
Neighborhood Stabilization Permanent Rental Housing
APPLICATION GUIDE



Application Due Date

Applications must be mailed or hand delivered by:

July 16, 2010
No later than
4:00 p.m.

Applications delivered after 4:00 p.m. will not be accepted

Arizona Department of Housing

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NEIGHBORHOOD STABILIZATION - PERMANENT RENTAL HOUSING

I. INTRODUCTION

Use this application guide to apply for the redevelopment of foreclosed multi-family rental housing projects which are vacant and/or blighted resulting in units serving persons at or below 50% area median income. Funding is from the Neighborhood Stabilization Program (NSP) authorized under Division B, Title III of the Housing and Economic Recovery Act (HERA) of 2008.

II. ELIGIBILITY REQUIREMENTS

A) Eligible Activities

Eligible activities include: Acquisition and rehabilitation of existing rental units that have been foreclosed upon.

- **Definition: Foreclosed.** A property “has been foreclosed upon” at the point that, under state or local law, the mortgage or tax foreclosure is complete. HUD generally will not consider a foreclosure to be complete until after the title for the property has been transferred from the former homeowner under some type of foreclosure proceeding or transfer in lieu of foreclosure, in accordance with state or local law. For the purpose of multi-family rental properties located in Arizona, “has been foreclosed upon” includes properties in which title has passed through a Trustee’s Sale.
- **Definition: Blighted Structure:** means a structure that exhibits objectively determinable signs of deterioration sufficient to constitute a threat to human health, safety, and public welfare.
- **Vacant Properties:** means a vacant multi-family structure in which all units have not been occupied for the past 90 days.

B) Eligible Beneficiaries

Funding provided under NSP will require a proportionate number of units within a project to be rented to households initially earning less than 50% of the area median income adjusted for household size.

C) Eligible Applicants

- Units of local government, including cities, towns and counties;
- Public Housing Authorities;
- Regional Councils of Government;
- Other State Agencies;
- Non-Profit Agencies; and,
- For-profit developers.

All applicants must be authorized to conduct business in Arizona and must be formed at the time of application.

D) Eligible Projects and Properties

A project is defined as a site or sites together with any building(s) that are under common ownership, management and financing and are to be assisted as a single undertaking. Single-family rental (scattered site) and multi-family properties are eligible. Standard or Single Room Occupancy projects are the only types of projects that may be funded.

- Standard projects include units that have one or more bedrooms, living, kitchen, dining and sanitary facilities. Structures may be single-family rental units (scattered site) or multi-family units.
- Single Room Occupancy ("SRO") units must contain both food preparation and sanitary facilities within the unit. .

E) Ineligible Properties

Ineligible properties include:

- Emergency shelters and temporary housing.
- Group homes.
- Institutional facilities such as nursing homes, convalescent homes, hospitals, medically-related residential facilities, correctional facilities and student dormitories.
- Projects previously funded with HUD's Rental Rehabilitation Program funds.
- Projects previously funded with various HUD or other Federal resources may not be eligible.
- Projects previously funded with any jurisdiction's HOME funds, if the property is still within the "period of affordability".
- Projects previously acquired with funding from the Department.
- Public Housing.
- Projects assisted under Title VI of NAHA.
- Housing reserved exclusively for use by students.
- Commercial buildings and non-residential portions of residential buildings.
- Properties receiving assistance through 24 CFR Part 248 (LIHPRHA or ELIHPA).
- Properties requiring permanent financing only.

F) Program Eligibility Requirements

- **Areas of Greatest Need** - NSP funding requires the Department to only fund projects within the state that are within the "areas of greatest need." Areas of greatest need are based on receiving a Risk Score of 7, 8, 9, or 10. The Risk Score measures the estimated foreclosure and abandonment risk of every census tract block group in the state.

To determine a property's Risk Score access the following link:

http://www.huduser.org/Datasets/excel/AZ120_LM.xls

- **Foreclosure Documentation** - Applicant must provide evidence it has legal control of the property by providing a purchase option for a bank-owned foreclosed property. The documentation provided by Applicant must evidence the residential property shall be purchased at a discount of at least 1 percent from the current market-appraised value of the property.

- **Dun and Bradstreet Number** - Applicants must provide a Dun and Bradstreet Number (“DUNS Number”) for the new ownership entity. For more information about obtaining a DUNS Number call: 1-866-705-5711.
- **Central Contractor Registration** - Applicants must provide information that the applicant, ownership entity, and general contractor are registered in the Central Contractor Registration (CCR). Registration information can be found at: <https://www.bpn.gov/ccr/default.aspx>
- **Required Property Standards** - All properties must meet the following standards prior to occupancy and throughout the period of affordability:
 - State or local Housing Quality Standards and code requirements.
 - Energy Star standards are required for the entire site (<http://www.energystar.gov>).
 - Handicapped accessibility requirements of the Fair Housing Act and Section 504 of the Rehabilitation Act.
- **Eligible Expenses** - NSP funds may be used only for reasonable and customary acquisition and rehabilitation costs of properties to be improved. Eligible acquisition and rehabilitation costs include:

Project Hard Costs	Project Soft Costs
<ul style="list-style-type: none"> ▪ Acquisition of land and existing structures ▪ On-site costs, such as site preparation or improvement, including demolition ▪ Materials and labor ▪ Improvements for physically disabled ▪ In pre-1978 structures, compliance with HUD ▪ Energy-related improvements 	<ul style="list-style-type: none"> ▪ Financing fees ▪ Credit reports ▪ Title reports and insurance ▪ Legal and accounting, including cost certifications ▪ Appraisals ▪ Construction-period taxes and insurance ▪ Environmental review ▪ Architectural fees, including specifications and job progress inspections ▪ Engineering fees ▪ Builder, consultant or developer fees within Department caps. ▪ Affirmative marketing and marketing costs ▪ Building permits ▪ Impact fees ▪ Project audits

(a) Developer and Consultant Fees

Developer Fee, Overhead, and Consultant Fee Limits As A Percent Of Cost Categories I-V of the Development Budget

If Developer has an identity of interest with the Builder, Builder’s Profit will be excluded from the direct construction cost for the purposes of this calculation.

Number of Units	Percent Allowed
1-15	18%
16-30	17%
31-45	16%
46-60	15%
61+	14%

Acquisition Rehabilitation—No Identities of Interest. For acquisition/rehabilitation projects, the total amount for developer fees, overhead, and consultant fees shall not exceed the amount stated in the table set forth above.

The Department may reduce the percentages set forth in the above table, as necessary to minimize the use of public funds through a subsidy layering analysis and as may be necessary in the event that there is an identity of interest between the Developer and the Contractor/Builder.

(b) Construction Contractor/Builder Profit, Overhead, and General Requirements Limits

The Department shall not allow builders profit, overhead, and general requirements costs as a percentage of total project cost that exceed the percentages set forth in the table below. The limits shall apply to the aggregate of the “Total: Site and Demolition,” the “Subtotal: Direct Construction,” and the line item “Community Buildings,” on the Development Budget, Form 3 Item 24, Sections II and III, of the application. Please note that if an Identity of Interest exists between the Developer and the Builder, then the Builder’s profit shall be limited to 2% of total development costs.

Builder’s Profit, Overhead* and General Requirements**	Percent of Costs				
	1-15	16-30	31-45	46-60	61+
Project size in units	1-15	16-30	31-45	46-60	61+
<i>Builder’s Profit (with Identity of Interest), or</i>	2	2	2	2	2
Builder’s Profit	6	5.75	5.5	5.25	5
Builder’s Overhead	3	2.75	2.5	2.25	2
General Requirements	6	5.75	5.5	5.25	5
Total Maximum Percentage	15	14.25	13.5	12.75	12

- (1) Builder’s overhead may include a percentage for main office expenses for the job.
- (2) General requirements may include project-related site costs such as temporary fencing, providing utilities to the site during construction, job site supervisor, job site office and similar costs.
- (3) The Department may reject contingency costs that include Builder’s Profit, Overhead, and General Requirements.
- (4) Construction must be performed by a licensed general contractor. A management entity acting in place of a general contractor is not permitted.

General contractors must provide a guaranteed price contract and a payment and performance bond for each construction contract. General contractors or any of their subcontractors must not be included on the Federal Excluded Parties List.

(c) Identity of Interest

An “identity of interest” between the developer and builder exists if the entities are affiliated or if there is any identity in ownership between the subject entities including, although not limited to, stock or other equity ownership or joint participation of the developer and builder through any kind of partnership structure. The term is also intended to include commonality between the developer and builder, of persons, related entities or firms that have a financial interest, direct or indirect, in the developer/owner and builder entities.

- **Ineligible Expenses**

- Project-based rental assistance.
- Costs to provide public services to tenants as used by HUD in its programs (i.e. supportive and social services).
- Off-site improvements.
- Luxury amenities not necessary for the provision of safe, decent, affordable housing (e.g., swimming pools, tennis courts).
- Delinquent taxes and fees or charges levied on a property.
- Project reserve accounts (except for initial operating deficit reserves).

- **Minimum and Maximum NSP Investments**

- The minimum NSP investment is \$1,000 per assisted unit;
- The maximum per unit investment is as defined by the 221d3 limits (Appendix D).

- **Terms of Assistance to the Project/Property Owner** - NSP funding will be provided in the form of a deferred forgivable loan. The terms of assistance to the project will be established through financial and technical review.

- **Period of Affordability** - NSP funding is subject to a period of affordability which will not be less than twenty (20) years.

- **NSP-Assisted Units** - Only units receiving NSP funds (and matching funds) are considered NSP-assisted units; therefore, minimum and maximum NSP subsidies, rent and occupancy rules apply only to NSP-assisted units. NSP-assisted units must be comparable to all other units in the project. Applicants are encouraged to propose the maximum number of assisted units feasible.

The minimum number of NSP-assisted units is determined through a series of calculations that takes into account:

- eligible costs per square foot,
- unit mix (number and size),
- maximum program subsidy limits, and
- project amenities

Within the Application is an approximation of the minimum number of NSP-assisted units, but is not a complete and final calculation. The final determination on the required number of units will be determined by the Department in the financial and technical review, and will be specified in the reservation of funds letter, written agreement, and CC&Rs.

Absent any compelling justification for an alternative distribution of assisted units, the Department will assume that the NSP-assisted units will be “comparable and proportional” to the overall project. In particular:

- The total number of NSP-assisted units at a minimum will equal or exceed the percentage of eligible project costs funded by NSP;
- The units will be distributed through all buildings or phases of the project;
- The unit mix of NSP-assisted units will approximate the overall distribution of project units by bedroom size; and
- A floating system will be used to maintain the distribution of units over the compliance period.

In some cases, however, the Department may choose to regulate more than the minimum required units when it is in the public interest to do so, and the project is not made infeasible by the additional assisted units. The Department may choose to designate more than the minimum required units to establish an appropriate unit mix or incorporate specific units into a mix as necessary to avoid discrepancies in unit size and quality between market-rate and affordable units and when there are particular units that would be in the Department’s interest to designate as NSP-assisted, such as accessible units, large family units, or units that serve a priority clientele.

(A) Calculating the Number of NSP-Assisted Units

The following formula is used by the Department to determine the minimum number of NSP-assisted units. The final determination on the required number of units will be determined in financial and technical review. Cost per square foot, unit mix (number and size), maximum subsidy limits, and project type will impact the actual required number of NSP-assisted units. The example assumes the project is a “standard” project.

Calculations on total project:	Example:
Total amount of construction, acquisition and/or rehabilitation costs.	<u>\$5,000,000</u>
Divided by the total number of units in project	125 units
Equals the average per unit investment (all units)	= \$40,000

Calculations regarding NSP-Assistance:	Example:
Amount of NSP investment, and any matching funds	<u>\$3,000,000</u>
Divided by the average per unit investment (all units)	\$40,000
Equals the number of NSP-assisted units	= 75 units
Period of affordability	20 years
Number of units @ 50%AMI	75 units

- **Covenants, Conditions and Restrictions** - NSP funded rental housing requirements and resources are enforced through the recording of Covenants, Conditions and Restrictions (CC&Rs). The CC&Rs remain in place throughout the period of affordability. The Department requires the CC&Rs be recorded in first position, ahead of all other liens. A sample copy of the Department's required Declaration of Covenants, Conditions and Restrictions is available on request.
- **Initial Income and Rent Restrictions in NSP-Assisted Units** - NSP-assisted units and the households that occupy the units are subject to rent and income restrictions throughout the period of affordability. Rents may be lower, as long as the project remains viable. Rental sales tax is included in maximum rent.

NSP tenant income and rent restrictions are subject to the HOME program requirements for low income. Charts are available annually.

Standard Projects	
100% of the NSP-assisted units must be occupied by households whose incomes do not initially exceed 50% of the area median income (very low-income units) adjusted by household size, and bear rents not greater than the lesser of:	<ul style="list-style-type: none"> • the fair market rent (FMR) for the area as established by HUD, including tenant paid utilities; <u>or</u> • a rent that does not exceed the area 50% rent limit, including tenant paid utilities. • (Low HOME rent) See the rent chart at Appendix A.
Single Room Occupancy (SRO) Projects	
Units must have both food and sanitary facilities:	Income and rent restrictions for standard projects apply.

- **Utility Allowances** - Maximum rents include utility allowances for tenant-paid utility costs. The utility allowance must be deducted from the actual rent charged, whether the rent is equal to or lower than the rent limit. Utility allowances must be based on the utility allowance established by the local public housing authority for the area in which the project is located and must be provided in the application. A list of Public Housing Authorities in Arizona is included as Appendix B. Utility allowances do not apply to utility costs that are paid by the landlord.
- **Section 8 Requirements** - Units may not be refused for leasing to a holder of a Section 8 voucher, or a tenant-based rental assistance certificate. When accepting Section 8 vouchers, the rent received, including tenant payment and subsidy, may not exceed the maximum rent level.
- **Long-Term Compliance** - Applicants who become recipients of Neighborhood Stabilization Program funds must maintain long-term compliance with NSP and Federal regulations, policies and program requirements in each NSP-assisted unit during the entire affordability period.

(i) Rent and Income Limit Calculations

Rent and income limits and utility allowances must be analyzed and adjusted annually during the period of affordability. Updated income and rent limits are distributed to recipients by the Department on an annual basis. Based on changes in area income levels or market conditions, rents as calculated by HUD annually may increase or decrease. Adjustments to the rent structure may be permitted if the financial feasibility of the project is threatened. Tenants must be given 30-days written notice of rent increases.

(ii) Tenant Income Certification and Recertification Requirements

The income of tenants in NSP-assisted units must be certified according to Section 8 (Part 5) guidelines for determining annual gross income. During the period of affordability, tenant income (and assets) must be recertified annually. Owners must use the Department's "Tenant Income Certification" (TIC) form for both initial certifications and annual re-certifications. A copy of the current TIC form can be found at **Appendix C**.

(iii) Fixed or Floating NSP-Assisted Units

When a project includes both NSP-assisted and non NSP-assisted units, the NSP-assisted units will be designated at the time of reservation as either "fixed" or "floating".

- Fixed Units are designated and retain this designation during the period of affordability.
- Floating Units are initially designated but may lose their designation and be replaced by comparable units during the period of affordability. The number and size, amenities and other characteristics of assisted units remain the same throughout the period of affordability.

Very-Low Income Fixed Units

When an increase in household income in a fixed, *very-low* income NSP-assisted unit occurs, the following applies:

- If the increase does not exceed 80 percent of the area median income adjusted for household size, then the *next available* NSP-assisted unit must be rented to a *very-low* income qualified household and the unit that has been replaced becomes a *low* income NSP-assisted unit and the low-income rent must be charged.
- If the increase exceeds 80 percent of the area median income adjusted for household size, then the next available NSP-assisted unit must be rented to a *very-low* income qualified household and the unit that has been replaced is required to pay 30 percent of the household's income for rent.

Very-Low Income Floating Units

When an increase in household income in a floating *very-low* income occupied NSP-assisted unit occurs, the following applies:

- If the increase does not exceed 80 percent of the area median income adjusted for household size, then the next available comparable unit is rented to a *very-low* income qualified household and the unit that has been replaced becomes a *low*-income NSP-assisted unit and the low-income rent must be charged.

- If the increase exceeds 80 percent of the area median income adjusted for household size, then the next available comparable unit must be rented to a *very-low* income qualified household and the unit that has been replaced is required to pay 30 percent of the household's income for rent or the prevailing market rent, whichever is less.

Low Income Fixed and Floating Units

When the annual income of households occupying fixed, *low* income NSP-assisted units exceeds 80 percent of the area median income adjusted for household size, they may stay in their NSP-assisted units but must pay a minimum of 30 percent of their adjusted income for rent and utilities and the next available low income, NSP-assisted unit must be rented to a very low income eligible household. When the occupied unit is a floating unit the tenant may continue occupancy and pay a minimum of 30 percent of their adjusted income for rent and utilities, up to the prevailing market rent.

(iv) Inspection and Reporting

Owners of assisted projects are required to submit a *Yearly Compliance Report*. The Department may inspect properties and verify files at any time with reasonable notice; however, information provided in the *Yearly Compliance Report* is generally confirmed through on-site unit and records inspections according to the following schedule. The *Yearly Compliance Report* is to be submitted to the Compliance Administrator.

Total Number of ALL Units in the project	Inspections Required
1-4	Every 3 years
5-25	Every 2 years
26 or more	Annually

- **Recipient Responsibilities** - In addition to delivering the project as specified and complying with all applicable NSP regulations, policies and program requirements, recipients of NSP funding are responsible for the following.

(i) Other Federal and State Recipient Responsibilities

Davis-Bacon Act. NSP requires that a contract for construction pay to all laborers and mechanics not less than the wages prevailing in that locality as predetermined by the Department of Labor. Prevailing wages must be paid on the entire development and the wage provisions must be in the construction contract. Recipients of NSP funding must supply applicable documentation to the Department to ensure Davis Bacon requirements throughout the contract period.

Compliance with HUD Format Environmental Review requirements. Applicants must complete the environmental review process (24 CFR Part 58) before taking physical action on a site or making a commitment or expenditure of funds. Applicable HUD regulations prohibit Applicants from entering into contracts, conditional or not, or in any way committing funds until the Department gives notice to proceed for any project activity. For more information, please contact the Department. The Environmental Review Record Handbook and required forms are available on the Department's website.

Phase I and/or II Report. Applicants must provide a Phase I and/or II Report that meets the standards of ASTM E1527-05 not older than 1 year of application.

Equal Opportunity and Fair Housing. Projects must comply with all applicable Acts, Orders, and Regulations that prohibit discrimination. These include: Fair Housing Act (24 CFR 100); Executive Order 12259 (Equal Opportunity in Housing); Title VI of the Civil Rights Act of 1964 (24 CFR 1); Age Discrimination Act of 1975 (25 CFR 146); Section 504 of the Rehabilitation Act (24 CFR 8); Executive Order 11246 (Equal Employment Opportunity). More information can be found at:

http://portal.hud.gov/portal/page/portal/HUD/program_offices/fair_housing_equal_opp

Accessibility Standards. Project design must comply with the accessibility standards of the Americans with Disabilities Act, The Fair Housing Act and the Rehabilitation Act, as revised. More information can be found at:

<http://www.hud.gov/offices/fheo/FHLaws/index.cfm>

Energy Star. The Project design must incorporate Energy Star standards for the entire site. More information can be found at:

<http://www.energystar.gov>

Affirmative Marketing. Owners must take actions to provide information and otherwise attract eligible persons from all racial, ethnic, and gender groups in the housing market area to the available housing. Affirmative marketing procedures are included in the Declaration of Covenants, Conditions and Restrictions, if applicable. More information can be found at

<http://www.hud.gov/offices/cpd/affordablehousing/training/web/crosscutting/equalaccess/marketing.cfm>

Lead Safe Housing. Current regulations require that recipients ensure that occupants are notified of the hazards of lead-based paint. Additionally, recipients must a) conduct a visual assessment, paint testing, or risk assessment, depending on the activity, and b) conduct lead hazard reduction activities, including paint stabilization, interim controls, standard treatments, or abatement. More information can be found at

<http://www.hud.gov/offices/lead/enforcement/lshr.cfm>

Asbestos Testing. Pursuant to applicable Environmental Protection Agency (EPA) regulations, recipients must comply with Federal and State requirements to protect affected public members from exposure to regulated asbestos-containing material during facility renovation, demolition, removal, transport and disposal activities. More information can be found at

<http://www.epa.gov/asbestos/> and <http://www.azdeq.gov/environ/air/asbestos/>

Insurance. During the contract period, Recipient shall purchase and maintain in full force the following insurance. All certifications of insurance must provide for a thirty (30) day notice to the Department of cancellation, non-renewal, or material change. Proof of Insurance from the Recipient shall be provided to the Department prior to execution of

the contract and periodic certifications must be furnished at the request of the Department.

The Recipient and its Subcontractor, at Recipients' and Subcontractors' own expense, shall purchase and maintain the herein stipulated minimum insurance with companies duly licensed possessing a current A.M. Best, Inc. Rating of A-, 7, or approved by the Department and licensed in the State of Arizona with policies and forms satisfactory to the Department.

All insurance required shall be maintained in full force and effect until all work or service required to be performed under the terms of the contract is completed satisfactorily and formally accepted; failure to do so may, at the sole discretion of the Department, constitute a material breach of the contract.

The Recipient's insurance shall be primary insurance as respects to the Department, and any insurance or self-insurance maintained by the Department shall not contribute to it.

Recipient shall not fail to comply with the claim reporting provisions of the insurance policies or cause any breach of an insurance policy warranty, which would affect coverage afforded under insurance policies to protect the Department.

The insurance policies may provide coverage, which contain deductibles or self-insured retentions. Such deductible and/or self-insured retentions shall not be applicable with respect to the coverage provided to the Department under such policies. The Recipient shall be solely responsible for the deductible and/or self-insured retention, and the Department, at its option, may require the Recipient to secure payment of such deductibles or self-insured retentions by a Surety Bond or an irrevocable and unconditional letter of credit.

The Department reserves the right to request and to receive, within 10 working days, certified copies of any or all of the herein required insurance policies and /or endorsements. The Department shall not be obligated, however, to review same or to advise Recipient of any deficiencies in such policies and endorsements, and such receipt shall not relieve Recipient from, or be deemed a waiver of the Department's right to insist on, strict fulfillment of Recipients' obligations under the contract.

The insurance policies, except Worker's Compensation and Professional Liability, required by the contract, shall name the Department, its agents, representatives, officers, directors, officials and employees as additionally insured.

- a. Commercial General Liability. Recipients shall maintain Commercial General Liability insurance with a limit of not less than \$1,000,000 for each occurrence with a \$2,000,000 Products/Completed Operations Aggregate and a \$2,000,000 General Aggregate Limit. The Policy shall include coverage for bodily injury, broad form property damage, personal injury, products and completed operations and blanket contractual coverage. Coverage will be at least as broad as Insurance Service Office, Inc. Policy Form CG 00011093 or any replacements thereof.

Such policy shall contain a severability of interest provision and shall not contain a sunset provision or commutation clause, or any provision that would serve to limit

their party action over claims. The Commercial General Liability additional insured endorsement shall be at least as broad as the Insurance Service Office, Inc. Additional Insured, Form B, CG 20101185, and shall include coverage for Recipient's operations and products and completed operations.

- (b) Automobile Liability. Recipient shall maintain Commercial/Business Automobile Liability insurance with a combined single limit for bodily injury and property damage of not less than \$1,000,000 each occurrence with respect to the Recipient's any auto, all owned autos, scheduled autos, hired autos, non-owned autos assigned to or used in performance of the Recipient's work. Coverage will be at least as broad as coverage code 1, "any auto", (Insurance Service Office, Inc. Policy Form CA 00011293, or any replacements thereof).
- (c) Worker's Compensation. The Recipient shall carry Worker's Compensation insurance to cover obligations imposed by Federal and State statutes having jurisdiction of Recipient's employees engage in the performance of the work or services; and Employer's Liability insurance of not less than \$100,000 for each accident, \$100,000 disease for each employee, and \$500,000 disease policy limit.

In case any work is subcontracted, the Recipient will require the Subcontractor to provide Worker's Compensation and Employer's Liability to at least the same extent as required of the Recipient.

- (d) Certificates of Insurance. Prior to commencing work or services under this Contract, Recipient shall furnish the Department with Certificates of Insurance, or formal endorsements as required by the Contract, issued by Recipient's insurer(s), as evidence that policies providing the required coverage, conditions and limits required by this Contract are in full force and effect.

In the event any insurance policy (ies) required by this contract is (are) written on a "claims made" basis, coverage shall extend for two years past completion and acceptance of the Recipient's work or services and as evidenced by annual Certificates of Insurance.

If a policy does expire during the life of the Contract, a renewal certificate must be sent to the Department fifteen (15) days prior to the expiration date.

- (e) Cancellation and Expiration Notice. Insurance required herein shall not expire, be canceled, or materially changed without thirty (30) days written notice to the Department.

Signage. Recipients must erect a sign at the project site indicating that the project is funded through the Arizona Department of Housing (ADOH) and indicate the sources of funds. The sign must be a minimum size of 24 inches high by 36 inches wide, include a minimum 5-inch high ADOH logo and text printed at a minimum 72 point font. An individual ADOH sign does not have to be provided if Recipient incorporates ADOH information into a larger group sign.

Photographs. Recipients are required to provide to the Department before and after photographs of the project in digital or film format.

Registration with Social Serve. Recipient must agree to register the project with www.socialserve.com and keep the project listed with www.socialserve.com for the duration of the period of affordability as indicated in the Conditions, Covenants and Restrictions.

HUD Performance Measures. Recipients shall provide performance measurement data as prescribed by HUD and submit such data to the Department when requested.

Scrutinized Business Operations. Pursuant to A.R.S. § 35-391.06 and 35-393.06, Recipients shall certify that it does not have a scrutinized business operation in Sudan or Iran. For the purpose of this Section the term “scrutinized business operations” shall have the meanings set forth in A.R.S. § 35-391 or and 35-393, as applicable. If the State of Arizona or the Department determines that the Recipient submitted a false certification, the Department may impose remedies as provided by law including cancellation or termination of a Funding Agreement.

Compliance Requirements for A.R.S. § 41-4401—Immigration Laws and E-Verify Requirement.

(a) Recipients shall warrant compliance with all Federal immigration laws and regulations relating to employees and shall warrant its compliance with Section A.R.S. § 23-214, Subsection A. (That subsection reads: “After December 31, 2007, every employer, after hiring an employee, shall verify the employment eligibility of the employee through the E-Verify program.)

(b) A breach of a warranty regarding compliance with immigration laws and regulations shall be deemed a material breach of the contract and the Recipient may be subject to penalties up to and including termination of the Funding Agreement.

(c) The Department retains the legal right to inspect the papers of any employee who works on the Funding Agreement to ensure that the Recipient or Recipient’s subcontractor is complying with the warranty under paragraph (a).

Data Universal Number System (DUNS) Number. The Federal government requires that all applicants for Federal grants and cooperative agreements with the exception of individuals other than sole proprietors, have a DUNS number. (See policy at: http://www.whitehouse.gov/omb/grants/grants_docs.html). The Federal government will use the DUNS number to better identify related organizations that are receiving funding under grants and cooperative agreements, and to provide consistent name and address data for electronic grant application systems.

For more information about obtaining a DUNS Number call: 1-866-705-5711.

Central Contractor Registration. Applicants must provide information that the applicant, ownership entity, and general contractor are registered in the Central Contractor Registration (CCR). Registration information can be found at: www.ccr.gov/startregistration.aspx

III. APPLICATION REVIEW CRITERIA

Completeness and Threshold Review - Applications will be reviewed for completeness and threshold to ensure that the applicant and application are eligible to receive funding in accordance with Federal and State statutes, regulations and policies. Only applicants and applications that meet all completeness and threshold criteria will be assessed for financial and technical review.

(A) Completeness Review Criteria - The application is complete and all appendices are labeled. Application information is in the correct format and order pursuant to the instructions. Incomplete applications will be returned to the applicant with the original and all copies.

(B) Threshold Review - Threshold Review is an analysis of information provided by the applicant contained in the Application form and Tab Requirements. Applicants or applications must meet ALL threshold requirements to be considered for competitive funding. Refer to Exhibit 1 for threshold criteria.

(C) Competitive Process - In addition to Completeness and Threshold Review, the Department uses Competitive funding criteria to make funding decisions. Only applications that meet completeness and threshold requirements are competitively scored. Refer to Exhibit 3 NSP Self Score sheet

(D) Financial and Technical Review - Applications eligible to be competitively scored will undergo a financial and technical review, often referred to as risk assessment. In selecting projects for funding, the Department evaluates the need, market demand, risk, dependability of other sources of funding, feasibility, and viability for each project. Financial and technical analyses determine appropriate costs and the amount of financing that may be provided, and identify any special considerations or mitigating measures.

(E) Reservation of Funding

Prior to final funding review, a letter describing the terms and conditions of the funding will be sent to the Applicant. The award of funding shall be conditioned upon meeting program/funding criteria, and may be further conditioned upon specific items set forth in the award letter.

Upon written acceptance of the Department's proposed terms and conditions for funding, the application will be considered for final funding approval. Upon final approval, the funding will be made available upon execution of a funding agreement which will form the basis for the actual distribution of funding.

No physical work on the project can begin until the environmental review requirements have been met and a written Authority to Use grant funds has been issued from HUD to the Department.

IV. APPLICATION FORMAT

Applications must be typewritten or computer generated. Applicants must not alter the application forms in any way. Clarification of information in the application may be explained in the cover letter. A copy of this application is available via e-mail or on the Department's website. Applications are available on request and can be sent to you by calling the Rental Housing Programs Assistant at (602) 771-1030.

Application materials must be submitted in:

- 1) 8 ½ x 11 format
- 2) single-sided
- 3) All application forms and required Attachments must be provided in two separate binders.
- 4) Contain the materials identified and tabbed as required in the Tab Requirements (refer to Exhibit 2).

V. SUBMISSION DEADLINES AND RELATED REQUIREMENTS

- Applicants must complete NSP Rental Application forms and required Tab attachments.
- Applications must be received by the Department by no later than 4 p.m. on the deadline date noted below. Applications delivered after 4 p.m., will not be accepted.
- Applicants must submit two applications in separate binders (one original and one copy), completing all required sections and providing all supporting documentation. Incomplete applications, application packages missing documentation, or application packages not filed in duplicate will not be accepted for review. See below for the deadline.

Application Due Date:	Applications must be mailed or hand delivered to:
Applications for Projects are due: April 5, 2010 by 4p.m.	Attn: Rental Division Arizona Department of Housing 1110 W. Washington Street, Suite 310 Phoenix, AZ 85007

Exhibit 1

Threshold Criteria – Applications must meet the Threshold criteria described in the application instructions, which in general shall include the following;

- The Applicant (and all of its team members) has no outstanding or unresolved contractual, property, or beneficiary-related compliance issues with any Federal programs, or programs of the Department, the Arizona Housing Finance Authority or any other applicable State or Federal Agency.
- The Applicant is listed as an eligible party to apply.
- The activity, project or property type is listed as eligible to receive funding.
- NSP funding is budgeted for eligible uses.
- The proposed beneficiaries are eligible.
- Per unit investment is at least \$1,000 but does not exceed the 221d3 limits.
- Applicant has certified that all development or rehabilitation will meet, at a minimum, all local building codes, must be properly zoned for the proposed use and meet local ordinances.
- The Applicant (and all of its team members) has not been debarred, suspended, proposed for debarment by HUD or included on the Federal Excluded Parties List.
- Rents on the NSP-assisted units do not exceed program limits and are adjusted for tenant-paid utilities.
- Project budget reflects Davis-Bacon wages.
- Applicant has provided written, acceptable Tenant Selection Policies and Criteria with formal adoption by the Applicant's governing body in the form of a motion or resolution.
- Applicant has provided an acceptable form of tenant lease agreement which complies with the provisions of the AZ Residential Tenant Landlord Act and the Fair Housing Act.
- Applicant has completed and provided an acceptable Affirmative Fair Housing Marketing Plan (NSP Rental Application Attachment F – HUD Form 935.2).
- Applicant must provide an acceptable Management Plan as outlined in this document.
- Applicant must provide an acceptable Fair Housing Accessibility Checklist fully completed and signed by the project Architect (see NSP Rental Application Attachment E).
- Applicant must provide evidence it has legal control of the property by providing a purchase option for a bank-owned foreclosed property.
 - Documentation must evidence the residential property shall be purchased at a discount of at least 1 percent from the current market-appraised value of the property.
- Applicant must provide a letter from the unit of local government indicating whether the property is appropriately zoned for the intended use not older than 60 days of application.

- A Preliminary Title Report must be provided for the proposed property dated within 60 days of the date of the application for each property.
- An appraisal conducted within 60 days of application submission must be provided indicating the value of the real property to be acquired. This includes land with existing buildings and improvements. Appraisals must be conducted in conformity with the appraisal requirements of the URA at 49 CFR 24.103.
- A Capital Needs Assessment (CNA) must be provided not older than 90 days of application.
- Environmental:
 - Applicant must provide evidence that the HUD Format Environmental Review, pursuant to 24 CFR Part 58 process has been initiated. HUD Format Environmental Review documents must be provided on forms provided by the Department. See ADOH website at:
http://new.azhousing.gov/azcms/uploads/CDBG/ERR_Handbook.pdf
 - Applicant must provide a Phase I and/or II Report that meets the standards of ASTM E1527-05 not older than 1 year of application.
 - For projects intending to rehabilitate or demo buildings – If asbestos is found present in the Phase I and/or II Report, an asbestos assessment report and Operations and Maintenance plan must be provided complying with Federal requirements.
 - For projects intending to rehabilitate or demo pre 1978 buildings - Applicant must provide a Lead-based Paint Analysis with a Operations and Maintenance plan in accordance with 24 CFR Part 35.
- A Third Party Market Demand Analysis must be provided that is not older than 6 months of application.
- For projects proposing to rehabilitate/preserve affordable housing with existing project-based rental assistance (i.e. Section 8 or RD rental assistance), a copy of the rental assistance contract must be provided indicating the amount of assistance and number of rental units to be served/preserved. A confirmation letter must be provided from HUD or RD insuring the rental assistance will remain with the rehabbed units once they are completed.

Exhibit 2

Tab Requirements

A complete application shall contain the information appropriately tabbed and as described below. It is the responsibility of the applicant to provide supporting documents necessary to demonstrate compliance with the requirements.

Tab	DESCRIPTION and INSTRUCTIONS
	<p>Cover Letter. Submit a cover letter describing the proposed project. Include the cover letter at the front of the application before the numbered tabs.</p>
1	<p>NSP Rental Application Form. Complete all required sections and provide all supporting documentation. NOTE: Incomplete applications, application packages missing documentation, or application packages not filed in duplicate will not be accepted for review.</p>
2	<p>Applicant Eligibility Attach the following documents as they pertain to the Applicant and Ownership Entity:</p> <ul style="list-style-type: none">• Articles of Incorporation and By-laws• Operating agreement for Limited Liability Companies• Partnership agreement• Other relevant entity organizational information• Certification of Good Standing from the State of Arizona and the states of registration if not registered in Arizona, (not older than 90 days of the application).• Copy of the IRS nonprofit designation letter for 501 (c)(3) or (4) status and a letter certifying that the non-profit retains its non-profit status at the time of application.• Provide a current copy of the 990 form from the Internal Revenue Service evidencing the organizations 501(c)3 or (4) status.
3	<p>Project Description</p> <p>a) <u>Complete Attachment J “Project Description”.</u> Provide descriptive information including the location, type of project, number and type of units, scope of work, and steps required to implement the project successfully. (The applicant’s ability to fully describe the project is an important indicator of the applicant’s understanding of what is required to complete the project successfully.)</p> <p>b) Provide pictures of the project site(s) from all angles; provide interior and exterior photos.</p>
4	<p>Areas of Greatest Need</p> <p>Provide evidence the project is in one of the “areas of greatest need.” Areas of greatest need are based on receiving a Risk Score of 7, 8, 9, or 10. The Risk Score measures the estimated foreclosure and abandonment risk of every census tract block group in the state.</p> <p>To determine a property’s Risk Score access the following link: http://www.huduser.org/Datasets/excel/AZ120_LM.xls</p>
5	<p>Local Land Use and Zoning.</p> <p>a) Include a letter from the unit of local government indicating whether the property is</p>

	<p>appropriately zoned for the intended use (not older than 60 days of application).</p> <p>b) Include a copy of other land use permits such as conditional use permits and variances, if applicable.</p>
6	<p>Site Control Documentation.</p> <p>a) Foreclosure Documentation</p> <ul style="list-style-type: none"> • Evidence the property was purchased from a bank's Real Estate Owned (REO) portfolio. • A purchase agreement must be provided if the property has not yet been purchased from a bank. <ul style="list-style-type: none"> ❖ Documentation must evidence the residential property shall be purchased at a discount of at least 1 percent from the current market-appraised value of the property. <p>b) Provide a Preliminary Title report for the property dated within 60 calendar days of the date of the application. If there are scattered sites, one must be provided for each site.</p>
7	<p>Appraisal</p> <p>An appraisal conducted within 60 days of application submission must be provided indicating the value of the real property to be acquired. This includes land with existing buildings and improvements. Appraisals must be conducted in conformity with the appraisal requirements of the URA at 49 C.F.R. Pt. 24.103.</p>
8	<p>Local Jurisdiction Site Plan Approval, Architectural Drawings & Site Plans.</p> <ul style="list-style-type: none"> • Provide a copy of the site plan. • Provide architectural drawings, if applicable.
9	<p>Building Permits.</p> <p>Include copies of any building permits, if available. Or, provide a timeline of when permits will be obtained. Please note permits must be submitted as soon as they are available.</p>
10	<p>Phase I Environmental Assessment.</p> <p>Provide a Phase I and/or II Report that meets the standards of ASTM E1527-05 not older than 1 year of application.</p>
11	<p>HUD Format (NEPA) Environmental Review.</p> <p>a) Provide evidence that the HUD Format Environmental Review, pursuant to 24 CFR Part 58 process has been initiated. HUD Format Environmental Review documents must be provided on forms provided by the Department. See ADOH website at: http://new.azhousing.gov/azcms/uploads/CDBG/ERR_Handbook.pdf</p> <p>b) Provide a copy of the letter of determination from the State Historic Preservation Office (SHPO) (for all project types).</p> <p>c) If the project is on tribal land, a copy of the determination letter from the Tribal Historic Preservation Officer (THPO) must be provided.</p>
12	<p>Inspection Reports</p> <p>a) For projects intending to rehabilitate or demo pre 1978 buildings - Applicant must provide a Lead-based Paint Analysis with a Operations and Maintenance plan in accordance with 24 CFR Part 35.</p> <p>b) Provide a termite inspection, if applicable.</p> <p>c) Soil/Geotechnical report and ALTA Site Survey will need to be provided, if applicable.</p>

13	<p>Construction Contract and Architect Contract.</p> <p>a) Provide a copy of the Applicant's (owner of the property) procurement policy.</p> <ul style="list-style-type: none"> • If final designs and construction bids are available, provide evidence that (1) at least three bids were received and the selected bid was the most advantageous for cost and other specified reasons; and/or (2) a cost analysis was conducted by a qualified party if multiple bids were not received; the results of that analysis must be included. • If final designs and construction bids are not available, the applicant will be required to finalize plans, secure multiple construction bids, and submit to a follow-up budget review and gap determination prior to final budget approval. <p>b) Provide a draft copy of the construction contract and architect contract, if available.</p>
14	<p>Davis Bacon.</p> <p>If Davis Bacon Wages were used in the construction contract, provide a copy of the prevailing wage sheet used from the Department of Labor. http://www.hud.gov/offices/olr/index.cfm</p>
15	<p>Funding Source Commitment Letters.</p> <p>a) Applicants with firm commitments for financing must include commitment letter(s) from the source of financing (i.e. construction, local jurisdiction, etc). Commitment letters must include the following:</p> <ol style="list-style-type: none"> 1) Term sheet; 2) Amount of the loan; 3) Interest rate, including all points; 4) Amortization period, if applicable; 5) Term of the loan; 6) Loan-to-value factor; 7) Maximum and minimum debt service coverage allowable (not required if the per lending source is a governmental or tribal entity); 8) All commitment and/or origination fees; 9) Description of all other fees directly attributed to the funding of the loan; <p>b) If funding is available within the proposed project's jurisdiction, letters of commitment with the aforementioned requirements and/or letters of denial must be provided.</p> <p>c) Applicants that are unable to provide firm commitment letters must provide Letters of Interest from all potential funding sources.</p>
16	<p>Preservation of Subsidized Housing.</p> <p>a) For projects proposing to rehabilitate/preserve affordable housing with existing project-based rental assistance (i.e. Section 8 or RD rental assistance) the following is required:</p> <ol style="list-style-type: none"> 1) A copy of the rental assistance contract must be provided indicating the amount of assistance and number of rental units to be served/preserved. 2) A confirmation letter must be provided from HUD or RD insuring the rental assistance will remain with the rehabbed units once they are completed.
17	<p>Development Team Experience.</p> <p>Complete Attachment J "Development Team" and provide all required supporting documentation.</p>

18	<p>Capital Needs Assessment (Rehabilitation Projects).</p> <p>a) For rehabilitation projects, a Capital Needs Assessment (CNA) must be provided not older than 90 days of application. Items identified in the CNA must be addressed in the development budget.</p> <p>b) Items identified in the CNA must be addressed in the cost estimate (Attachment H).</p>
19	<p>Market Demand Analysis</p> <p>Provide a 3rd party market demand study not more than 6 months prior to application. Applicants must utilize the Market Demand Analysis provided on the Department’s website at: http://www.azhousing.gov/azcms/uploads/RENTAL%20APPLICATIONS/LIHTC/09%20QAP/2009_Market_Study_Guide.pdf</p>
20	<p>Tenant Selection Policies and Criteria</p> <p>a) An owner of NSP-assisted rental housing must adopt written tenant selection policies and criteria that:</p> <ul style="list-style-type: none"> • Are consistent with the purpose of providing housing for low-income families. • Reasonably reflect the Department’s program eligibility requirements and the owner’s ability to perform the obligations of the lease, including but not limited to: <ul style="list-style-type: none"> – Eligible tenants. – Tenant application procedures. – Tenant qualification process. • Provide for the selection of tenants from a written wait list in the chronological order of their application, insofar as is practical. • Give prompt written notification to any rejected applicant of the grounds for any rejection. • Projects are required to have an Affirmative Marketing plan. • Motion or resolution must be provided formally adopting the Tenant Selection Policies and Criteria from the governing body. <p>b) Provide a copy of the formal adoption of the Tenant Selection Policies and Criteria from the governing body of the proposed ownership entity in the form of a motion or resolution.</p> <p>c) Provide an acceptable tenant lease agreement which complies with the provisions of the AZ Residential Tenant Landlord Act, the Fair Housing Act, and the following requirements:</p> <ul style="list-style-type: none"> • Must be for at least one year, unless by mutual agreement between the tenant and the owner. The owner must provide evidence that a 12-month lease was offered but both parties agreed on a lesser term. • Leases must comply with the provisions of the AZ Residential Tenant Landlord Act and Fair Housing Act. • Lease agreements must be separate from any program agreements. • Lease agreements <i>must not contain</i> any of the following provisions: <ul style="list-style-type: none"> – Agreement to be sued. The tenant must not be required to agree to be sued, to admit guilt, or to a judgment in favor of the owner in a lawsuit brought in connection with the lease. – Treatment of property. The tenant must not be required to agree that the owner may seize or sell personal property of household members without notice to the tenant and a court decision on the rights of the parties. This provision does not apply to disposition of personal property left by a tenant who has vacated a property. – Excusing owner from responsibility. The tenant must not be required to agree not to hold the owner or owner’s agents legally responsible for any action or

	<p>failure to act, whether intentional or negligent.</p> <ul style="list-style-type: none"> - Waiver of notice. The tenant must not be required to agree that the owner may institute a lawsuit without notice to the tenant. - Waiver of legal proceedings. The tenant must not be required to agree that the owner may evict the tenant or household members without instituting a civil court proceeding in which the tenant has the opportunity to present a defense, or before a court decision on the rights of the parties. - Waiver of a jury trial. The tenant must not be required to agree to waive any right to a trial by jury. - Waiver of right to appeal court decision. The tenant must not be required to waive their right to appeal, or to otherwise challenge in court, a court decision in connection with the lease. - Tenant chargeable with cost of legal actions regardless of outcome. The tenant must not be required to agree to pay attorney’s fees or other legal costs even if the tenant wins in a court proceeding by the owner against the tenant. The tenant, however, may be obligated to pay costs if the tenant loses. - Owners may terminate tenancy or refuse to renew a lease only upon 30 days written notice with cause except as provided by Arizona Law.
21	<p>Affirmative Fair Housing Marketing Plan, Fair Housing Act Accessibility Checklist, and Management Plan</p> <ul style="list-style-type: none"> a) Applicants proposing to build 5 or more units- Complete Attachment F – HUD Form 935.2 “Affirmative Fair Housing Marketing Plan”. b) <u>Complete Attachment E “Fair Housing Act Accessibility Checklist.”</u> The Fair Housing Accessibility Checklist must be fully completed and signed by the project Architect. c) Provide a Management Plan, with the following components: <ul style="list-style-type: none"> • Financial Plan—Indicate how rents will be collected; and how the development’s financial operations will be managed. • Physical Management—Indicate how the physical plant will be managed by describing planned and preventative maintenance activities, work order system response, ongoing unit inspections, and maintenance of HQS standards. • Occupancy Management—Describe how the units will be advertised/marketed, the intake and application process including certification and documentation of eligibility, if and how a wait list will be maintained, how occupancy standards (i.e., house rules or standards of conduct) will be enforced, and how re-certification and turnover will be managed.
22	<p>Financial Statements of Owner/Developer</p> <ul style="list-style-type: none"> a) Applicants must provide <u>all</u> of the following information for the ownership entity and general partner /nonprofit organization: <ul style="list-style-type: none"> • Audited financial statements for the most recent two years • Unaudited statements for a completed fiscal year for which an audit is not yet available, and • Year-to-date unaudited statements for the current fiscal year b) For nonprofit organizations which have been newly formed in the past two years that do not have completed or audited financial statements, the following must be provided: <ul style="list-style-type: none"> • Current unaudited statement • A statement from the organization’s CPA or auditor and certification from the Board that the organization’s financial management system meets the standards of 24 CFR 84.21.

A	<p>Developer Certification Form. <u>All Applicants must Complete Attachment A “Developer Certification Form.”</u></p>
B	<p>Local Government Resolution. (Required of all local governmental applicants.) Applications from local governmental entities (cities, town, counties, and tribal governments) must provide a resolution from their governing body. See Attachment B for a sample. Include the actual resolution as Attachment B to the NSP Rental Application.</p>
C	<p>Fair Housing Act Accessibility Checklist. <u>Complete Attachment E “Fair Housing Act Accessibility Checklist.”</u> The Fair Housing Accessibility Checklist must be fully completed and signed by the project Architect.</p>
D	<p>Affirmative Fair Housing Marketing Plan. Applicants proposing to build 5 or more units- <u>Complete Attachment F – HUD Form 935.2 “Affirmative Fair Housing Marketing Plan.”</u></p>
E	<p>FEMA Floodplain Map. Provide a FEMA floodplain map detailing the site and flood zone as Attachment H.</p>
F	<p>Cost Estimate Provide <u>Attachment H “Cost Estimate”</u> completed by the contractor or architect. Attachment H must correspond with the CNA and Development Budget. Therefore, items identified in the CNA must be addressed in the cost estimate.</p>
G	<p>Project Description. <u>Complete Attachment I “Project Description”.</u></p>
H	<p>Development Team. Complete Attachment J “Development Team” and provide all required supporting documentation.</p>
	<p>Appendix A Since the NSP Income and Rent limits are subject to the HOME program requirements the charts attached at Appendix A are the HOME program charts utilized by the Department.</p>
	<p>Appendix B List of Public Housing Authorities</p>
	<p>Appendix C Tenant Income Certification (TIC) Form</p>
	<p>Appendix D HUD 221d3 Limit Chart</p>