

GUIDELINES FOR FUNDING (ACQUISITION AND MODERATE REHABILITATION)



RENTAL HOUSING REHABILITATION PROGRAM

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INTRODUCTION

The Lancaster County Rental Housing Rehabilitation Program (the Program) is available to provide financial assistance to owners of rental residential properties in Lancaster County to acquire and/or rehabilitate their properties. In exchange, property owners are required to rent to low- and moderate-income tenants for at least ten (10) years or the term of financial assistance.

The ultimate goal of the program is to assure that tenants are provided with decent, safe and sanitary living environments at an affordable rent.

PROJECT ELIGIBILITY

In order to qualify for assistance through the Rental Housing Rehabilitation Program:

- The property to be rehabilitated must be located in Lancaster County, outside the City of Lancaster.
- The property to be rehabilitated must be a permanent structure available for rent on a year-round basis.
- Mixed-use properties (commercial and residential) are eligible for assistance as long as the commercial use is compatible with the residential use. Assistance is only provided for the rehabilitation of the residential portions of the property.
- Properties where the owner occupies one of the units are eligible for assistance as long as the assistance is only provided for the rehabilitation of the rental units.
- Mixed-income properties (renting to tenants with incomes in excess of 80% Median Family Income (MFI) as well as tenants that are under 80% MFI are eligible as long as the assistance through this program is targeted to those units that are income eligible.
- Conversion of a vacant commercial building into rental housing under this program is permitted. Mobile homes are not eligible for assistance through the Program. Conversion of existing single-family homes into two or more units is not eligible for assistance through the Program.
- The property to be rehabilitated must have major building systems that are in need of replacement or that fail to meet applicable building codes and standards of the municipality in which they are located. The average rehabilitation cost must be at least \$5,000 per residential unit.

- The property must have seven (7) or fewer units. Properties with four (4) or fewer units can be processed more quickly than those with more units due to federal environmental review requirements. The minimum number of units to be rehabilitated through the program, per property, is two (2).
- If the property to be rehabilitated is occupied at the time of application submission, at least 51% of the tenants must be considered to be low- or moderate-income as determined annually by the U.S. Department of Housing and Urban Development (HUD) and rents must be equal to or less than Fair Market Rents (FMR) as determined annually by HUD. All FMRs includes utilities paid by tenant per Utility Allowance schedules in effect.
- The applicant must be the owner of record of the property to be rehabilitated. Or, the applicant must have the property under control through a valid Agreement of Sale (the applicant must take ownership of the property prior to the rehabilitation loan settlement). Financing is not available for properties being purchased through a Lease/Purchase Agreement.
- All relevant taxes for the property must be current.
- The owner of record may be an individual or individuals, corporation, partnership or nonprofit organization. The owner of record, including the principals of a corporation, may not have a history of code violations in any municipality in Lancaster County.
- In order to comply with the Federal Uniform Relocation Act, notifications concerning the rehabilitation of rental units and the possibility of relocation must be sent to all tenants in the property considered for rehabilitation. It is not the intent of the Program to require tenants to relocate (displaced to another dwelling unit during the rehabilitation of their unit) and that such event may result in the disqualification of the unit from the Program. However, if all parties involved agree that displacement is necessary, all associated costs shall be in accordance with the Federal Uniform Relocation Act and shall be the sole responsibility of the property owner. NOTE: Property owners cannot elect to not renew a lease or evict a resident due to upcoming rehabilitation work, this would constitute displacement and the tenants would be entitled to relocation benefits.
- An application fee of \$200 payable to the Redevelopment Authority of the County of Lancaster will be required.

ELIGIBLE REHABILITATION EXPENDITURES

Below are eligible rehabilitation expenditures through the Program:

- Improvements to correct violations of applicable building and housing codes and ordinances;
- Replacement or updating of building systems that are in danger of failing;
- Lead-based paint remediation (project must comply with HUD's Lead Based Paint rule at 24 CFR 570.608 and 24 CFR Part 35 and tenants must be provided with notifications regarding lead based paint hazards.) All lead based paint remediation work must be completed by Lead certified contractors;
- Energy efficiency;
- Environmental hazards including radon remediation or asbestos abatement;
- Removal of architectural barriers to provide accessibility for persons with disabilities;
- Costs for temporary relocation of tenants;
- Costs of architectural and engineering services; and
- Improvements to enhance the marketability of rehabilitated units.

In projects proposing the rehabilitation of mixed-use properties, only the costs of improvements to the residential portions of the property are eligible costs under this program. The costs of improvements to common areas/systems (roof, façade, etc.) are eligible costs on a pro-rata basis determined by the proportion of the building devoted to residential usage.

INELIGIBLE EXPENDITURES

New construction of rental units is ineligible for this program.

FINANCIAL ASSISTANCE

Financial assistance will be provided for up to 60% of the costs of eligible rehabilitation expenditures, as follows:

- The total subsidy amount provided by the Redevelopment Authority may not exceed the lesser of 60% of the costs of eligible acquisition and rehabilitation expenditures or \$40,000 per unit.
- Financial assistance will be provided as a 1% interest loan secured by a promissory note and mortgage.
- Loans will be issued at ten (10) or fifteen (15) year terms. During the initial five (5) years of the loan term, interest only payments shall be made annually on December 31, of each year. Beginning the first day of the sixth (6th) year, fifty percent (50%) of the outstanding principal balance shall be forgiven with the remaining balance amortized at the rate of one percent (1%) per year over a term of the remaining loan, either five (5) or ten (10) years.
- Payments of principal and interest shall be made annually on December 31 of each year.
- The total principal balance with accrued and unpaid interest, if any, shall be due and payable upon the earlier of fifteen years from the Commencement Date, or the sale of real property prior to maturity.
- All loans will be negotiated with the property owner and approved by the Lancaster County Redevelopment Authority Loan Committee. Repayment will be due in full upon sale, and transfer of the property to an independent third party. If the rehabilitated property is sold prior to the expiration of the term of the agreement, 100% of the outstanding monies are due and payable to the Redevelopment Authority in accordance with the lien documents and covenants.
- A minimum of 40% of the rehabilitation costs shall be financed through conventional means or through cash equity contributions from the property owner.
- The property owner shall contribute at least 10% of the total project cost to the project in either cash or cash equivalent (property equity).
- The property owner's contribution described above shall be paid first after the Notice to Proceed is issued. All pay requests shall be submitted prior to the disbursement of any County funds.
- The property owner shall insure the Redevelopment Authority's interests with a property and liability insurance policy on the property for the full term of affordability. The Redevelopment Authority shall be included as an additional insured. Written evidence of such insurance shall be submitted to the Redevelopment Authority for approval prior to closing.

- The Redevelopment Authority will participate with the conventional lender in reviewing the applicant's credit worthiness. To avoid duplicating services and to reduce costs to the applicant, the Redevelopment Authority requests that any financial statements, credit reports, appraisals and other documents used by the conventional lender in making their loan determination be shared with the Authority. The Redevelopment Authority reserves the right to request additional information beyond that required by the conventional lender if necessary to facilitate a proper review of the loan application.

PROCEDURES

The following outlines the roles and responsibilities of the applicant and the Redevelopment Authority in the application processing, construction management and leasing stages of the project.

Application and Funding Process

The Redevelopment Authority provides an explanation of program requirements to the property owner and makes a preliminary determination of eligibility. If it appears that the project meets the eligibility requirements of the program, the property owner will submit a Loan Application to the Redevelopment Authority along with the required \$200 application fee and will notify the tenants residing in the property of the proposed rehabilitation (if applicable).

The property owner and the Redevelopment Authority will inspect the property to determine the scope of work to be included in the project. The Redevelopment Authority will prepare a report for the property owner itemizing the work that must be completed to meet the standards of the Redevelopment Authority (referred to as the Inspection Report). At the completion of the rehabilitation, the property must meet all aspects of the International Property Maintenance Code or the Building Code of the municipality in which the property is located, whichever is more stringent.

During the time that the work write-up is being prepared, the staff of the Redevelopment Authority will begin completing the environmental review process. Projects containing four or fewer units are exempt from the environmental review.

At the completion of the environmental review, the property owner will select a contractor to prepare work specifications and a cost estimate to complete the rehabilitation. The Redevelopment Authority will review the cost estimate, verify that the contractor has a valid Pennsylvania contractor's license and proof of insurance and review the work specifications to insure compliance with the Inspection Report.

Upon approval of the work specifications and cost estimate, the Redevelopment Authority will issue a loan commitment specifying the amount of the loan and the terms and conditions of the loan.

The property owner will make the necessary arrangements to obtain the balance of funds needed for the project. The Redevelopment Authority will participate with the owner's lender in the loan underwriting process and will schedule its loan settlement in conjunction with the lender's loan settlement.

Construction Management

The property owner will be responsible for coordinating all construction activities and obtaining required building permits, inspection certificates and certificates of occupancy.

The Redevelopment Authority will monitor construction activity on a regular basis to assure quality and compliance with the work specifications. The Redevelopment Authority will notify the property owner of any problems encountered. The property owner will notify the Redevelopment Authority and obtain approval from the Redevelopment Authority for any changes in the scope of the work and for requests for payment submitted by the contractor.

Leasing of Completed Units

Tenants occupying the property at the time the property owner submits a Loan Application to the Redevelopment Authority shall be given the first opportunity to lease a rehabilitated unit in the project.

The property owner will notify the Redevelopment Authority at least 60 days prior to the completion of the rehabilitation of any units that will be vacant.

Property owners have the option of leasing completed units to households with a Section 8 Housing Choice Voucher which will remove the need to collect any further income eligibility. If the tenant lacks a Section 8 Housing Choice Voucher, the Redevelopment Authority shall perform the income verification. The landlord must assist the Redevelopment Authority with the collection of documentation verifying the tenant income to determine eligibility as a low- or moderate-income tenant. Documentation should include most recent income tax filing, recent pay stubs covering the previous 30 days, or benefit statements from Social Security or other similar entity.

After Rehabilitation

The property owner will be required to meet the terms and conditions of the loan documents for at least ten (10) years unless the property is sold prior to the ten-year period. The Redevelopment Authority reserves the right to periodically inspect the rehabilitated units during the term of the loan for compliance with the loan documents. Once the loan has been satisfied the property owner will be released from further obligation to the Redevelopment Authority.

Other Terms and Conditions

Property owners must also comply with the following federal requirements:

1. Conflict of Interest - Property owners must comply with the conflict of interest provisions at 24 CFR 570.611
2. Non-discrimination - No property owner may discriminate on the basis of race, color, religion, sex, national origin, familial status, age, disability, sexual orientation or gender identity in accordance with 24 CFR 570.602.
3. Minority and Women Owned Businesses - Property owners are encouraged to solicit participation of contractors with disabilities, and female or minority owned business (certified by the Commonwealth of Pennsylvania.)
4. Historic Preservation Requirements- All properties over 50 years old must comply with the Section 1-6 Programmatic Agreement for the preservation of historical elements of all properties participating in the program.
5. Lead Based Paint Requirements - Property owners must comply with all requirements related to lead based paint at 24 CFR 570.608.
6. Architectural Barriers Act and the Americans with Disabilities Act - Property owners must comply with the requirements for accessibility at 24 CFR 570.614
7. Debarred or Suspended Contractors- Property owners may not use contractors that are on the List of Parties Excluded from Federal Procurement and Non-Procurement Programs. Contractors that are on that list cannot be awarded contracts funded with federal dollars. The County must check the federal website, Excluded Parties List System at <https://www.sam.gov> to review the current list and ensure that contracts are not awarded to debarred or suspended contractors.
8. Affirmative Marketing Plan. - Property owners must rental all vacant units in accordance with the County's Affirmative Marketing Plan.