - Administration & monitoring
 - Strategic thinking about combining the programs
- Training manual (guidebook)
- Training manual appendices
 - Overheads





Rules!!!!

- Everyone participates
- Live with ambiguity sometimes no one "right" answer
- Ask questions



Logistics

Timing of breaks and lunch



Restrooms

Hey, where's the coffee??

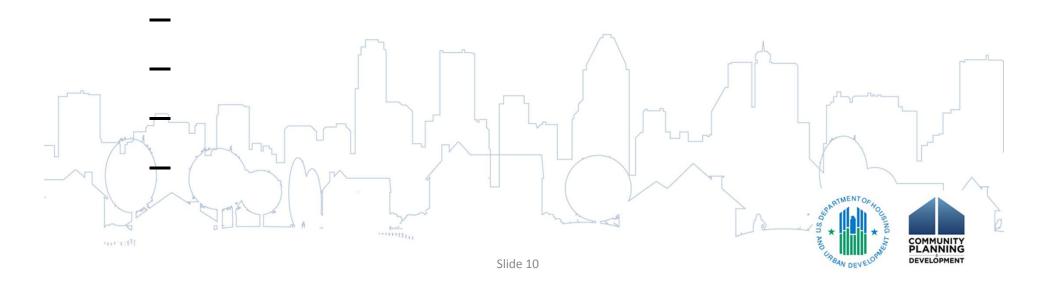


OPPORTUNITIES TO USE HOME & CDBG TOGETHER



Why Consider HOME & CDBG Together?

- There are benefits of using them concurrently
 - Stretches resources
 - Each program addresses activities that the other cannot
- Other benefits?



Why Consider HOME & CDBG Together?

- However, when combine must meet rules of both programs
 - Generally, most restrictive rule applies
- Example #1: Number of low income units in a rental development
- Example #2: Housing quality standards for owner occupied rehab

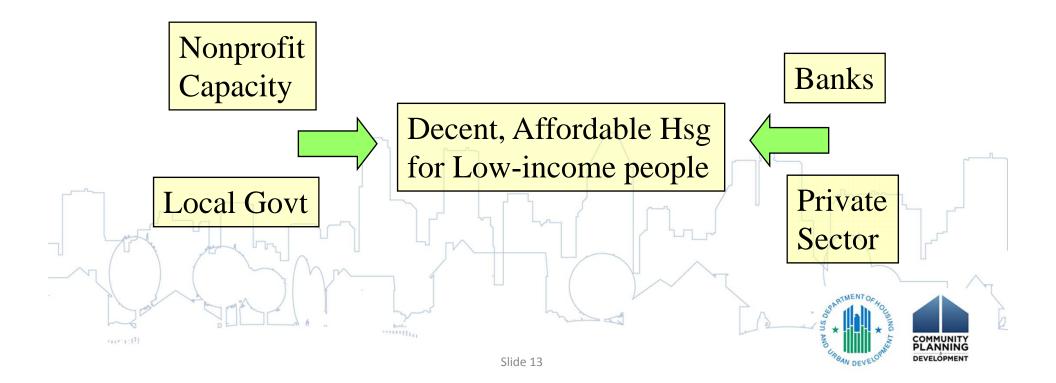


HOME PROGRAM BASICS

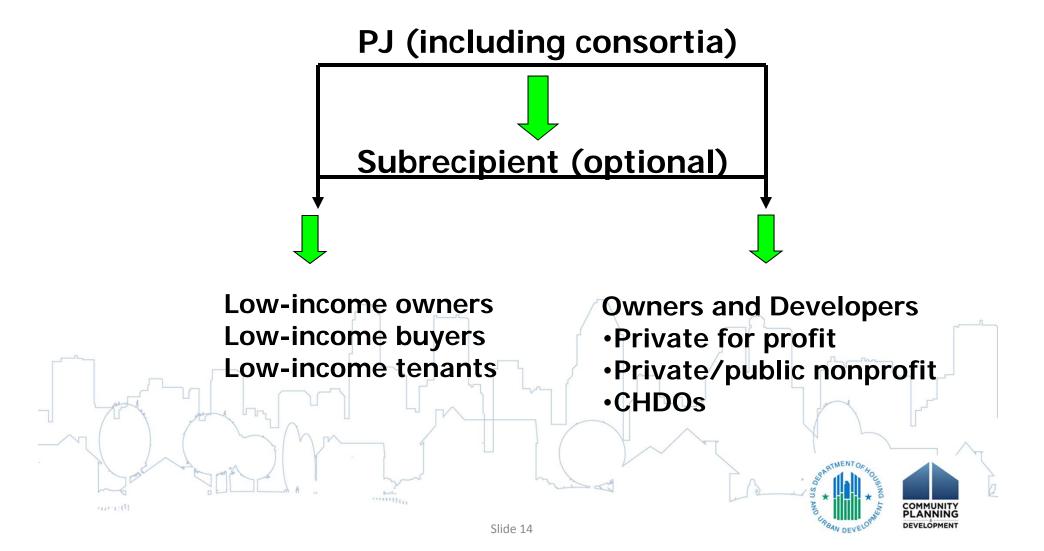


HOME History and Goals

- National Affordable Housing Act 1990
- Objectives:

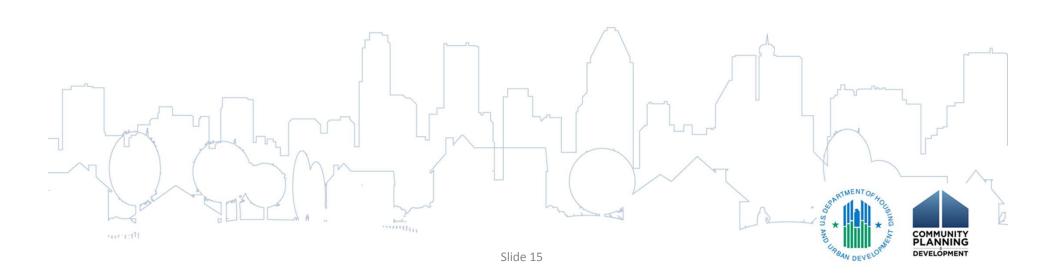


HOME Program Partners



Who's Who: PJs

- Recipient of funds
- May be State, local or consortia
- Responsible for effective use of funds



Who's Who: HOME Consortia

- Formed by agreement of contiguous jurisdictions and authorizing certifications
- Ideally has unified goals and plan; develops Consolidated Plan
- Consortium must determine how to:
 - Deliver services
 - Allocate funds
 - Meet match obligation
 - Monitor for compliance





Who's Who: Subrecipient

- Public agency or nonprofit administers all or portion of program
 - Developer/owner is not subrecipient
- NOTE: different definition than CDBG
- Should have:
 - Assigned staff with capacity and expertise
 - Ability to track costs just to HOME
 - Responsiveness in production and reporting



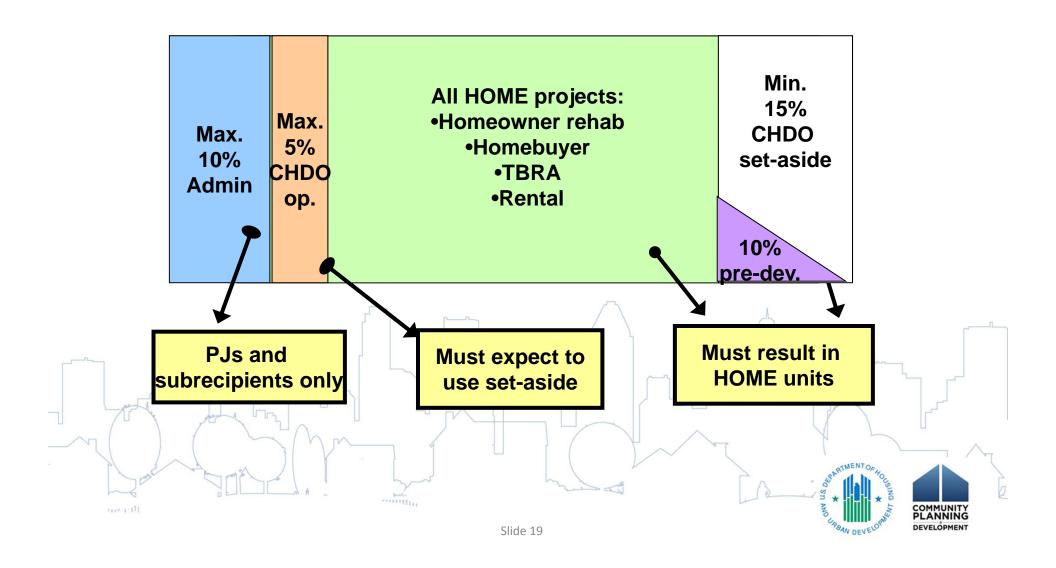


Who's Who: CHDOs

- Private nonprofit
- Special legal, organizational, capacity criteria
- 15% allocation
- Act as owner, sponsor, developer

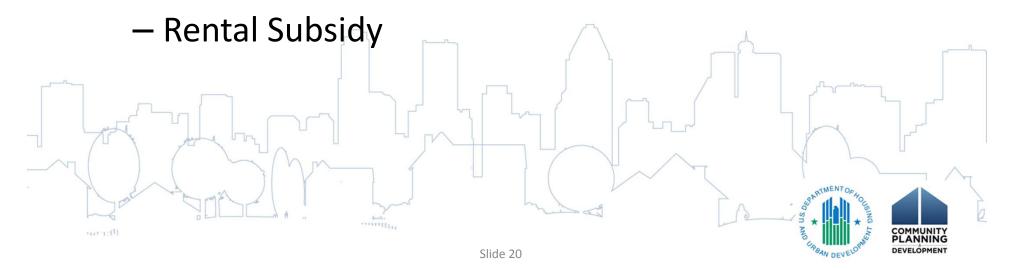


Allocating HOME Funds to Partners



HOME Program Rules

- The HOME Program is four housing programs in one
 - Homeowner Rehab
 - Homebuyer
 - Rental Development (New Construction or Rehab)



Definition of a HOME Project

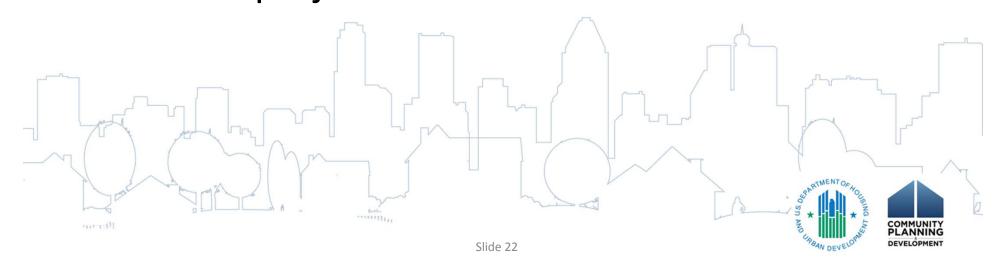
- Site(s) under common ownership, management and financing
- One or more families under one TBRA program

Assisted with HOME funds as a single deal



Definition of a HOME-Assisted Unit

- HOME program distinguishes between units that have been assisted with HOME funds and those have not
- Allows HOME funds to be spent on mixedincome projects



Form of HOME Subsidy

- Lots of choices
 - Loans
 - Interest or no interest
 - Payments or no payments
 - No payments for a while, then payments
 - Forgiven over time
 - Grants
 - Interest Subsidies
 - Equity Investments
 - Loan Guarantees
- Can include construction financing as well as permanent financing



HOME Caps On Amount of Subsidy

- Minimum = \$1,000 per unit (not TBRA)
 - Calculated as average HOME investment across all HOME units in single project
- Maximum is capped by the 221 (d)(3) Subsidy Limit
 - Calculated based on the amount of HOME investment in the project – does not cover all other sources of financing
 - Available only from HUD hub office multifamily division
 - Contact your CPD Representative for assistance

Actual HOME Project Subsidy Amount

- The amount of actual HOME subsidy per unit will depend upon:
 - -221(d)(3) limit
 - Proportion of total project cost that is HOME eligible and how many units are HOME-assisted units ("fair share" of costs)
 - The financial needs of the project
- Known as "cost allocation"
 - Applies when mix of HOME and non-HOME units
 - Covers both homeowner and rental units





Eligible Costs

- Hard costs and soft costs for:
 - New construction
 - Rehabilitation
 - Reconstruction
 - Conversion
- Improvements on HOME project site
- Acquisition
 - Vacant land
 - Improved land
 - Construction must begin within 12 months



Eligible Costs (continued)

- Demolition
- Relocation
 - Allows assistance to <u>all</u> displaced households
- Refinancing
- Project reserves
 - Limited to 18 months rent-up period
- Project related soft costs

Ineligible Costs

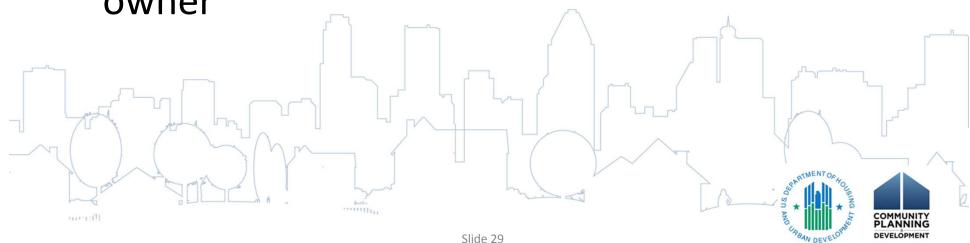
- Reserve accounts
- Match for other federal programs (except McKinney)
- Assistance to:
 - Public Housing
- HOME projects during affordability period
 - Some exceptions
 - More later





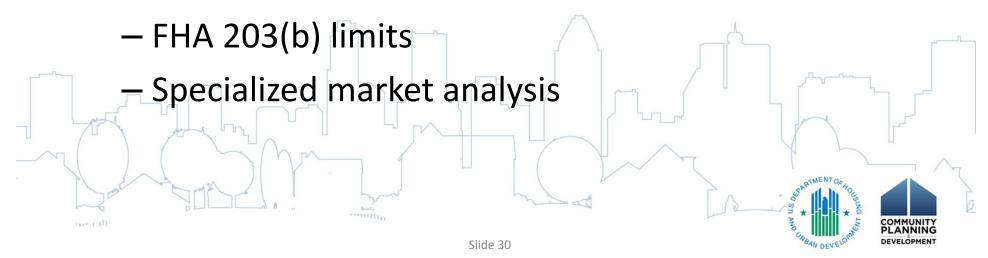
Ineligible Costs (continued)

- Acquisition of PJ-owned property
 - Unless acquired for a HOME project
- Project based rental assistance
- Paying delinquent taxes on behalf of the owner



HOME Caps Value in Owner Projects

- In owner-occupied and homebuyer projects:
 - Purchase price cannot exceed 95% of median
 - When rehab, post rehab cannot exceed 95% of median purchase price
- Two options for determining:



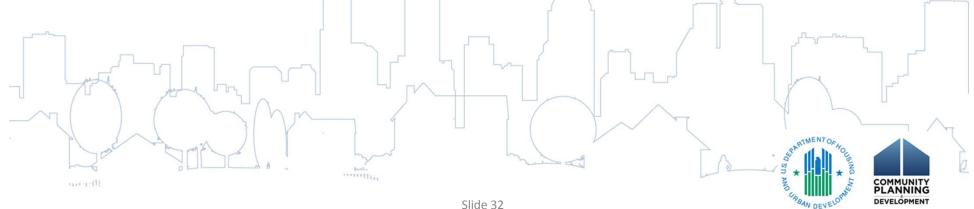
HOME Requires That Units Be Standard

- HOME \$ is spent → "standard" unit
- Different definitions of "standard" for different activities
- Three types of codes apply
 - Building Codes
 - Housing Codes or Standard
 - Rehabilitation Standards

HOME is Focused on Low Income Households

- 100% of HOME \$\$\$ help people ≤ 80% MFI
- Lower income levels for some activities
 - Program rule: 90% of rental and TBRA households at 60% of median

Project rule: 20% of units in rental projects of 5+
 HOME units at 50% of median and below



What Counts As Income?

- Three Definitions
 - Part 5 (Section 8)
 - IRS Adjusted Gross Income
 - Census Long Form
- Source Documents

Anticipated Income

Use the Income Calculator on HUD's website





Income Basics

- Gross versus adjusted income
 - Gross for determining eligibility, type of rental unit
 - Adjusted for rents for TBRA
- Compare income to low-income limits to determine eligibility
- Anticipate income for next 12 months
- Verify -- 3rd party or review of documents





HOME Requires Affordability

- Applies to development activities
- Appropriate return on federal investment
- Amount of HOME \$ establishes time period
 - Big HOME investment = long period of time
 - Small HOME investment = shorter period
- Period of Affordability = Period of Compliance





Affordability / Compliance

| HOME \$ Per Unit | Length of Affordability / Compliance |
|-------------------------|--------------------------------------|
| Less than \$15,000 | 5 years |
| \$15,000 - \$40,000 | 10 years |
| More than \$40,000 | 15 years |
| Refinancing Rental Hsg. | 15 years |
| Rental New Construction | 20 years |



HOME Does Not Allow Additional Funding During Affordability Period

| | PERIOD | SERVE AGAIN? |
|--|-----------|---|
| Owner Rehab | none | Local option |
| Homebuyer | 5-15 yrs. | Same house/diff. buyer Same buyer/diff. house w/in 1 yr. of complete |
| Rental | 5-20 yrs. | W/in 1 yr. of complete assist tenant to buy |
| TBRA | none | No affordability period but lease required and TBRA contract up to 24 months |
| The state of the s | 4 1 | |



HOME Program Administration

- HOME allows PJs to charge eligible admin costs
 - PJs can give admin funds to subrecipients
 - CHDOs can get CHDO operating
- Admin capped at 10% of grant and program income
- Some costs can be charged to project delivery
- More later

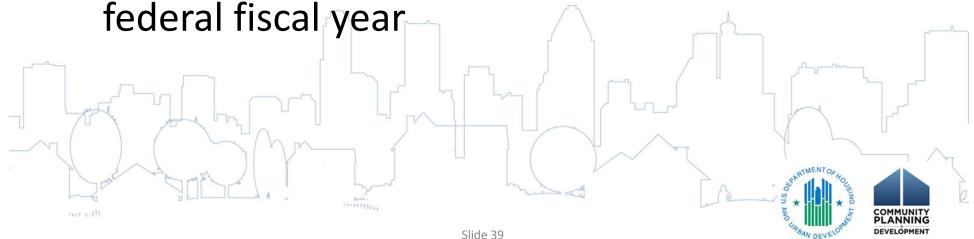




HOME Requires a Match

- PJs must match 25% of HOME funds drawn down for project costs
 - Match must be a permanent contribution to the HOME Program

 Match liability must be satisfied by end of federal fiscal year



HOME Has Commitment and Expenditure Deadlines

- Deadlines:
 - Commit funds within 24 months
 - Expend funds within 5 years
- Commitment means



HOME Program Income and Pre-Award Costs

- Program income is earned when funds repaid from HOME expenditure
- Program income does not include:
 - CHDO proceeds
 - Recaptured funds from homebuyers
 - Repaid funds for ineligible activities
- Can pay for pre-award costs if follow HOME rules



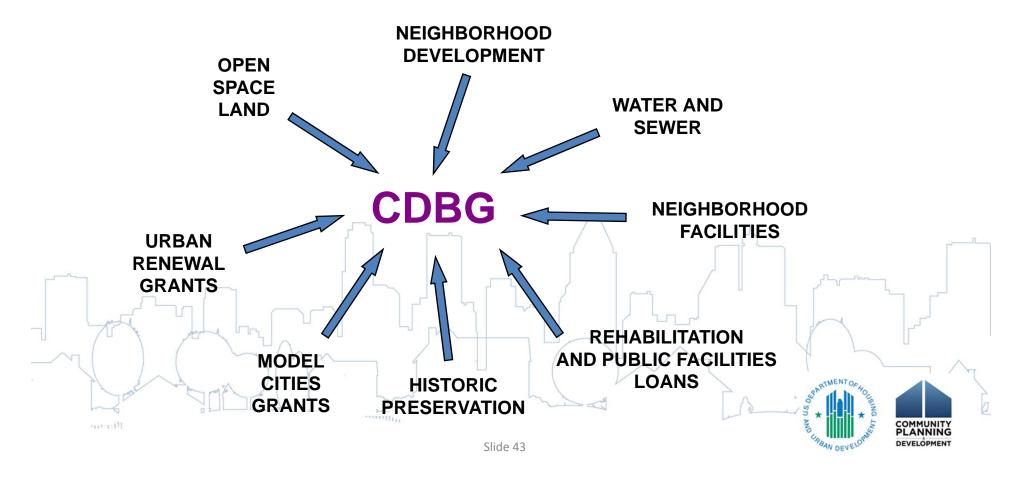


CDBG PROGRAM BASICS



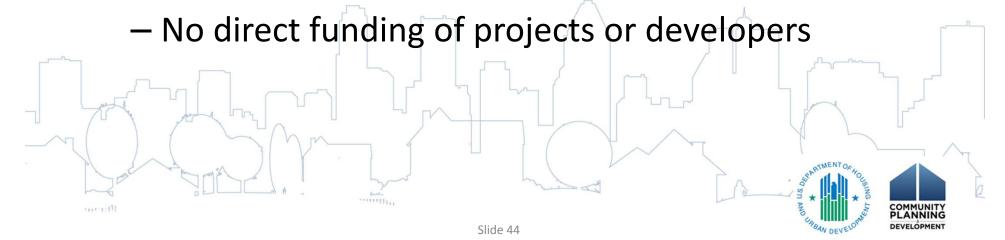
CDBG History

Authorized under Title I of the Housing and Community Development Act of 1974



CDBG Program Partners

- Entitlement grantees
 - Metropolitan cities
 - Urban counties
- State program
 - Works via Units of General Local Government



CDBG Program Partners

- Subrecipient
 - Activities undertaken by nonprofit when administering program or developing & managing housing
- Community Based Development Organization (CBDO)
 - Neighborhood-focused nonprofit
 - Undertakes neighborhood revitalization, community economic development, energy conservation
- Contractors
 - Must be procured





All CDBG Activities Must

- Be described in the Grantees Consolidated Plan and Annual Action Plan for year undertaken and
- Be eligible under CFR 570.201-570.206 and
- Must not be ineligible under CFR 570.207 and
- Meet a National Objective

 Community

 Comm

- Different than the HOME Program
- Wide variety possible
- §570.201, §202, §203, §204, §205, and §206 and Section 105 of the Act



- Housing activities:
 - Rental rehabilitation
 - Homeowner unit rehabilitation
 - Homebuyer assistance

 New housing construction generally ineligible unless done by CBDO

- Real property activities
 - Acquisition IF for an eligible use
 - Disposition
 - Clearance and demolition
- Public facilities
 - Such as roads, sewer, water or neighborhood facilities
- Interim assistance
 - Short term arrest of decay
 - Emergency situations



- Other property activities
 - Code enforcement in selected areas
 - Historic preservation
 - Renovation of closed buildings
- Economic development
 - Special economic development
 - Microenterprise
 - Commercial rehab
- Public services
 - Such as health care, day care, job training, crime prevention



Other activities:

- Payment of non-federal share
- Urban Renewal completion
- Relocation
- Loss of rental income
- New construction related only to HODAG or housing of last resort
- Privately owned utilities
- Technical assistance for neighborhood revitalization
- Assistance to institutions of higher learning



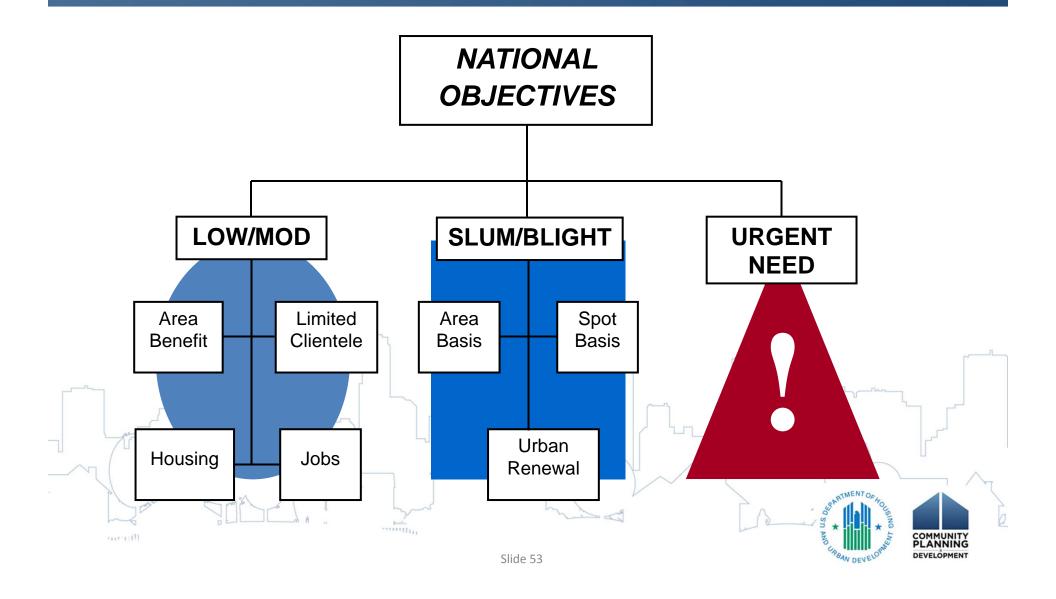


- Regs expressly prohibit:
 - Buildings for conduct of government & general government expenses
 - Political activities
 - New housing construction (some exceptions)
 - Income payments
 - Purchase of equipment
 - Operating and maintenance expenses
- Some exceptions for ED and CBDO activities, interim assistance



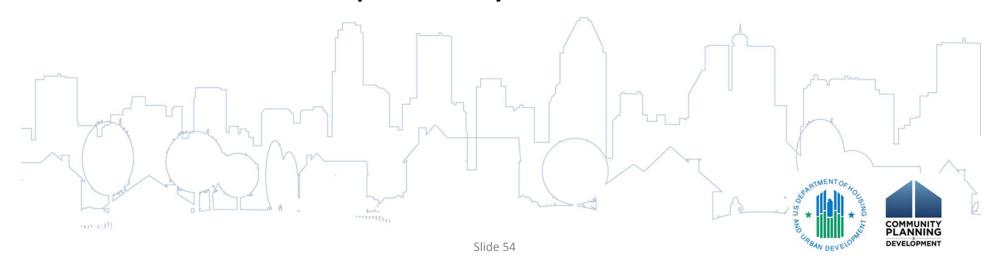


National Objectives



Low/Mod Benefit Area Benefit

- Activities that benefit all residents of area
 - 51% low/mod OR
 - Upper quartile percentage (exception communities)
- Area must be primarily residential



Low/Mod Benefit Limited Clientele

- Activities that benefit specific populations
 - Presumed clientele
 - 51% of participants are LMI
 - Participation limited to LMI only
 - Nature and location indicate low/mod benefit
- Some activities may qualify
 - Removal of architectural barriers (some activities);or
 - Microenterprise activities with LMI owners; or
 - Certain types of job training efforts.





Low/Mod Benefit Housing

- To meet the housing national objective, structures must be occupied by low/mod
 - One unit structures occupied by LMI
 - One unit of duplex occupied by LMI
 - 51% of 3+ units LMI occupied by LMI
- May have less than 51% LMI occupancy only under certain circumstances
- Aggregation allowed in some instances



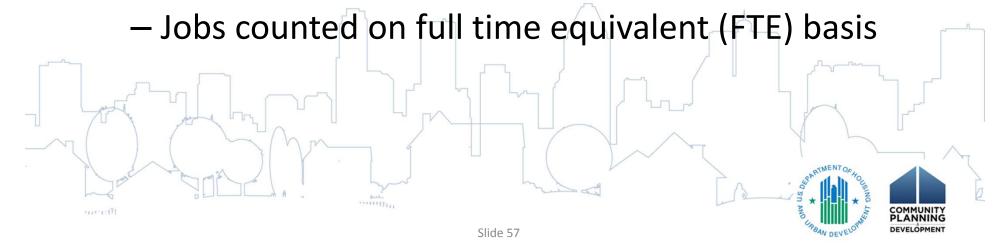


Low/Mod Benefit Jobs

 In order to meet this criteria, activities must create or retain permanent jobs

AND

 51% of the jobs created/retained must be available to <u>or</u> held by LMI persons



Options for LMI Aggregation

- CDFI with LMI target area OR HUD approved NRSA
- In target area:
 - Can treat housing rehabilitation activities in one year as one project
 - Can aggregate all jobs created
 - Can exempt econ develop from aggregate public benefit standard (still meet individual standard)
 - Public services by CBDO not counted toward cap





Slum And Blight Area Basis

- Area must meet definition of slum/blighted area under state/local law
- Substantial number of deteriorated/deteriorating buildings or public improvements
- Activity must address conditions contributing to deterioration



Slum And Blight Spot Basis

- Activities that address specific conditions of blight/physical decay not in slum/blight area
- Activities limited to acquisition, clearance, relocation, historic preservation, remediation of environmentally contaminated properties, or building rehab
- Rehab limited to elimination of conditions detrimental to public health and safety

Slum And Blight Urban Renewal

- Activities in Urban Renewal or Neighborhood Development Program action areas
- Activities necessary to complete an Urban Renewal Plan

Uncommon as many grantees no longer have
 Urban Renewal funds/plans

Slide 61

Urgent Need National Objective

- To meet the urgent need test:
 - Existing conditions pose serious & immediate threat to health/welfare of community
 - Existing conditions are recent or recently became urgent
 - Recipient cannot finance on its own
 - Other funding sources not available

CDBG Allows Administrative Costs

- Obligations for planning and administration may not exceed:
 - 20% of annual entitlement grant PLUS
 - Current year program income
- State program calculated differently



CDBG Also Has a Low Mod Focus

- Requires that 70% of all CDBG expenditures benefit low/mod persons
 - Cumulative expenditures, not budgeted
 - Certification period of 1-3 years
- Low/Mod is same as Low Income under
 HOME
 - 80% of median and below
 - Same three income options

Public Services Cap

- Obligations for public service activities may not exceed:
 - 15% of annual entitlement grant PLUS
 - 15% of last year's program income
- Some public services may now be excluded from the cap calculation
- State program calculated differently

Program Income & Pre-Award Costs

- Grantee needs to track program income received from CDBG expenditures
 - Funds back to grantee OR subrecipient
 - Does not include funds back to CBDO or private developer or business
- Calculated slightly differently for state program
- CDBG also allows pre-award costs when eligible



CDBG Has Different Timeliness Requirements

- Unlike HOME, no obligation requirement for entitlements
- Amount in line of credit cannot exceed 1.5 times grant
 - Since must spend after draw down, relates to expenditures
- State must obligate and announce all grant within 15 months





SUMMARY OF PROGRAM DIFFERENCES



Key Areas to Compare

- Each program has rules about:
 - Method of funds distribution
 - Key partners
 - Expenditure timelines
 - Eligible activities & costs
 - Low income targeting
 - Affordability
 - Level of investment
 - On-going compliance





Key Program Differences

| Category | HOME | CDBG |
|----------------|---|--|
| Key Partners | CHDOs | Subrecipients, nonprofit organizations, community based development organizations (CBDOs), CDFIs |
| State Projects | Can fund directly | Only through local govts |
| Timeframes | 2 yr commitment 5 yr expenditure | Entitlements = no more than 1.5 times grant in line of credit States obligate \$ within 15 mos. |
| Match | 25% | None required (states match admin) |



Key Program Differences

| Category | HOME | CDBG |
|--------------------------|---|---|
| Activities | Homeowner rehab, homebuyer, rental, TBRA | Rehab, infrastructure, services, ED, acquisition, clearance |
| Ineligible Activities | Non-housing, Public housing | Maintenance, new construction of housing, income payments (generally) |
| Re-funding | Not during affordability period | No rules on |
| Admin & Planning | 10% | Entitlements capped @ 20%, states @ 3% (includes TA) |
| Low Income Targeting | All HOME-assisted households must be low income | 70% of all expenditures must benefit LMI persons over 1-3 year period |





Key Program Differences

| Category | HOME | CDBG |
|-------------------------|--------------------------------|--|
| Households | Low income | Depends on national objective |
| | | if housing activities or infrastructure for housing, LMI |
| | | housing national objective is likely |
| Affordability Period | Required | None (change of use restrictions may apply) |
| Rents | Capped | "Affordable" if housing national objective |
| Unit Quality | Local code | No specific standard required |
| Investment | Capped | No cap |
| Long-Term | Yes for | None (change of use provisions |
| Obligations | homebuyer, rental & TBRA | may apply) |

RENTAL HOUSING



Approaches to Rental Housing

- Many possible approaches:
 - Acquisition
 - TBRA
 - Rehabilitation
 - New construction



Acquisition

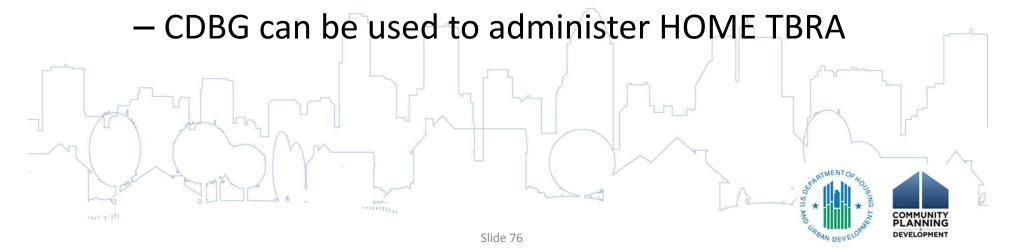
- Jurisdiction subsidizes the purchase
- In return units are rented to LMI persons at affordable rent
- Both programs permit this
 - Under CDBG, acquisition only = public or nonprofit
- Generally need LMI focus:
 - HOME allows unit targeting
 - CDBG requires national objective





Tenant Based Rental Assistance

- Assistance is focused on tenant not project
- Can be very cost effective
- Eligible under HOME
- Not permitted under CDBG



Rehabilitation

- Permitted under both programs
 - Can be combined with acquisition
- HOME requires compliance with property standards
 - CDBG mandates no standard
- Can do historic preservation
 - CDBG can be stand alone
 - HOME is a part of rehab



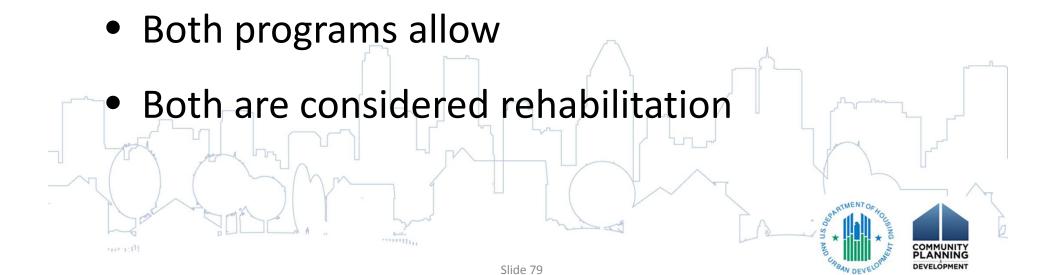
New Construction

- HOME can finance all or a part of rental construction
- CDBG cannot generally be used to construct rental housing
 - Exception for CBDOs
 - Exception for special needs facilities
 - CDBG can be used to support new construction



Conversion and Reconstruction

- Conversion = changing something into affordable housing
- Reconstruction = re-building same size structure on same site



Key Partners in Rental Development

- Many types of partners in developing rental housing:
 - Developer
 - Owner
 - Sponsor
 - Property managers
 - Lenders
- HOME works with CHDOs
 - CDBG may work CBDOs





Eligible Projects

- Both programs allow flexibility in project ownership – public or private
 - CDBG can do any
 - HOME can do all except public housing units
- Mixed use is also possible
 - CDBG can pay for both commercial and residential
 - HOME is limited to residential





Eligible Projects

- Special needs projects are possible under both programs
 - Includes group homes, SRO, transitional
- Facilities
 - HOME cannot do facilities
 - Also cannot do overnight shelters
 - CDBG can develop facilities but these are not "housing"
 - Not subject to new construction ban
 - Use limited clientele national objective
 - Must be owned by public agency or nonprofit





Eligible Projects

- Mixed income is also possible under both
 - HOME can be targeted at specific units
 - CDBG needs to meet the national objective
 - If using the housing national objective generally means
 51% LMI regardless of level of investment
 - One exception for when writing down the cost of new construction for a multi-family, non-elderly project

Assisted Units

- CDBG doesn't have concept of assisted units
 - Must meet national objective
- Only units receiving HOME \$ are subject to HOME requirements
 - Known as "HOME-assisted units"
- For properties with HOME and non-HOME units, must select "fixed" or "floating" HOME units
 - Fixed = HOME units for duration of affordability period
 - Floating = unit numbers change but always have same portion of HOME units





Determining Minimum HOME Units and Maximum HOME Investment

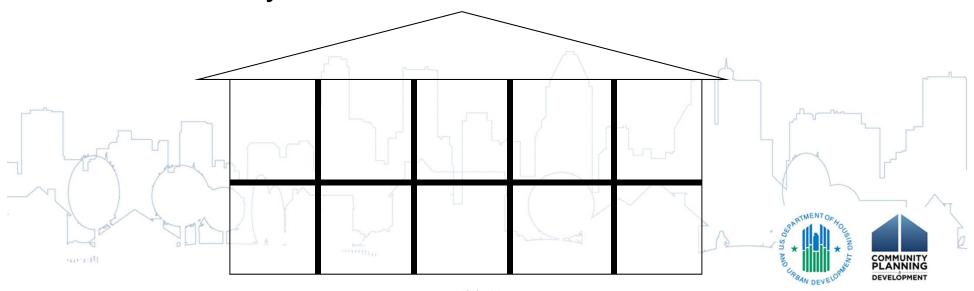
- Can solve for minimum HOME units or maximum HOME investment
 - See HUD notice on cost allocation
- Three tests must be carried out:
 - 1. Pro rata (fair share): Is HOME paying no more than a fair share of the total project costs?
 - 2. Subsidy limit: Is HOME paying no more than the 221(d)(3) subsidy limit for the HOME units?
 - **3. Layering Analysis:** Is the HOME investment justified by the overall funding needed in the project?





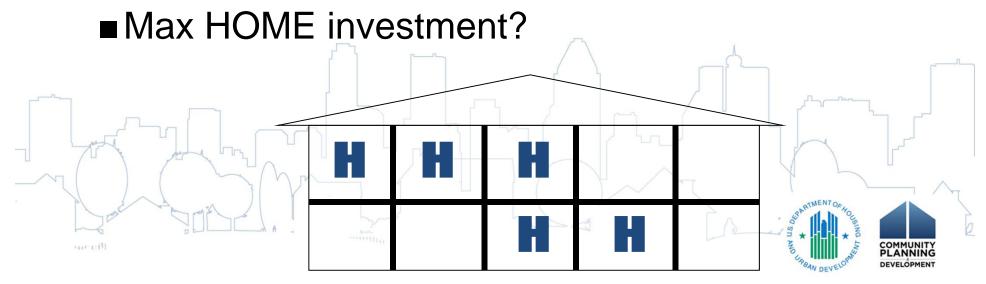
HOME Units Example #1

- 10 comparable units in project
- Total eligible cost: \$900,000
- ■221(d)(3): \$160,000
- HOME investment: \$450,000
- How many units must be HOME assisted?



HOME Units Example #2

- 10 comparable units in project
- Owner only wants to have 5 HOME units --Assume units are comparable
- Total eligible cost: \$800,000
- ■221(d)(3): \$100,000



CDBG Units Example

■ 10 comparable units

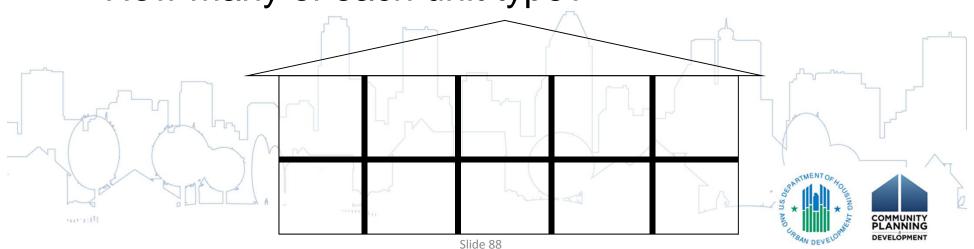
■ Total eligible cost: \$900,000

■221(d)(3): \$240,000

■ HOME investment: \$150,000

■ CDBG: \$50,000

■ How many of each unit type?



- Direct project costs eligible under both programs:
 - Acquisition
 - Labor
 - Materials
 - Energy efficiency
 - Lead paint
 - Relocation
 - Handicapped access
- Soft costs: different under HOME & CDBG
- HOME can fund 18 month operating reserve





- Remember HOME has spending rules
 - Minimum investment
 - Maximum investment
- CDBG has no prescribed limits

But must show compliance with cost
 reasonableness requirements

Slide 90

- Activity delivery costs
 - Handled differently HOME v. CDBG
- Under HOME can charge to projects IF track to units
 - Within per unit caps
 - Otherwise charge to admin within cap
- Under CDBG, charge as delivery cost not admin
- Can use CDBG to pay certain HOME housing services

Property Standards

- No set standards under CDBG
- HOME:
 - Acquisition: state/local codes or HQS
 - Construction/rehab: state/local codes or national standards
 - For rehab, must also have written standards
 - New construction also Model Energy Code
 - Fair housing and accessibility standards
 - New construction Site and Neighborhood standards review





On-Going Compliance

- CDBG no on-going obligation but change of use restrictions when subrecipient or recipient development
- HOME affordability period dictates compliance period
- Rents:

– CDBG = "affordable"

– HOME = max is High HOME & Low HOME





HOME Rent Limits

- High HOME and low HOME rent limit
 - Published by HUD
 - Tenants given notice of increases
- Actual unit rents can be less but not more than HOME limits
 - Rents not usually set as a percentage of individual household income
 - Special provision for low HOME units with project based assistance
- HOME rents are inclusive of utilities -- must adjust rents for tenant-paid utilities
 - Subtract utilities to determine rent paid by tenant
- Use actual utility costs or use utility allowance schedule
 - Can use PHA schedule if it is up to date

Low Income Targeting

- HOME requires income targeting:
 - 90% households at 60% income when initially funded
 - 20% of each project with 5+ HOME units are low HOME
 - Over time, new HOME tenants to be low income
- CDBG income targeting is related to national objective





Determining Income

- Use one of three definitions
- Anticipate income for next 12 months
- Verify -- 3rd party or review of documents (HOME)
- Compare income to low-income limits to determine eligibility
- Recertification
 - Not required for CDBG
 - Required for HOME Rental & TBRA
 - Must use source docs every 6th year of afford period





On-Going Property Quality

- CDBG no on-going quality requirement
- HOME units must remain standard
- Need to inspect HOME units over time:

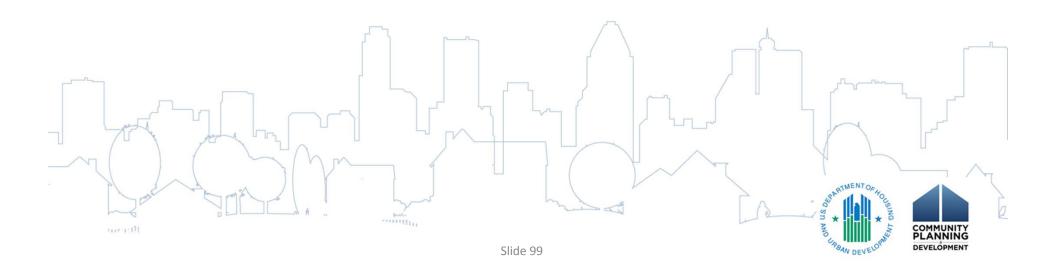
| | Number of Units | | Inspection Required | | | |
|--------|-----------------|-------|---------------------|-------------|---------------------------------------|-----------|
| | 1-4 | | Every 3 yrs | A | | |
| | 5-25 | | Every 2 yrs | | \ | |
| | 26 or more | | Annually | | | |
| mently | | both. | | 1 | * * * * * * * * * * * * * * * * * * * | COMMUNITY |
| | Slide 97 | | POAN DEVELOPE | DEVELOPMENT | | |

HOMEOWNERSHIP



Approaches to Homeownership

- Two common approaches:
 - Development subsidy
 - Homebuyer subsidy
- Both programs can use these approaches



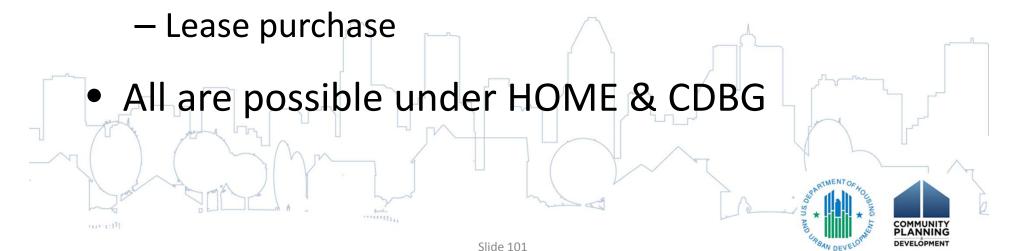
Development Subsidy

- Can construct and then sell units:
 - HOME permits this –determine sale price v.
 market in order to assess subsidy
 - CDBG only allowed if CBDO
- Can also:
 - Acquisition with rehab
 - Development of subdivision (CDBG possibly for infrastructure, land acquisition, clearance)





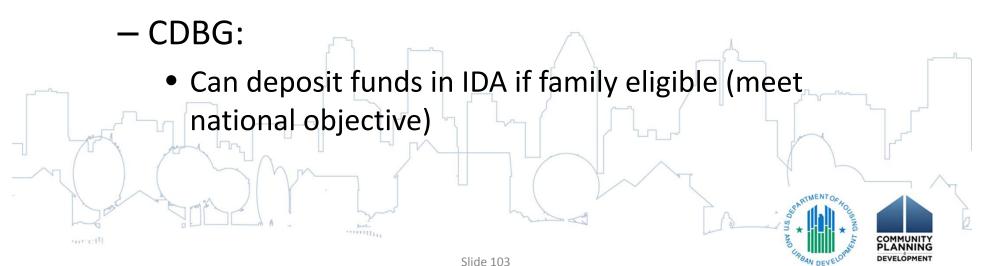
- Options include:
 - Down payment
 - Closing cost
 - Financing
 - IDAs



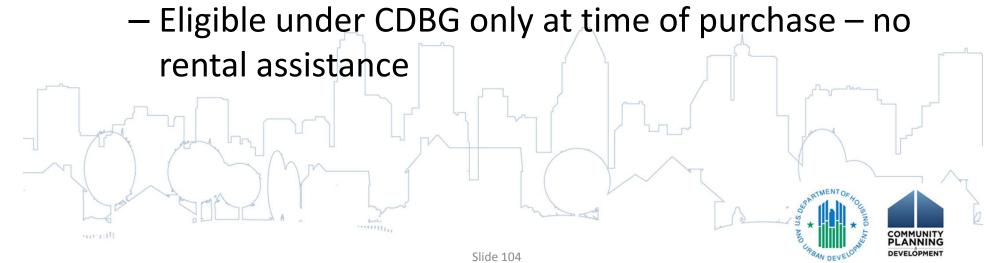
- Down payment/closing costs:
 - Assists families who can afford monthly payment
 - CDBG as a public service or capped at 50% of needed
- Homebuyer financing:
 - Can be variety of loan types
 - Can also include:
 - Interest write down
 - Principal write down
 - Loan guarantee (HOME)
 - CDBG makes a distinction regarding new construction when family is buying home

• IDAs:

- Dedicated savings accounts
- Use program funds as matching
- HOME:
 - Commit funds but draw down when ready to purchase



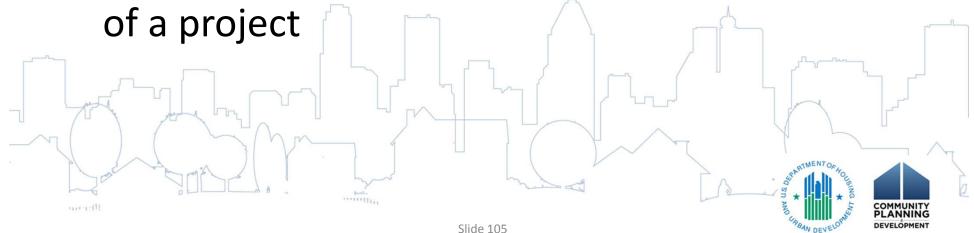
- Lease purchase:
 - Lease while saving for purchase
 - Eligible under HOME:
 - Purchase within 3 years
 - If not purchase, 6 months to identify additional buyer



Nonprofit & CHDO Roles

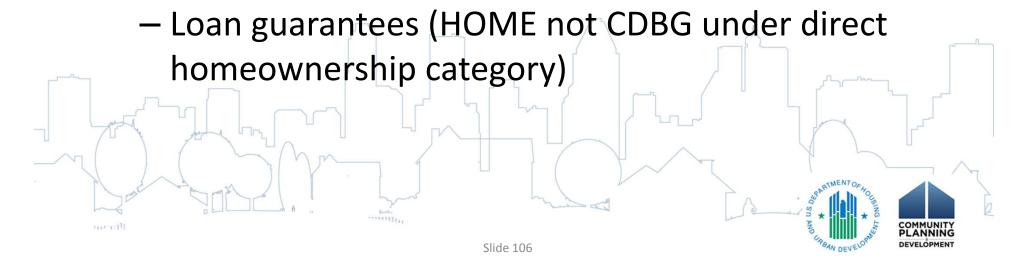
- Nonprofits can:
 - Manage a homebuyer program as a subrecipient
 - Be a competitively procured administrator
 - Provide counseling

• CHDOs serve as owner, developer, or sponsor



Forms of Assistance

- Many options for financing homeowner assistance:
 - Grants
 - Deferred payment loans
 - Below market loans



- Direct project costs:
 - Purchase assistance
 - Closing costs
 - Land acquisition
 - Site preparation
 - Construction (HOME)
 - Relocation
- Don't forget the relocation rules for tenants and voluntary acquisition rules





- Activity delivery costs:
 - CDBG can pay costs as delivery
 - HOME can also pay as delivery if tracked to site
 - If no, is admin
 - CDBG can pay certain HOME housing services
 - Outside of CDBG admin cap
- Housing counseling
 - HOME can be soft cost, admin cost or CHDO operating depending on how set up
 - CDBG can be public service or as activity delivery for CDBG-assisted family



Property Types

- Both allow for:
 - One unit property
 - Two to four unit property
 - Rules regarding rental units
 - Condominium
 - Cooperative, if homeownership under state law
 - Manufactured home
- HOME applies maximum value cap





Property Standards

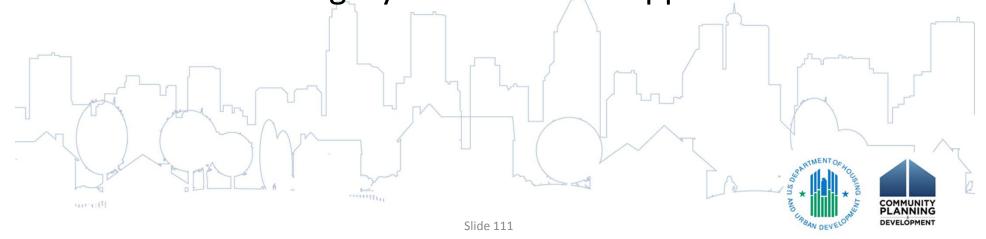
- CDBG has no requirements
- HOME:
 - Acquisition: state and local standards
 - Rehab/construction: state/local codes, zoning.
 New construction must meet model energy.
 Rehab must have written standards
 - Manufactured to meet Manufactured Home
 Construction and Safety Standards





Income Targeting

- Low income targeting required:
 - All homebuyers under HOME low income
 - All under CDBG low income if using direct homeownership category
 - Can be 51% LMI under CDBG IF using public service category and located in approved NRSA

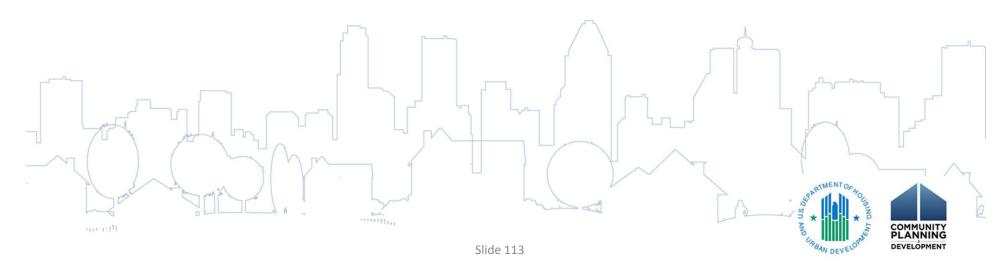


On-Going Requirements

- No on-going requirements for CDBG
- HOME applies affordability period
- For each homebuyer, UP FRONT, the PJ must select the compliance approach during the period of affordability
 - Resale or recapture
 - PJ cannot mix recapture and resale; must choose one or the other
- If no "Direct Subsidy" to homebuyer, PJ must select Resale

Using the Recapture Option

- Affordability period based on total direct subsidy to homebuyer
- <u>Does not</u> include HOME amounts to subsidize development when that cost exceeds market
 - Known as development subsidy



What Is Recaptured?

- Buyer pays back some or all "Direct Subsidy":
 - Amounts paid to the buyer
 - For example,
 - Down payment / closing cost assistance
 - Subsidized loan
 - -Amounts that write cost below market
 - Need an agreement with buyer
 - May sell to any willing buyer





Amount Recaptured

- Recapture is limited to "net proceeds" for agreements after November 2004
- Do not recapture more than net proceeds:
 Net proceeds = Sale Non HOME Debt Closing Costs
- PJ may require recapture of <u>less</u> than "net proceeds", for example:;
 - Recapture amount of direct HOME subsidy to the homebuyer;
 - Forgive direct HOME subsidy pro-rata over the affordability period;
 - Proportionately share net proceeds; or
 - Allow buyer to recover his/her initial investment first



Net Proceeds Example #1

- PJ paid back first
- HOME assistance \$20,000
- Sale in year 6
- Sales price: \$150,000
- Private debt: \$140,000
- Owner closing costs: \$5,000
- Amount to recapture?

Net Proceeds Example #2

- Forgive assistance over affordability period
- HOME assistance \$20,000
- Sale in year 6
- Sales price: \$250,000
- Private debt: \$145,000
- Owner closing costs: \$5,000
- Amount to recapture?

Using the Resale Option

- Affordability period based on total HOME investment in the property
 - Must include \$\$\$ of HOME assistance to buyer
 - PLUS total amount of HOME funds provided to developer



Resale Basics

- If there is a Resale requirement, when the home is sold:
 - Home must be affordable to new buyer
 - New buyer must be low-income
 - New buyer must occupy house as principal residence
 - Original buyer must receive a "fair return"

- Remaining resale restrictions apply to new buyer

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Affordable to New Buyer

- Option 1: Defined by PJ
 - Typically, PJs require that PITI not exceed a stated percentage of the new buyer's income
- Option 2: Presumption of Affordability
 - PJ documents that all homes in this neighborhood are affordable to low-income buyers using conventional financing (document in Action Plan)



Fair Return

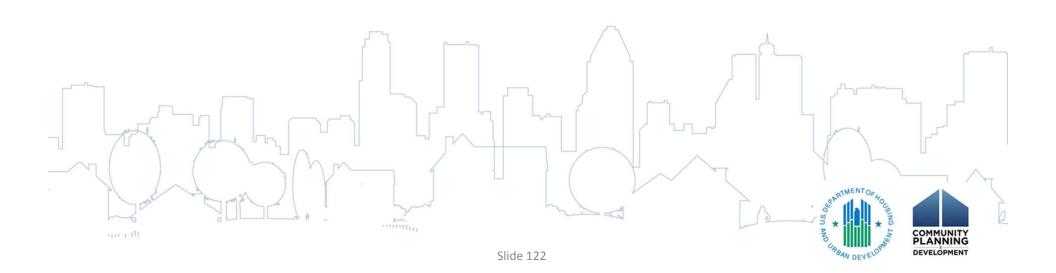
- PJ must define "fair return"
- Consider whether definition should be based on initial investment, or on full value of the home
- Note: a high return to the original owner means a high sales price to the next buyer
 - ... and the more likely it is that the PJ will need to subsidize the next buyer





Enforcement of Resale / Recapture

- Resale: must use deed restriction / covenant / lien
- Recapture: may use lien (should be <u>recorded</u>) or deed restriction



HOMEOWNER REHABILITATION



Approaches to Homeowner Rehab

Many options:

- Minor rehabilitation
- Moderate or substantial rehab
- Reconstruction
- Historic preservation
- LBP abatement
- Code enforcement
- Home-based businesses



- Minor rehab:
 - Small level of rehab
 - Targeted programs
 - Handicapped access
 - Energy conservation
 - Weatherization
 - Emergency repairs
 - CDBG can do all of these
 - Typically not done under HOME due to housing standards requirement





- Moderate/substantial rehab:
 - Eligible under both HOME and CDBG
 - Typically involves bringing all items up to code
 - May also include other improvements to enhance livability of unit
- Be sure to follow HOME or CDBG rules on eligible rehab costs PLUS A-87 cost
 reasonableness





Reconstruction:

- Now available under both programs
- Can do under HOME
 - Unit must be existing
 - Number of dwelling units constant
- CDBG now allows as rehab
 - Same lot but not necessarily standing at time of project commitment
 - Dwelling units remain constant
 - Manufactured housing is allowed





- Historic preservation:
 - Allowed under CDBG
 - HOME requires it related to rehab
- Lead paint reduction
 - Allowed as stand alone under CDBG



- Code enforcement
 - CDBG can fund inspection program in targeted areas & fund rehab
 - HOME can fund rehab but not inspection program
- CDBG can rehab homes with businesses
 - Considered residential rehab if improvements benefit residential occupants
- HOME can assist if primary activity is residential rehab; commercial area is incidental





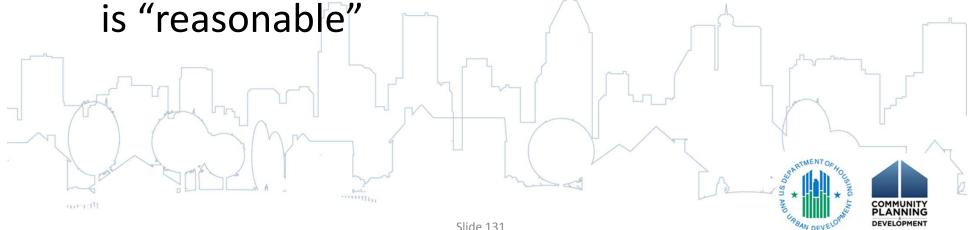
Undertaking Homeowner Rehab

- Many partners possible
 - Subrecipient may run program
 - Not an eligible CHDO set aside activity
- Assistance can take many forms:
 - Grants
 - Deferred payment loans
 - Forgivable loans
 - Amortizing loans
 - Interest subsidies
 - Loan guarantees



Investment of Funds in Projects

- Don't forget that HOME has minimum and maximum investment requirements
 - HOME minimum is \$1,000
 - HOME max is 221(d)(3)
- CDBG no maximum or minimum except what is "reasonable"



Refinancing

- Refinancing is permitted
 - HOME allowed if:
 - Single family owner occupied
 - HOME funds are loaned
 - Financing reduces borrowers overall housing cost

 CDBG also allows refinancing if part of rehab and makes that rehab affordable

No refinancing only





Escrow Accounts

- Escrow accounts allowed under CDBG
 - Deposits to make rehab payments
 - Limited to loans and grants for single family (1-4 unit) rehab
 - Must have contractor-owner contract
 - Account limited to amount disbursed in 10 days
 - Interest is returned to HUD
 - Funds only pay for actual rehab costs





Lump Sum Draw Downs

- Lump sum draw downs allowed under CDBG
 - Used to establish rehab fund with private institution
 - Fund used in conjunction with loans and other financial tools
 - Must have written agreements with financial institution
 - Must begin within 45 and substantial disbursement within 180 days
 - Interest is program income





Eligible Costs

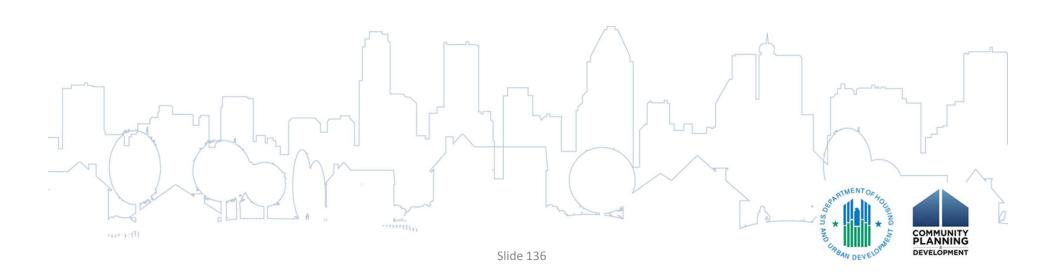
- Eligible costs:
 - Both can pay for hard costs
 - CDBG can pay rehab delivery costs (including soft costs)
 - HOME can pay soft costs if tied to unit
 - Includes counseling
 - CDBG can pay for housing counseling
 - HOME housing services
 - Public service
 - Program delivery for CDBG if tied to housing unit





Eligible Property Types

- To be eligible, housing must be:
 - Owned & occupied by income-eligible homeowner
 - The owner's principal residence



Eligible Property Types

- Types of eligible housing for homeowner rehab:
 - Single-family housing (1-4 units)
 - Condo unit
 - Coop or mutual housing unit (if recognized by state law)



Definition of Ownership

- Fee simple title
- 99-year leasehold interest (50-year leasehold on trust or restricted Indian lands)
- Ownership in a condominium
- Ownership/membership in a coop or mutual housing project (if recognized by state law)
- Other HUD-approved form





Property and Rehab Standards

- No standards required for CDBG
- HOME units must meet state and local property standards
- PJ must establish written rehab standards
 - Defines quality of housing
- No on-going obligations or affordability period for homeowner rehab



Maximum Property Value

- Under HOME also be sure unit does not exceed maximum value. Establish value through:
 - Estimates
 - Appraisal
 - Tax assessment
- Value <u>after rehabilitation</u> must not exceed 95% of median purchase price for the area
- Determining the 95% of median value:
 - Use mortgage limits established by HUD for the 203(b)
 program OR
 - Perform local market survey
- CDBG no maximum property value limit





Income Targeting

- All HOME occupants must be LI
- CDBG has flexibility
 - If use housing national objective = 100% LMI
 - Can sometimes use slum blight, no income requirement
- CDBG allows aggregation
 - In an NRSA area
 - With a CDFI with a LMI target area





ADMINISTRATION AND FINANCIAL MANAGEMENT



The Consolidated Plan

- Helps determine activities and organizations to fund
- Components:
 - 3 to 5 year strategic plan
 - One-year action plan
 - Funding
 - General questions
 - Institutional structure
 - Monitoring
 - Lead based paint
 - Housing
 - Homelessness
 - Community development
 - Non homeless special needs housing





The Consolidated Plan

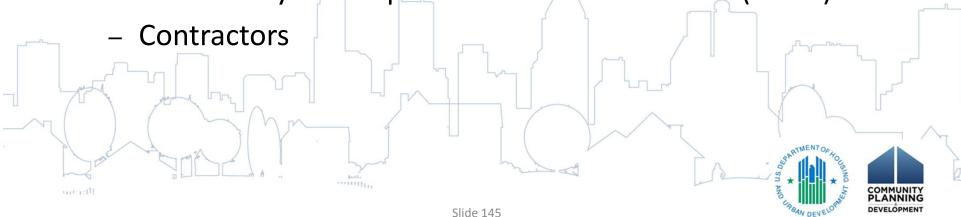
- Citizen participation required
- Con Plan reviewed and approved by HUD
 - Submitted to field office prior to start of program year
- Amendments allowed



Who Will Manage & Implement Activities?

- Jurisdictions have options:
 - Staff
 - Subrecipients
 - State recipients/Units of General Local Government
 - Community Based Development Organizations (CBDOs)
 - Community Housing Development Organizations (CHDOs)

Community Development Finance Institutions (CDFIs)



Subrecipient Defined

- Nonprofit organization/ external public agency receiving funds from jurisdiction for eligible activities
- Different HOME & CDBG:
 - HOME = administering a program on behalf of PJ
 - CDBG = any nonprofit/external public agency except when:
 - Procured OR
 - Owner of housing getting rehabilitation assistance
- CBDOs and CHDOs not automatically subrecipients
- Contractors are not subrecipients





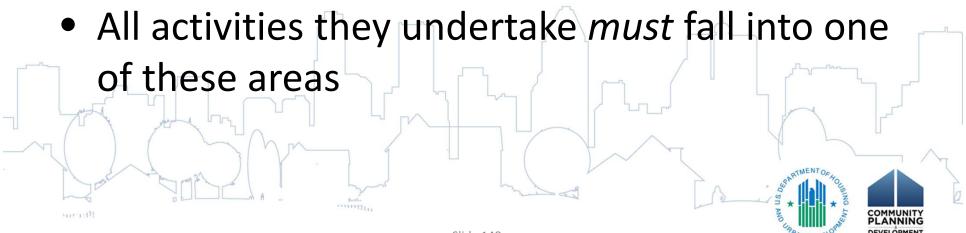
CHDO Qualifying Criteria

- CHDOs must meet requirements pertaining to their:
 - Legal status
 - Organizational structure
 - Capacity and experience
- CHDOs undertaking set aside activities must be owner, sponsor, or developer of housing



CBDO Qualifying Criteria

- Neighborhood-based nonprofit organization
- CBDOs may carry out certain projects:
 - Neighborhood revitalization
 - Community economic development
 - Energy conservation



CBDOs v. CHDOs

| Category | CHDO | CBDO | | | |
|-------------------|--|--|--|--|--|
| Exceptions | None | Single neighborhood CHDO qualifies | | | |
| Activities | Own, sponsor, develop affordable housing | Neighborhood revitalization, community economic development, energy conservation | | | |
| Operating support | PJs can provide up to 5% of allocation | None | | | |





CBDOs v. CHDOs

| Category | CHDO | CBDO | | |
|---------------------|------------------------------|---|--|--|
| Set Aside | 15% | None | | |
| Geographic Focus | Can be multiple jurisdiction | For entitlements, usually focused on a subset of the jurisdiction | | |
| Board | 1/3 LMI reps | 51% LMI reps (entitlements) | | |
| Capacity | Must be demonstrated | Jurisdictions determine | | |





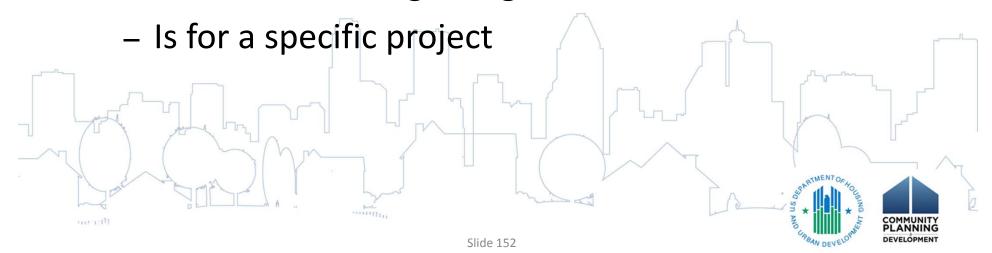
Community Development Financial Institutions

- A community-based lending institution
- CDFIs have these characteristics:
 - Promote community development
 - Serve an investment area or targeted population
 - Provide loans or development investments and development services
 - Maintain accountability to residents
 - Are not an agency of government
- CDFIs can get specific CDBG flexibilities



Contractors

- Different than CHDO, CBDO or subrecipient
- Must be competitively procured
- Use when activity:
 - Is discrete
 - Has a defined beginning and end date



Comparison of Partner Roles

| | Subrecipi ent | CHDO | CBDO/ 105(a)(15) nonprofit | Developer | State recipient or UGLG | Contractor |
|-------------------|-----------------------------------|---|--|--|--------------------------|--|
| Roles | Administer s program | Owner, sponsor, developer of housing | Neigh. revitalization Community economic development Energy conservation | Owner or developer of housing or commercial projects (CDBG) | Administers programs | Discrete tasks Must be procured |
| Admin Funds | Yes – within program cap | CHDO operating | No | No | Yes – within program cap | No |
| Program Income | Yes | No – CHDO proceeds | No | No | Yes | No |



Written Agreements (I)

- Written agreement is the commitment to disburse funds
- Required contents vary by organization type & program:
 - Use of funds/statement of work
 - Reversion of assets/program income
 - Uniform administrative requirements
 - Other program requirements/other federal requirements
 - Requests for disbursements (HOME)





Written Agreements (II)

- Required contents (cont.):
 - Records and reports
 - Enforcement provisions (HOME)
 - Project requirements (HOME)
 - CHDO provisions (HOME)
 - Religious organizations (CDBG)
- Other provisions may be included





- Both programs can pay for admin and planning
- HOME: May use up to 10% of annual allocation plus 10% of program income
- CDBG: May obligate up to 20% of annual grant plus 20% of current year program income (states differ)
- CDBG can be used to pay for some HOME administrative costs
 - Certain specific housing services costs can be outside of CDBG admin cap





- Can include applicable staff and jurisdiction administrative and management costs
- Two options for calculating staff costs:
 - Entire salary/wages OR
 - A pro-rata share
- Choose one option by staff person!
- Must document by timesheets or other approved means





- Other eligible costs may include:
 - Public information
 - Fair Housing
 - Indirect costs under a cost allocation plan
 - Preparation of Consolidated Plan



- Other eligible costs may include:
 - Submission of applications for Federal programs (CDBG)
 - Other planning documents or related studies (CDBG)
 - Administration of TBRA (HOME)
 - Compliance with other federal requirements
 (HOME, if not allocated to specific project)



HOME: Admin Vs. Project Costs (I)

- Certain costs directly related to carrying out HOME projects may be either admin <u>OR</u> project costs:
 - Appraisals
 - Work specifications
 - Construction inspections and oversight
 - Underwriting
 - Relocation, environmental reviews, etc.
 - Counseling
- If project, need to track costs to specific sites
- NOTE: This is a very different admin approach than CDBG





HOME: Admin Vs. Project Costs (II)

- If costs are charged to a project:
 - Counts in maximum subsidy limit
 - Triggers 25% match
- Must be charged to admin if project does <u>not</u> go forward
- TBRA admin always admin cost
- Project costs incurred by property owner <u>always</u> project costs

Match Basics

- CDBG generally has no required match
 - States match admin costs beyond \$100,000
 - Some states require match from UGLG applicants
- PJs must match 25% of HOME funds drawn down for project costs
 - Match must be a permanent contribution to the HOME Program
- Match liability must be satisfied by end of federal fiscal year





HOME Match Requirements

- No match required for:
 - Admin and planning costs
 - Funds to CHDOs for:
 - Operating expenses
 - Capacity building

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Eligible Sources of HOME Match

- Cash or "cash equivalents"
- Value of waived taxes (HOME projects only), fees or charges
- Value of donated land/real property
- Cost of infrastructure improvements related to HOME projects
- Percentage of proceeds of housing bonds





Eligible Sources of HOME Match

- Value of donated materials and labor
- Sweat equity
- Direct costs of supportive services to residents of HOME projects
- Direct costs of homebuyer counseling to
 HOME-assisted households

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What is Program Income?

- Program income is gross income received by recipient, state recipient or subrecipient directly generated by:
 - Use of HOME or CDBG funds OR
 - Matching contributions (HOME)



Program Income Examples

- Proceeds from sale or lease of property purchased/improved with CDBG or HOME
- Proceeds from lease of equipment purchased with CDBG
- Gross income from use/rental of real or personal property acquired, constructed, improved (less costs incidental to generation of income)



Program Income Examples

- Payments of principal & interest on CDBG or HOME loans
- Proceeds from the sale of loans or obligations secured by loans made with CDBG or HOME
- Interest earned on program income pending its disposition
- Funds collected through special assessments on properties not owned/occupied by LMI persons (CDBG)





Program Income Is Not:

- Funds back to a CBDO
- CHDO proceeds
 - Must go to affordable housing activity
- Recaptured funds (HOME)
 - From homebuyers; treated like program income, except no 10% for admin
- Returned funds
 - Repaid from non-eligible project or activity; must return to Treasury account





CDBG Program Income Special Rules

- CDBG program income also does not include:
 - Income in a single year not exceeding \$25,000
 - Income generated by some Section 108 activities
 - Proceeds of subrecipient fundraising
 - Funds collected through special assessment
 - Subrecipients' proceeds from disposition of property five years or more after grant close-out
- NOTE: The difference in the subrecipient definition matters for program income between HOME & CDBG





Pre-Award Costs

- Sometimes grantees need to incur costs prior to grant agreement date
 - Grant agreement date is latter of:
 - Program year start date OR
 - Date Con Plan received by HUD
- Cost must meet applicable program rules & requirements and must be in Action Plan
- CDBG: Total must not exceed \$300,000 or 25% of grant amount, whichever is greater
 - HOME capped at 25% of grant
 - CDBG state program has no restrictions





Uniform Administrative Requirements

- Recipients must comply with federal admin guidelines & financial management requirements:
 - Governmental entities/public agencies
 - OMB A-87
 - 24 CFR Part 85
 - OMB A-133
- Nonprofit subrecipients
 OMB A-122
 24 CFR Part 84
 OMB A-133

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Part 85 & Procurement

- 24 CFR part 85: "Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments"
- Methods of procurement
 - Small purchase under \$100k
 - Sealed bids firm-fixed price
 - Preferred for construction
 - Competitive Negotiation
 - Noncompetitive





OMB Cost Principals

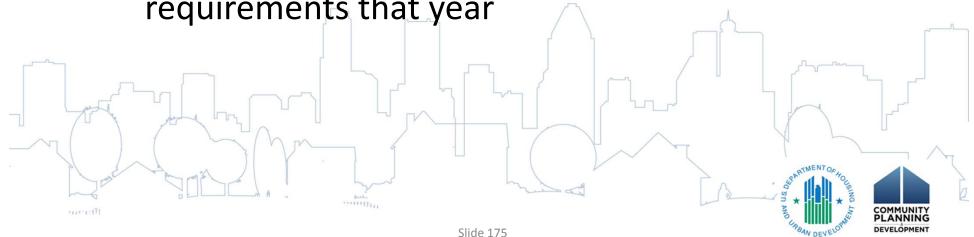
- OMB guidance documents
- A-87 establishes cost principals
 - Responsibility for efficient and effective administration
 - Administer consistent with rules and agreements



Federal Audit Requirements

- Audits covered under OMB A-133
- Type and level of audit required is based on Federal Funds <u>expended</u> in year
 - More than \$500,000 = A-133 audit

– Less than \$500,000 = Exempt from Federal requirements that year

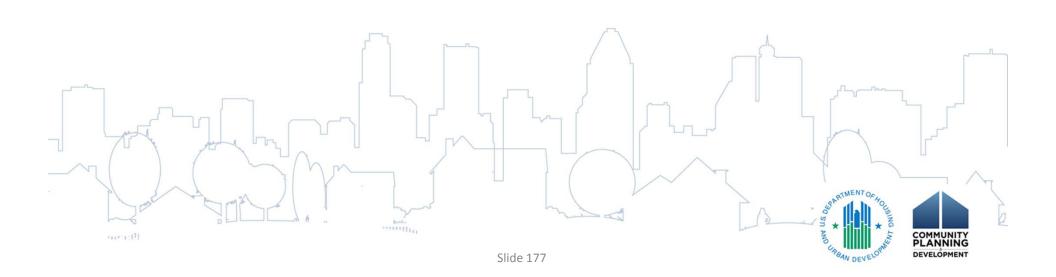


MONITORING AND RECORDKEEPING WITH HOME & CDBG



Monitoring and Recordkeeping Requirements

- Both programs require:
 - Documentation of program compliance
 - Monitoring of partners and programs



Documenting Compliance

HOME records:

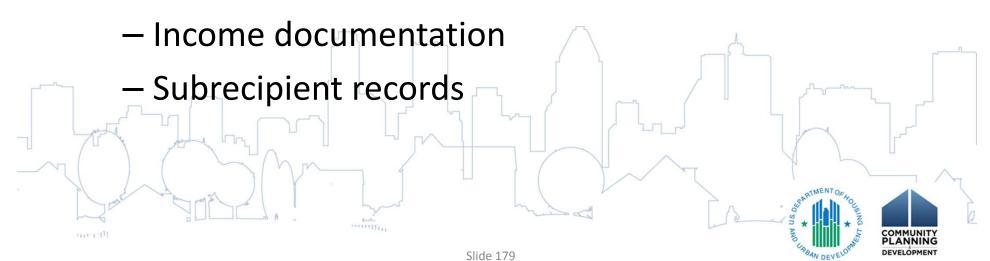
- Program records
- Project records
- CHDO records
- Financial records



Documenting Compliance

CDBG records:

- General administrative
- Financial records
- Project/activity
- National objective records



Who Gets Monitored?

- Grantees
- State recipients
- Subrecipients
- CHDOs, CBDOs
- Consortia members
- Owners/developers/sponsors
- Contractors

What Gets Monitored?

- Three components to monitor:
 - Partner general documents and records
 - Structures built with HOME/CDBG funds
 - Beneficiaries of program expenditures
- Three general areas to monitor:



How Should Monitoring Be Planned And Managed?

- Develop an annual monitoring plan
 - Monitoring objectives
 - Risk assessment
 - Monitoring strategy
 - Desk monitoring
 - On-site monitoring
 - Approaches and tools
 - Follow up activities
 - Staff and schedule



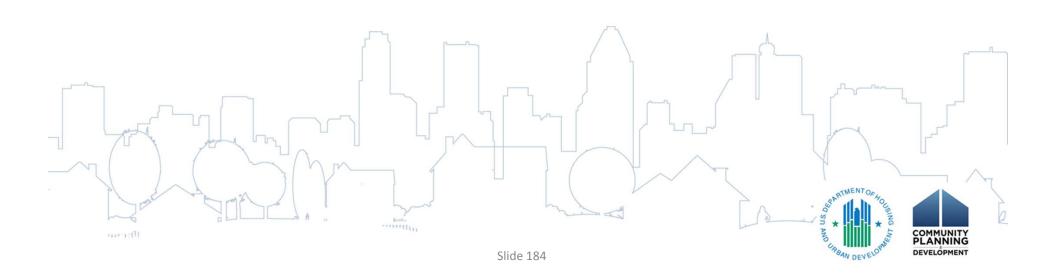


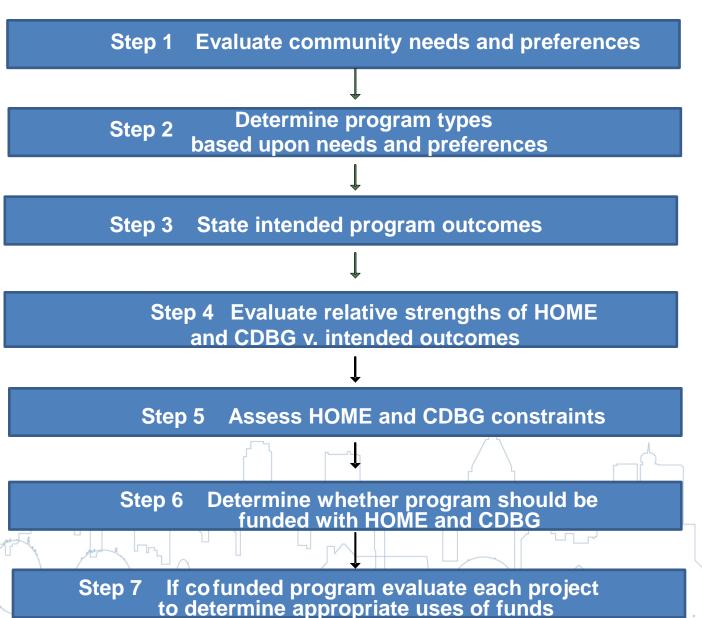
MAKING STRATEGIC DECISIONS



Making Effective Use of Resources

- Important to think strategically because:
 - Some activities better suited to one program
 - Need to comply with both sets of rules
 - Can effectively leverage both programs









Step 1: Evaluate Need

• Look at:

- Housing demand
- Housing supply
- Housing cost
- Housing quality
- Neighborhood issues
- Incomes
- Economic issues
- Mostly discussed in Con Plan



Step 2: Select Programs

- Based on needs, determine types of programs
 - Rental
 - TBRA
 - Homebuyer
 - Homeowner rehab
 - Neighborhood
 - Economic development
 - Public services
 - Public facilities

Step 3: Describe Intended Outcomes

- What is the jurisdiction trying to achieve?
- Can be focused on issues such as:
 - Affordability
 - Creation of supply
 - Reduction of substandard units
 - Serve maximum LMI persons
 - Physical improvement of neighborhood
 - Job creation/retention
 - Sustainability of nonprofits
 - Availability of community facilities
- Note: there are outcome measures developed by HUD and interest groups





Step 4: Evaluate Program Strengths

• HOME:

- Deep subsidies
- Long term affordability
- Needs of individual families
- Promote health of nonprofits



Step 4: Evaluate Program Strengths

• CDBG:

- Addresses blight
- Can provide shallow subsidies
- Creates jobs
- Wide range of services



Step 5: Assess Constraints

- Available partners
- Eligible activities
- Approaches to development
- Necessary income targeting
- On-going obligations



Step 6: Determine Program Co-Funding

- Evaluate each funding source
 - Advantages
 - Constraints
 - Available funds
- Might decide to have each specialize:
 - HOME for all housing
 - CDBG for roads, economic development, services



Step 7: Evaluate Projects

- Ask the following questions:
 - What is eligible?
 - What resources are available?
 - What are opportunity costs?
 - What are regulatory benefits?
 - What are regulatory detriments?
 - What is impact on feasibility?
 - What is impact on administration?
 - Does the project meet subsidy layering?





Conclusion

- Questions
- Future training needs
- Follow-up clarification

