

Minnesota Small Cities Development Program Rental Housing Rehabilitation Guide



May 2023

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Preface

This Rental Housing Rehabilitation Guide was developed to assist in the implementation and management of Small Cities Development Program (SCDP) rental housing rehabilitation projects.

Please refer to Rental Rehabilitation Sample Forms document for electronic “sample” forms. Modify and customize these documents to better suit your project needs.

The materials are presented in a manner that will assist program administrators in understanding the process. The order of completing tasks may vary among implementing entities.

This guide is not intended to cover every program requirement or possible situation that may occur while managing a rental housing rehabilitation program. If you have questions, please contact your SCDP Representative.

Environmental Review

An environmental review is a mandatory procedure for SCDP programs which receive its funding through the Community Development Block Grant (CDBG) funding. The completion of an environmental review is the first step in the grant implementation process once grant funds have been awarded. All grantees must conduct an environmental review for their grants before SCDP can release funds. If a funded activity already had an environmental review completed for another funding source, or the same activity from a previous year, that information can be used in the SCDP environmental review. However, certain steps must be taken independent of the previous review, to satisfy U.S. Department of Housing and Urban Development (HUD) requirements.

The Environmental Review process examines the possible effects that a project may have on the human and natural environment surrounding a specific location and ensures compliance with the National Environmental Protection Act of 1969 (NEPA) and its related laws.

To meet these requirements, eligible communities receiving SCDP funds must complete the Environmental Review process and submit a comprehensive Environmental Review Record (ERR) before the Minnesota Department of Employment and Economic Development (DEED) Small Cities Unit can commit any funds to a project. While some tasks can be delegated to nonprofit organizations or private entities, the grantee community (city or county) assumes legal responsibility for the completion, accuracy, and timeliness of the ERR.

The process and requirements for an environmental review depends on the size, location, and activities involved in a particular project. In general, projects with greater potential for environmental impact require a higher level of review. The city or county receiving SCDP funds must determine the appropriate level of review for their programs and submit the corresponding documentation to DEED Small Cities unit for review prior to posting or publishing for public comment.

When administering a housing rehabilitation program, a community may not have specific locations selected for its SCDP funded activities. To help facilitate this type of program, the U.S. Department of Housing and Urban Development (HUD) allows grantee communities to conduct tiered environmental reviews. Tiered environmental reviews divide the environmental review process into two parts; Tier 1 or Broad Level Tiered Environmental review which examines the general environmental conditions and considerations within a targeted area, while a Tier 2 (i.e., site specific) Environmental Review provides detailed information for a specific location. A tiered environmental review is normally used for rehabilitation activities that are Categorically Excluded Subject to Section [58.5](#) such as Single Family Rental Housing rehabilitation.

DEED Small Cities Unit uses this tiered environmental review approach to streamline the SCDP allocation process. After the Broad Level Tiered Environmental Review has passed the objection period, the DEED Small Cities Unit will issue an “Authority to Use Grant Funds” document, the fully executed SCDP Grant Contract Agreement, disbursement request calendar, and a disbursement request form. After the grantee identifies specific property addresses that will receive funding, Tier 2 Environmental Reviews will be completed for each property.

Rehabilitation projects should not proceed until the Tier 2 Environmental Reviews are completed.

The following provides additional details on the process and requirements for Tier 1 or Broad-Level Tiered Environmental review and Tier 2 environmental reviews.

A Tier 1 review or Broad-Level Tiered Environmental review begins by defining the boundaries of the target area that will encompass all subsequent projects included in the review. Depending on the level of review, the grantee must then provide the following for each compliance area:

1. Broad-Level Tiered Environmental Review addressing the entire target area with written standards describing how the grantee will demonstrate compliance with requirements that cannot be resolved through the Tier 1 review.
2. Certificate of Categorical Exclusion for HUD funded projects.
3. All partner worksheets and supporting documents.

All environmental compliance requirements that are resolved through the Broad-Level Tiered Environmental review, meaning the grantee determined no further review or no impact or requirements for mitigation are needed, are excluded from the Tier 2 review process.

As mentioned, when specific sites are selected for program activities, grantees are then required to complete a Tier 2 review that addresses those compliance areas that were not resolved in the Broad-Level Tiered Environmental review. This site-specific environmental review documents if all compliance standards are met or may need mitigation measures prior to the grantee proceeding with the project.

Grants that will be addressing one known location may complete a Categorical Exclusion Subject to Section 58.5 review. Contact your SCDP Representative to determine if this level of review may be applicable.

Historical Review

- A major component of the Tier 2 process is to conduct a historical review of the properties that you will be rehabilitating.
- If a property is at least 45 years old, you will need to send the State of Historical Preservation Office (SHPO) a photograph of the property, year the property was built, any known history of the building (example: did a famous architect design the home?) or any other information pertinent to your area, and the rehabilitation activities proposed for the home.
- SHPO will perform an evaluation of the property to assess if the home has historic properties. SHPO clearance will be needed to secure a valid Tier 2 review. Please refer to the Rental Rehabilitation Sample Forms document for a sample consultation request.

Reminder

You cannot begin work on properties until you have received clearance from SHPO as well as completion of the Tier 2 Environmental Review. If your service area is not in a historic district and properties are not historically significant, SHPO has a turn-around time of about thirty (30) days after you send in property photographs and relevant information. If your service area is in a historic district or if a property has historic significance, SHPO review may take longer.

As mentioned above, grantees must complete the entire environmental review process and submit any additional resources or documentation DEED Small Cities unit may request before any funds can be released. For more information on the environmental review process, please review [HUD Environmental Training Webinar for New Grantees](#) on SCDP's website under the Forms tab.

Developing Policies and Procedures

Planning strategically for when an application gets approved for funding and when implementation begins is critical for a smooth start. The first step is to establish a team to create a policy and procedure manual to use as reference in the administration of your program. Typically, staff that will have a role in working with the program delivery will have a role in this process. The local policies and procedures will be used as guidance for daily decisions until close out.

Much of the information in this section will outline DEED Small Cities Unit's policy and guidance for project implementation. Elements of policies and procedures document should include the following.

Reminder

If the author of the successful SCDP application does not have a role in administering your program, read the awarded application very carefully before creating a policy and procedure manual. The policy presented in the application will be what DEED Small Cities unit expects to be in the program policy and procedure manual.

Sample Policies and Procedures

Sample policies and procedures are provided separately. Some elements are listed below.

Fair Housing, Equal Opportunity and Affirmative Action

Begin your policies with a clear statement of the community's position about nondiscrimination. Indicate that no one shall be denied assistance based upon race, color, creed, religion, national origin, sex, marital status, reliance on public assistance, age, disability, or familial status.

Security deposits should be fair and not exceed one month's rent during and after rehabilitation. The amount of deposit should be less than one month's rent for those tenant households with incomes at 30% or less of the county median.

Income and Rent Limits

Rental housing rehabilitation projects must primarily benefit low-to-moderate income (LMI) households. LMI households are households earning 80% or less of the county median income, adjusted by household member size. Household members do not need to have familial ties in order to be counted as part of the household. The income limit for each county can be found on the HUD [Income Limits](#) website. Income limits are usually updated annually in April. Documentation should be collected to determine a household is a LMI household. It is vital to document households are LMI as this is a key component ensuring a SCDP rental housing rehabilitation program meets the LMI national object.

At least 51% of the units for any multi-family projects (building with three or more residential rental units) must be occupied by low-to-moderate income households (LMI) after the rehabilitation is complete. Single family rental projects must contain LMI households. For duplexes, at least one housing unit in a duplex building must

house a LMI household. If the duplex owner resides in one of the housing units and the unit will be addressed by the project, then both the owner and tenant in the other unit must be LMI.

For existing tenants, a Tenant Assistance Record/Survey may be used that will ask tenants to provide their household incomes to assist in establishing the incomes, rents and utility costs are all compliant with current income limits and rent and utility costs. A sample Tenant Survey can be found in the Rental Rehabilitation Sample Forms.

While a Tenant Assistance Record/Survey may be used for existing tenants, it is important to know that if at any time HUD or DEED Small Cities Unit requests a tenant's income to be verified it must be verified through income verification methods. The use of a Tenant Assistance Record/Survey is a self-certification by the tenant on their income and is not viewed as the strongest indication of income eligibility. Documentation, such as a spreadsheet, should be maintained during the project that shows the tenant income. The spreadsheet should also contain the rent paid by each tenant before and after rehabilitation work is completed.

Tenants who are receiving assistance from a HUD program, such as a Section 8 voucher program, may provide a letter from the program management agency stating they are participating in the program. The letter must identify the tenant's income and establish there is documentation to support how the income was calculated. Self-certification from the tenant or third party verification documentation can be used to determine a household is LMI.

Income verification of tenants using third party verifications would be required for:

- Tenant households who moved in while the rehabilitation was underway.
- Tenant households who were not renting prior to the rehabilitation and moved in after the rehabilitation was completed.

In both cases, tenants do not need to be recertified for income after the initial verification has taken place. Please consult the SCDP Policies Regarding Income Verification section for guidance on procedures for conducting third party income verifications.

Where management companies are involved with verifying incomes for tenants, DEED Small Cities Unit requires that these management companies use the same income verification methodology as outlined in the SCDP Policies Regarding Income Verification section.

Keep in mind that vacant units are still counted when determining 51% of units house LMI households. Describe how vacant units will be taken into account as these units may impact the ability of the project to meet income and rent standards.

In addition to rental units housing LMI households, designed LMI housing units must offer affordable rents for the term of the loan. The affordable rental rate that will apply will correspond with the grantee's SCDP application. Only one of the following potential rates would be designated for the grant:

1. Fair market rents as defined by HUD.

- a. This is the most common method for a SCDP project. These rent thresholds include the monthly net amount of rent and utility costs that the tenant household must pay. The rents are assigned by the number of bedrooms.
2. Section 8 voucher “payment standard” for the number of bedrooms in each unit.
3. A rent that will be affordable to households at 60% of area median income, adjusted for household size.
 - a. This option only applies to projects in partnership with the Minnesota Housing Finance Agency (MHFA).

SCDP Policies Regarding Income Verifications

DEED Small Cities Unit has adopted a policy that income, for purposes of eligibility determinations, will be projected ahead over the next 12 months. While it is useful to look at income for the past 12 months as an indicator of what the applicant will probably receive, your verification process must ask about anticipated changes to the applicant’s income.

Furthermore, no deductions are taken from the anticipated gross income for the eligibility determination. It includes gross income from all members of the household over the age of 18.

For income verification, SCDP requires an independent third party written statement sent to your agency, not to the applicant. If the employer is unwilling or unable to produce this statement, document in the project file. You will then request and review copies of the last two consecutive pay checks or paystubs from the applicant to explain why the next twelve months will be the same or different. The last resort is obtaining copies of the last two years’ tax returns. This method would also be used for self-employed individuals as well.

Social Security income should be verified through the award letter to the individual. Copies of the award letter can be obtained without a great deal of effort or wait time.

It is important to make the verification process move as quickly as possible while also assuring that it is as “businesslike” as possible.

Annual Income

Per [24 CFR Part 5.609](#) as amended:

(a) Annual income means all amounts, monetary or not, which:

- (1) Go to, or on behalf of, the family head or spouse (even if temporarily absent) or to any other family member; or
- (2) Are anticipated to be received from a source outside the family during the 12- month period following application date.
- (3) Which are not specifically excluded in paragraph (c) of this section.
- (4) Annual income also means amounts derived (during the 12-month period) from assets to which any member of the family has access.

(b) Annual income includes, but is not limited to:

- (1) The full amount, before any payroll deductions, of wages and salaries, overtime pay, commissions, fees, tips and bonuses, and other compensation for personal services;
- (2) The net income from the operation of a business or profession. Expenditures for business expansion or amortization of capital indebtedness shall not be used as deductions in determining net income. An allowance for depreciation of assets used in a business or profession may be deducted, based on straight line depreciation, as provided in Internal Revenue Service regulations. Any withdrawal of cash or assets from the operation of a business or profession will be included in income, except to the extent the withdrawal is reimbursement of cash or assets invested in the operation by the family;
- (3) Interest, dividends, and other net income of any kind from real or personal property. Expenditures for amortization of capital indebtedness shall not be used as deductions in determining net income. An allowance for depreciation is permitted only as authorized in paragraph (b)(2) of this section. Any withdrawal of cash or assets from an investment will be included in income, except to the extent the withdrawal is reimbursement of cash or assets invested by the family.
- (4) The full amount of periodic amounts received from Social Security, annuities, insurance policies, retirement funds, pensions, disability or death benefits, and other similar types of periodic receipts, including a lump sum amount or prospective monthly amounts for the delayed start of a periodic amount (except as provided in paragraph (c)(14) of this section);
- (5) Payments in lieu of earnings, such as unemployment and disability compensation, worker's compensation and severance pay (except as provided in paragraph (c)(3) of this section);
- (6) Welfare assistance. If the welfare assistance payment includes an amount specifically designated for shelter and utilities that is subject to adjustment by the welfare assistance agency in accordance with the actual cost of shelter and utilities, the amount of welfare assistance income to be included as income shall consist of:
 - (i) The amount of the allowance or grant exclusive of the amount specifically designated for shelter or utilities; plus
 - (ii) The maximum amount that the welfare assistance agency could in fact allow the family for shelter and utilities. If the family's welfare assistance is ratably reduced from the standard of need by applying a percentage, the amount calculated under this paragraph (b)(6)(ii) shall be the amount resulting from one application of the percentage;
- (7) Periodic and determinable allowances, such as alimony and child support payments, and regular contributions or gifts received from organizations or from persons not residing in the dwelling; Child support calculation should be based on what the applicant is actually receiving versus what the court has judged.
- (8) All regular pay, special pay and allowances of a member of the Armed Forces (except as provided in paragraph (c)(7) of this section).

(c) Annual income does not include the following:

- (1) Income from employment of children (including foster children) under the age of 18 years;
- (2) Payments received for the care of foster children or foster adults (usually persons with disabilities, unrelated to the tenant family, who are unable to live alone);

- (3) Lump-sum additions to family assets, such as inheritances, insurance payments (including payments under health and accident insurance and worker's compensation), capital gains and settlement for personal or property losses (except as provided in paragraph (b)(5) of this section);
- (4) Amounts received by the family that are specifically for, or in reimbursement of, the cost of medical expenses for any family member;
- (5) Income of a live-in aide, as defined in Sec. 5.403;
- (6) The full amount of student financial assistance paid directly to the student or to the educational institution;
- (7) The special pay to a family member serving in the Armed Forces who is exposed to hostile fire;
- (8)
 - (i) Amounts received under training programs funded by HUD;
 - (ii) Amounts received by a person with a disability that are disregarded for a limited time for purposes of Supplemental Security Income eligibility and benefits because they are set aside for use under a Plan to Attain Self-Sufficiency (PASS);
 - (iii) Amounts received by a participant in other publicly assisted programs which are specifically for or in re-imbursement of out-of-pocket expenses incurred (special equipment, clothing, transportation, child care, etc.) and which are made solely to allow participation in a specific program;
 - (iv) Amounts received under a resident service stipend. A resident service stipend is a modest amount (not to exceed \$200 per month) received by a resident for performing a service for the PHA or owner, on a part-time basis, that enhances the quality of life in the development. Such services may include, but are not limited to, fire patrol, hall monitoring, lawn maintenance, resident initiatives coordination, and serving as a member of the PHA's governing board. No resident may receive more than one such stipend during the same period of time;
 - (v) Incremental earnings and benefits resulting to any family member from participation in qualifying State or local employment training programs (including training programs not affiliated with a local government) and training of a family member as resident management staff. Amounts excluded by this provision must be received under employment training programs with clearly defined goals and objectives, and are excluded only for the period during which the family member participates in the employment training program;
- (9) Temporary, nonrecurring or sporadic income (including gifts);
- (10) Reparation payments paid by a foreign government pursuant to claims filed under the laws of that government by persons who were persecuted during the Nazi era;
- (11) Earnings in excess of \$480 for each full-time student 18 years old or older (excluding the head of household and spouse);
- (12) Adoption assistance payments in excess of \$480 per adopted child;
- (13) [Reserved]
- (14) Deferred periodic amounts from supplemental security income and social security benefits that are received in a lump sum amount or in prospective monthly amounts.

- (15) Amounts received by the family in the form of refunds or rebates under State or local law for property taxes paid on the dwelling unit;
- (16) Amounts paid by a State agency to a family with a member who has a developmental disability and is living at home to offset the cost of services and equipment needed to keep the developmentally disabled family member at home; or
- (17) Amounts specifically excluded by any other Federal statute from consideration as income for purposes of determining eligibility or benefits under a category of assistance programs that includes assistance under any program to which the exclusions set forth in 24 CFR 5.609(c) apply. A notice will be published in the Federal Register and distributed to PHAs and housing owners identifying the benefits that qualify for this exclusion. Updates will be published and distributed when necessary.

Eligible Property Types

The following are a list of eligible property types that may be assisted with SCDP funding. The property types would be determined based on the grantee's awarded SCDP application. Refer to the *Property Eligibility* section of this guide for additional information needed to ensure a property may receive assistance.

- Single Family – stick built, single-family house, double-wide manufactured home on a foundation.
- Mixed-use – building with a residential rental unit(s) attached to a commercial/retail space.
 - A residential unit that houses the commercial building/property owner(s) does not qualify as a rental unit.
- Duplex – stick built building that contains two housing units.
- Multi-Family – building containing three (3) or more residential rental units under one roof, or obsolete space repurposed into 3 or more separate rental units.

Ineligible Property Types

- Properties owned on a contract for deed
- Properties with a life estate situation
- Properties within a 100-year floodplain
- Single-wide mobile homes even if on a permanent foundation

The only exception could be if properties were part of a recovery effort from a Presidentially declared disaster.

Property Eligibility

The policies and procedures should outline eligibility criteria. Eligibility criteria should include the following:

- Proof of ownership such as a Warranty Deed, Quit Claim Deed, etc.
- No displacement or economic displacement (discussed under Displacement Section) of current tenants as a result of the rehabilitation can occur. If displacement may occur, the DEED Small Cities Unit should be notified
- The property must be suitable for rehabilitation.
 - Suitable for rehabilitation is defined as the current property condition is in such a state where the proposed rehabilitation work would allow for Housing Quality Standards to be met.

- Has the property received previous assistance from a SCDP program, weatherization program, or another program?
 - If so, what improvements were done under any of those programs and are there any limitations from past programs?
 - A property with an active SCDP loan cannot receive additional SCDP assistance until the existing loan expires or has been satisfied.
 - Properties with an expired SCDP loan or who have satisfied the loan may participate in the program. Documentation must be retained in the project file to show the previous loan has expired or been satisfied.
- That 51% or more of tenant households must meet the definition of a LMI household and affordable rents (including utility allowances).
- Duplexes must have at least one tenant household that is LMI.
 - If the property owner lives in one of the units, both the property owner and the tenant will need to be documented as LMI households.
- The household occupying or moving into a single family rental unit must be LMI.
- A property owner lowering rent in order for a non-eligible property to become eligible is allowed as long as the property owner acknowledges and agrees to rent remaining affordable for the term of the loan.

Property Standards

The policies and procedures should describe the specific standards that will be used in the program to rehabilitate properties to a decent, safe and sanitary level. At a minimum, all properties must meet HUD's Housing Quality Standards (HQS) property standards after rehabilitation.

DEED Small Cities Unit recommends having a "Walk Away" policy where the project will not continue when it is determined that the property is not suitable for rehabilitation, the property is in an unkempt status where the health and safety of workers and program staff is compromised, or the property owner and/or tenants are not willing to accept standard practices and policies of the program. A sample "Walk Away Policy" can be found in the Rental Rehabilitation Sample Forms.

Eligible and Ineligible Improvements

Policies should clearly indicate what improvements are eligible and provide examples of what improvements are not eligible. All improvements should be consistent with the community's rehabilitation standards. Describe the specific standards that will be used in the program. At a minimum, all properties must meet HUD's Housing Quality Standards (HQS) after rehabilitation.

Eligible improvements include, but are not limited to:

- Physically attached to the building and be permanent in nature
- Structural improvements including, windows, interior walls, exterior and interior doors, substandard floors, stairs
- Address documented health and safety concerns
- Zero entrance showers with seat and grab bars for accessibility Improvements

- Weatherization and increased energy-efficiency
- Improvements of aged and/or failing heating, cooling, plumbing, or electrical systems
- Exterior painting or siding, as necessary
- Hard-wired smoke and carbon monoxide detectors
- For multi-family buildings with four or more residential units with substantial rehabilitation, installation of broadband infrastructure to the building, such as cables, fiber optics, wiring or other permanent infrastructure that is capable to providing access to internet connections to individual housing units

For properties with common or shared areas the costs for rehabilitation must come out of the per-unit funding identified in the SCDP Application. Eligible improvements of shared areas would include, but not be limited to:

- Privately-owned parking lots and sidewalks utilized by the tenants
- Necessary rehabilitation work found in foyers, hallways, laundry, recreation, and community rooms
- Fencing only for security or safety reasons
- Roof or exterior wall repair or replacement
- Foundations
- Landscaping only for restoration after basement foundation work, to divert storm water from the foundation, or any ground identified in a lead-based paint hazard risk assessment

Ineligible improvements include, but are not limited to, the following:

- Remodeling. The term remodeling is viewed as altering the structure of the building.
 - Remodeling would be allowed to address a documented accessibility issue. In this case, funds can only be utilized towards remodeling costs that are correcting the accessibility condition.
- Steel roof if existing roof is of non-steel (i.e., asphalt shingle) material
 - SCDP funds can pay up to the cost of a shingle roof with the homeowner paying the cost difference to install a steel roof.
- Installing pitched roofs over existing roofing systems is not allowed.
 - If improvement is necessary, consult your respective SCDP Representative.
- Fireplaces, wood stoves or installing new central air conditioning
- Decks or patios, unless necessary to address documented health and safety concerns
- Floor coverings, unless to correct documented health and safety concerns
- Appliances, window treatments and decorative work
- Walk in bathtubs
- Kitchen cabinets and countertops, unless to address inadequate or unsanitary food storage or preparation issues, or to make cabinets and countertops meet accessibility standards for units designated to meet accessibility standards
- Demolition of any part of the structure (other than accessibility) or other structures on the property
- Room additions
- Any work on detached buildings not used by tenants such as maintenance sheds

Ineligible common or shared area improvements include, but not be limited to:

- Rental office space

- Appliances such as laundry machines
- Landscaping for beautification, installation of gazebos or exterior recreational equipment

Selection of Materials and Colors

The homeowner will select colors, style, types, brands, and pattern of many of the materials used in the rehabilitation that fits the colors and styles of the neighborhood. Final decisions regarding judgment calls on what fits the neighborhood will be made collectively among the community, administrator and homeowner. The policies should indicate how selections will fit into the neighborhood and material costs and types that will be deemed reasonable by the program. Product types range from “economy”, “standard” and “premium”. SCDP requires only “**standard**” items to be used in rehabilitation projects.

Rehabilitation Standards

DEED Small Cities unit requires that every CDBG funded rehabilitation program have written rehabilitation standards. Include your agency’s standards as well as any local zoning ordinances in the program’s policies and procedures.

There must be a written policy regarding what is feasible and unfeasible for rehabilitation (Suitable for Rehabilitation).

Lead-based Paint Hazard Reduction

Policies should indicate steps involved in complying with HUD lead-based paint hazard reduction requirements including lead hazard assessments/inspections for buildings built prior to 1978, required notifications, relocation, trained contractors, and clearances. Please refer to the SCDP A-Z guide on SCDP’s website for the most current information and forms regarding the SCDP lead policies and processes.

Financial Assistance Terms

Describe the terms and conditions of deferred loan and/or installment loan. The maximum SCDP assistance for rental housing rehabilitation activities is 70% of project costs. The 70% must also be within the following SCDP per unit maximums.

- Single family rental: \$25,000 per home
- Duplexes: \$12,500 per unit (total of \$25,000 for each property)
- Mixed-use: \$12,500 per unit
- Multi-family: \$12,500 per unit or more based on a case by case basis approved by DEED Small Cities Unit

The financing package should be clearly described. If the program may leverage other sources, describe the funding source type and term.

The grantee must design their own financing package. Listed below is an example of a loan term:

- 60% of the project costs will be in the form of an SCDP deferred loan that will be forgiven after the end of five years if the current property owner does not sell the property during the five year period.

- 10% of the project costs will be in the form of an SCDP installment loan with an interest rate of 1% and will be repaid over the five-year period.
 - Please note the 1% interest rate used here is for example purposes only. Grantees and grant administrators determine the rate to use. The rate should be marketable for the targeted households.
- 30% of the project will be the responsibility of the property owner and the owner will supply those funds as owner escrow or other funding sources.

Ensure that the terms for SCDP deferred loans, SCDP installment loans (if applicable), and length of the term(s) are the same as presented in the SCDP Application. This becomes especially important if the person who wrote the SCDP Application is someone other than the person creating the policies and procedures. The financing presented in the SCDP Application, including the use of other funds, is what DEED Small Cities Unit will expect to be carried out when monitoring of the grant is conducted.

Include a provision that no SCDP loan is assumable to another buyer before the loan term expires. In addition, no other funding source should be included in the SCDP Repayment Agreement.

Marketing

Describe strategies the grantee will initiate to ensure that all citizens learn about the program and have an opportunity to participate. Describe outreach efforts to engage customers and enlist contractors.

Minimum outreach efforts could include:

- Fair housing logo on all marketing materials.
- Promoting the program through various forms of media.
- Direct mailing to residents.
- Outreach to Section 3 Contractors.

Applicant Selection Process

The grantee community, with assistance from the grant administrating agency, has the discretion to create the applicant selection process. This process should not discriminate against any eligible property owners. The following is some information that may assist in creating the selection process.

- Most communities use a first come, first served method for selection.
- Applicants will demonstrate that they understand that 51% or more of the units *must* be rented to LMI households at fair market rents or similar, and that no displacement of present tenants will occur.
- As soon as a usable application is received from a property owner, General Information Notices will need to be provided to all tenants (including those who may or may are not be LMI). Sample General Information Notices are available in the Rental Rehabilitation Sample Forms.
- Tenant Assistance Records/Survey should be collected after a completed application has been received. The surveys will verify, based on tenant self-certification, if the property meets LMI requirements.

Applications can be approved if the following conditions are met and document in the project file:

- 51% or more of the units contain LMI tenant households.

- The proposed after rehabilitation rents plus utility allowances are within fair market rents (or other selected affordable method).
 - Rent costs are based on net contribution from the tenant household. If a tenant household is receiving rental assistance, their net payment after the assistance is factored in will be the determining figure for rent and utility costs.
- The review of tenant surveys and proposed rents do not indicate economic displacement.
- The property is within the city limits or in the designated target area if established.
- Property ownership has been established.
- Property hazard insurance is in place and adequate to cover the amount of SCDP assistance.
- The property owner does not have a conflict of interest or has secured an exception from DEED Small Cities Unit to allow participation.
- The property owner has agreed to have a lead-based paint risk assessment completed if the building was built prior to 1978.
 - If the property owner has documentation to show no lead-based paint is present due to abatement, then the risk assessment is not needed but a copy of this documentation should be retained in the project file.
 - If the property owner has a complete lead risk assessment report from a previous lead-based paint risk assessment, this may be used as long as the assessment was completed within twelve (12) months of the application. Lead clearance will still be required.
- The property owner has signed a release to allow photos for the State Historic Preservation Office (SHPO).
- The non-structural parts of the property are in a presentable condition, free from junk, or out-of-control weeds or landscaping that would impact the integrity of the program.
- The property owner should be made fully aware of the program’s expectations. The form “What to Expect and What Not to Expect From the Rental Housing Improvement Program” can be found in the Rental Rehabilitation Sample Forms.

Repayment Agreement

The property owner will sign a Repayment Agreement after the property has been determined to be eligible for assistance and the cost of the project has been determined. The DEED Small Cities Unit suggests that the Repayment Agreement be recorded with the county after the project is complete to ensure all costs, in case of a change order occurring, are known.

SCDP project funds may be used towards the cost of recording the Repayment Agreement but must be included in the final Repayment Agreement total.

A sample Repayment Agreement is available in the Rental Rehabilitation Sample Forms.

Property Owner Repayments

Describe the process for recapturing funds when a property owner transfers or sells the property. For installment loans, describe the consequences of missing payments or late payments.

Displacement

Rent increases are permitted as long as the rents are within the affordable rents that were proposed in the application. Otherwise, if permanent displacement was to occur due to increase rent, then relocation expenses would need to be provided to displaced households by a non-SCDP source. If rent increase may occur, property owner should be aware of the following:

- Rents cannot be increased on any current tenant household currently paying less than 30% of their gross, combined household on rent, plus utility allowance, to an amount that exceeds 30% of their gross, combined household income on rent, plus utility allowance.
 - Utility costs are defined as the costs for gas (heat, hot water, etc.), electricity, municipal water and sewer, and garbage. Utility allowances are determined by each county's public housing authority.
- Rents cannot be increased on any current LMI tenant household currently paying more than 30% of their gross, combined household on rent, plus utility costs.

In these cases, rent does not have to be decreased but no increase can occur over the life of the assistance for such a household.

It is a DEED Small Cities Unit policy that permanent displacement of a tenant is a last resort. DEED Small Cities Unit will need to be informed if permanent displacement were to occur.

Davis Bacon and Related Acts

If the project may assist a property with eight (8) or more housing units, the policy should include that those properties will adhere Davis Bacon and Related Acts requirements, regardless of how many units are assisted with SCDP funds. Properties containing seven or less housing units do not need to follow Davis Bacon and Related Acts requirements.

Contractor Selection

Include a provision that the property owner will select the eligible contractors. Property owners may provide the bid specifications/packets to contractors or the administrative agency may release the bid specification/packets on the property owner's behalf. In either case, there should be documentation on which contractors were contacted on the project.

DEED Small Cities Unit prefers that at a minimum two responsible bids have been received. The completion of a cost estimate prior to the release of a bid is encouraged so the property owner is aware of the possible project cost.

In the provision note that the contract will be awarded to the lowest, responsible bidder. Describe that if only one bid is received, that administrators will complete and document the bid is reasonable. The cost reasonable check should be based on the cost estimate, their experience on recent, similar work in the area, and indicate that the one bid that was received was reasonable.

If awarding the bid to the current contractor(s) cannot be justified (either there is inadequate funding available or the bid(s) is determined to be high), the project should be re-bid. If the bids are still high and the project cannot move forward, the DEED Small Cities Unit should be notified that the project will need to be cancelled.

The executed rehabilitation contract will be between the property owner and contractor. A federal debarment check on each contractor and subcontractor must be completed prior to executing the rehabilitation contract.

Amending Policies and Procedures

There must be a method outlined for amending the policies and procedures. If any changes are made to the policy and procedure which would cause the SCDP Application to be altered, DEED Small Cities Unit must be notified of the change.

Marketing Your Program

Marketing to Property Owners

A marketing effort to rental property owners should begin as soon as possible after the community knows that a rental rehabilitation program was awarded SCDP funds. All marketing information related to the SCDP funds will need to be identical to the financial package that was presented in the SCDP Application as well as clearly outline eligibility criteria (especially regarding income and rent limits – see the *Income and Rent Limits* Income section).

When you think of successful marketing campaigns, there are three things in common:

- They target the audience most likely to buy their product, and
- They make it easy for the customer to buy the product, and
- They present their product in the most favorable light.

SCDP rental rehabilitation funds are also a product to be marketed. You want to reach the right audience, make the process as painless as possible for all involved, and present the program as a benefit to the community.

So how do you attract the right audience? Focus your efforts on marketing your program through several mediums to reach the widest variety of households.

Be Realistic When Construction Can Begin

Given the timing of the SCDP announcements from DEED, the length of time for Environmental Review clearances and program preparation, applicants may have to wait until the following construction season for work to begin on their properties.

Use Multiple Marketing Methods

The following marketing tips are taken from other successful programs:

- Prepare a one-page description of your program in laymen's terms. Just give the basics that will

help eligible applicants realize that this is an opportunity for them and will weed out those clearly ineligible.

- Contact those who provided interest statements during application process or are on a previous waiting list.
- Make it easy for the customer to “buy” your product. Have the email addresses or phone numbers for staff contacts available and respond to requests quickly.
- Explore inexpensive methods to directly reach the service area customers. Some agencies have used “door knockers” or application packets to hang on the doors in target areas.
- Place posters where eligible applicants congregate, laundromats, stores, churches, diners, clinics, banks, day care centers, and social service offices.
- Ask for time on local radio stations and cable channels to talk about the program, who you are trying to reach and what you are trying to accomplish.
- Consider a Housing Fair. This is a great way to get local developers, contractors, and other housing advocates and organizations together to disseminate information out to the community.
- Include information in utility billing.

Capitalize On Indirect Marketing

- Rehab is contagious. There’s no advertisement like the sight of roofs being fixed, unsightly siding being repaired, and deteriorated windows being replaced.
- Word-of-mouth is the best advertising. Encourage satisfied property owners and contractors to spread the word that this is a program that works well. If you treat the applicants and contractors with respect and deliver what you promised, you will have pleased customers, a happy local council, and the support you need to operate your program.

Consider Equal Opportunity and Fair Housing Issues

Marketing efforts should consider those who have visual, hearing, or other disabilities. You may want to use various media, use large print, make in-person visits to the downtown businesses, etc. to ensure that all owners in the targeted area are informed about the program and have an opportunity to participate. Any public meetings should be handicap accessible and, if necessary, you should provide for interpretation services for those who speak a language other than English, use sign language or have other needs.

Marketing efforts should ensure that those who are eligible to participate are not excluded because they did not or could not receive information about the program.

Recruiting Contractors

Marketing to contractors and having them participate in the program is crucial for success. You need contractors to participate in the program, but you will need to sell your program before you will get the best contractors to work with you. DEED Small Cities unit requires contractors to be licensed if their trade requires them to be licensed. Refer to the Contractor Application Form in the Rental Rehabilitation Sample Forms. Remember to maintain current documentation of contractor’s current licenses in project files.

Ensure the contractors know that labor standards will apply to rental rehabilitation projects when the building contains eight (8) or more residential housing units.

Here are some ideas for recruiting contractors and things to keep in mind:

- Directly contact licensed area contractors or advertise, such as posting a flyer at the local lumber yards.
- Invite contractors to an early-morning coffee and rolls meeting. Describe your program as it relates to their interest: the rehabilitation standards and specifications to be used, the role of the owner, pay-out procedures, labor standards requirements, the need for in-progress inspections, and how you will close projects. Be honest about what you expect from them and how long it will take to get paid.
- Create a list of eligible contractors, identify contractors by location and trade so only contractors are contacted for jobs they are likely to bid. If the list is sorted by location and trade, owners will not be wasting their time wading through pages of names of contractors who never would consider bidding their job. Make sure to check contractor references and update the list annually.
- Check out the [HUD Section 3 Opportunity Portal](#) for Section 3 contractors in the area.
- Make your bidding, award, labor standards reporting, and payment procedures as “user friendly” as possible. Evaluate every procedure and form with an eye toward streamlining it to make it easy for busy contractors to use. Remember that you must keep adequate safeguards and records to support payments and actions.
- Consider using a “customer satisfaction” survey. Some agencies send owners a survey after work is complete to identify problems with the program or certain contractors. These surveys are useful, but not required, in determining which contractors work best with certain types of clients and those who should not be continuing to work with your program.
- Write clear specifications and pay bills on time. These two actions will do more than anything else to attract and keep good contractors.
- Consider sending notices to local, minority-owned newspapers, unions, technical and trade schools.
- Conflicts of Interest. Elected officials who are professional contractors, or have any ownership in a construction company, are not allowed to bid on projects within their community. DEED Small Cities unit could make an exception for specialty work if no other contractor is available to complete the work. Consult with your SCDP Representative.

Application Process

DEED Small Cities unit suggest that administrators create their own application form. This allows for customized creation to best suit the grant and provides flexibility to collect information within one application that could be used for other funding sources as well. When creating the application, ensure all the information collected will have a use. If information is collected but has no use (i.e., used to potentially qualify for another program), that information should not be collected.

Listed below are suggested items to be included in the application. These items will assist with the implementation and reporting requirements for the SCDP program:

- Property address
- Owner name and contact information
- Conflict of Interest disclosure from all owners

- Determine whether the rental units are single family, duplexes, mixed-use, or multi-family properties (3 or more units)
- Determine if the property is in a floodplain (not eligible for SCDP)
 - This information will also be used in the Environmental Review process
- Determine if the property a single-wide mobile home (not eligible for SCDP)
- Year the building was built
 - If the property is more than 45 years old, permission from the property owner for the program to take pictures of the property is needed as pictures will be needed for required historical procedures
- Can the owner provide proof of ownership (i.e., Warranty Deed)
- Are property taxes and any city-owned utility payments current?
- Current market value from property tax statement.
- Is there insurance on the building?
- Has the building received previous assistance from a SCDP program, weatherization program, or another program?
 - If so, what improvements were done under any of those programs and are there any limitations from past programs?
- List of possible match funding source(s) to be utilized to complete the project if sources are available
- If it is a multi-family property, the number of housing units on the property
- If it is a duplex property, determine if the owner resides in one of the units
- Number of bedrooms in each unit
- Number of units proposed for rehabilitation.
 - If not all the units will be rehabilitated, do other units meet property standards?
- Number of vacant units if any
- Current rents per unit
- Proposed rents per unit after rehabilitation
- Are the following included with the rental payment? If not, what is the total of the costs below that tenant households pay when averaged out on a monthly basis:
 - Gas (heat, hot water, etc.)
 - Electricity
 - Municipal water
 - Garbage
- Tenant demographic data (required for SCDP reporting)
 - Household's income level (30%, 50% or 80% of county median income, or non-LMI)
 - Predominant race/ethnicity of the household in each unit
 - Specific racial categories: White, Black/African American, Asian; American Indian/Alaskan Native; Native Hawaiian/Other Pacific Islander; American Indian/Alaskan Native & White; Asian & White; Black/African American & White; American Indian/Alaskan Native & Black/African American; Other-multi racial.
 - Is household Hispanic? HUD views 'Hispanic' as an ethnic category separate from race which is why this information should be collected separately for each household.
 - Is the household headed by a female (including 1 person households)?
 - If a household member is aged 62 or over?

Applicants who are clearly ineligible should be informed quickly so their time and the staff's time are not wasted.

- Have a system for letting those receiving calls know who is available to handle inquiries every day.
- You must also plan for reaching those with disabilities. How will you enable those with hearing or sight impairments to apply? Be sure to contact advocacy agencies for assistance.
- Try to find access to a nearby TTY machine for those with hearing impairments so you can identify this telephone number in your literature or become familiar with the use of the Minnesota Relay System at The Minnesota Department of Commerce.
- Read over all your marketing materials ensuring it is clear and easily understood.
- Are your offices accessible for those with limited mobility? Plan for rehabilitation staff to make on-site interviews under special circumstances.

You will need to verify information stated in the application and document that information in the project file. Refer to the Rental Rehabilitation Sample Forms document to customize to suit your needs.

Tips from Veterans of Rehab Programs

Be aware that if you have leveraged other funding sources besides SCDP funds, each lender (MHFA, for example) will have their own application forms that must be used. The other lender will also want your tracking process to identify the work done with their funds.

It will be easier for you and the applicant if all your forms are similar especially when you are combining multiple sources of funds.

Shortly after an application comes in and if time and traveling permits, staff may want to make efforts to screen the property. The evaluation should focus on any issues that may cause the property to be designated as unsuitable for rehabilitation or would compromise eligibility.

Processing Applications

Activities to complete after the application is received:

- Verify that the property is within the borders of the community.
- Determine that the applicant owns the property, that their local taxes are current, they have no past due assessments or judgments on their property and that they have insurance that will equal or exceed the amount of the SCDP loan.
- Screen for conflicts of interest. If a conflict exists, consult SCDP Representative.
- Obtain signed release form to allow income verifications to proceed and for photos to be taken. Photos can be necessary for SHPO clearance, useful when creating the specifications, or in resolution of disputes.
- Verify when the building was built for lead hazard (built prior to 1978) and historic (45 years or older) purposes. County assessor should have these records.
- Obtain signature(s) that "Renovate Right" pamphlet was received.
- Obtain signature(s) on "Important Privacy Notice" form
- If home was built prior to 1978, provide "Lead Risk Assessment Notice to Property Owner(s)" statement to applicant.

- Verify building meets LMI requirements (example: multi-family building contains 51% or more LMI households). Collect documentation to support this requirement has been met. See the earlier sections on *Income and Rent Limits* and *SCDP Policies Regarding Income Verification* for more information.

Refer to the Rental Rehabilitation Sample Forms for sample forms.

SCDP Policies Regarding Documentation of Leverage

Third party verification of owner's match is not required but encouraged to ensure the project will succeed.

Escrow funds should be deposited in a construction account earmarked for the specific project prior to the Proceed to Work Order being issued.

Record Keeping

Tenant Tracking and Lease Information

It is important to pay special attention to those tenant households moving out after a property owners' application has been submitted. Tenants moving out before a rehabilitation project begins are not entitled to any relocation benefits, so it is important to keep good records in case these tenants try to claim relocation benefits. This process will ensure that any relocation assistance that may become necessary only be paid to current tenants who will remain renting after rehabilitation.

A copy of the tenant lease will be used to document after rehabilitation rent costs for tenants. If property owners did not previously use lease agreements, your program will need to insist that at least simple lease agreements are used.

File documentation

Each project file should contain documentation that addresses each step in the rehabilitation process. At a minimum, you will need to track and file all applicant and property eligibility determinations, income and rent limit information, property inspections, applicant approval, bid specifications, solicitation and selection of construction bids, and contractor invoices and payment processing. All changes will be part of the file.

Confirm Eligibility/Approve and Execute Loan

- Ensure ownership documentation is in the project file.
- Ensure conflict screening form is in the project file.
- Ensure applicant's building is in the community. Retain a map of the building in the target area boundary.
- Notify applicant of status:
 - If eligible, provide letter and copy for the project file.
 - If ineligible, provide letter with reason(s) why and copy for the administration file.
- Prepare a file for the person conducting the property inspection.

- Once inspection has been conducted, complete the Tier Two Environmental Review, if applicable, to address the related laws/authorities that were not met during the Broad Tier Environmental review.

Administrative Tasks for Activities:

- Check file for completeness and consistency with application.
- Notify applicant of outcome either approved or denied and place a copy of the letter in the file for documentation. Refer to the Rental Rehabilitation Sample Forms for sample letters.
- Assign rehab work items to funding sources.
- Prepare Repayment Agreement(s). Have property owner sign “Repayment Agreement.”
- Have separate agreements if project contains installment and deferred loans, and other funding sources.
- SCDP funds may cover recording fees that apply only to SCDP loans.
 - You may choose to wait to file as change orders may occur prior to end of process.

It is very important that the rehabilitation program have built-in “checks and balances” to catch procedural or factual errors. When possible, the review should be completed by a different person.

The first activity in this Step, “review file,” should include a system to review the following:

- Is all the necessary paperwork present and complete?
- Does the file clearly demonstrate the eligibility of the applicant, given the program guidelines?
- Does the file have all the pieces in place on the eligibility of the property and the improvements?
- If other funding sources will be included, is there evidence of commitments that these funds will be available when needed?

When there has been a thorough review of the file and staff are comfortable with the results, the closing can be scheduled.

Hold loan closing. Owner(s) will be provided the Notice of Right of Rescission (for signatures) and the “Truth in Lending Statement” (if applicable) to comply with lending requirements. Please refer to the Rental Rehabilitation Sample Forms for sample documents.

The contractor should wait to begin ordering materials and/or perform any work until after the three-day rescission period has passed and staff has issued the Notice to Proceed.

Mixed-use Rental Rehabilitation

When a project is utilizing both commercial and mixed-use funds on a building, the work must be viewed as separate activities. This includes separate bid packets, contracts, as well as loans and/or repayment agreements. The same bidder/contractor may be awarded both bids, but the contracts must be separate to meet the National Objective of each activity. See the Commercial Rehabilitation Guide for more information on commercial building rehabilitation.

Inspecting the Property

Inspection of a rental unit or building is vital in determining what work is required for a unit to meet HQS requirements and if the project is financially feasible. The inspection will also provide information that may be relevant to note in the project's Environmental Review Record. Prior to conducting an inspection of the property, the following steps should be taken.

Administrative Tasks and Activities

1. Verify property is not an ineligible property type.
2. Verify that property is not in a floodplain.
3. Identify property deficiencies in walk through and discussions with the property owner.
4. If applicable, conduct inspection(s) of drinking water and septic or drain field.
5. Assess any nuisance issues with property, if applicable to policies. If issues exist, re-inspect after issues are addressed.
6. Document the date of initial inspection.
7. Have the property owner sign a permission statement to take photographs of property, if not yet obtained.
8. Take exterior and interior pictures of property as they are needed for SHPO (historic) review if 45 years old or older and are essential for recalling "before" and "after" conditions.

Conduct Property Inspection

When conducting a property inspection, keep the following in mind.

- Identify the property deficiencies in a walk through inspection and discuss the findings with the property owner. Make sure that the walk through occurs when convenient for the tenant household(s).
- Depending on the type of building, use an appropriate inspection report form to complete the inspection. Make sure the completed inspection form is signed and dated.
- Conduct a lead-based paint hazard risk assessment inspection, if applicable.
- If the property relies on septic systems or wells, see the Septic System and Well section.
- DEED Small Cities suggests that the costs of a lead risk assessment and clearance, if applicable, be assigned to the repayment agreement (property lien) unless the Full Application designates another funding source. Document that property is suitable for rehabilitation.

Order or conduct a Lead Risk Assessment

- If the building or residential unit was built before 1978, a Lead Risk Assessment must be conducted on the property by a certified lead licensed inspector/lead risk assessor.
- Provide a notification to the property owner and tenants indicating when a lead risk assessment will occur.
- The Lead Paint Risk Assessment report must be sent or given to the property owner along with the "Summary Notice of Lead-based Paint Risk Assessment and Reduction" form. A copy of the Summary Notice should be provided to each tenant or for multi-family buildings may be posted in commons areas.

- A letter with the property owner's signature acknowledging receipt of the lead risk assessment report and copy of the notice must be placed in the file for future SCDP monitoring. If the documents are emailed, this email and/or the response should be retained in the project file.
- The Lead Risk Assessment report should be included in the rehabilitation file.
- The results of the report, including recommendations for corrections, should be incorporated into the work write-up.
- The scope of work can be separated out to allow the lead work to be done separately from other items such as roofs or replacing siding where lead hazards were not identified. In these cases, the lead work would be completed first and then cleared before the other work commences.
- Lead-based paint hazards can add costs to projects and these costs often are the result of limited contractors in the area being able to work on houses with identified lead hazards.
- You may want to consider having discussions with the risk assessor that you employ on how out-buildings and unattached garages will be treated in their risk assessments.
- The lead risk assessment and clearance costs must be part of the Repayment Agreement unless the costs are covered by other funding sources.
- The grantee should be creative in finding ways to protect the city from bearing the cost of a lead risk assessment should the applicant decide not to participate in the program after the assessment is completed.

Septic System and Wells

If the home/building does not have municipal sewer and/or water, a visual assessment of the area where the septic or drain field is located will be performed for any obvious problems – puddling, odor, etc. A discussion with the property owner about any other problems that they are aware of should be held as well. If issues are known at this point, discuss remedies with property owner. The DEED Small Cities unit asks for no further action from the field inspector regarding septic tanks or drain fields, with any such action being optional and project specific.

At a minimum, you must conduct a visual inspection of the drinking water by running the kitchen faucet, pouring a glass, and examining the water for discoloration and odor. Again, you should have a discussion with the property owner about any other problems they are aware of with their well.

Use your best judgment to determine if the homeowners want to take any water inspection further. More testing would be optional and/or project specific. Some counties may assist in testing drinking water and testing kits are available for purchase. Finally, the Minnesota Department of Health has a list of certified firms that conduct testing.

If corrections are needed for septic systems or wells, DEED Small Cities unit is comfortable with licensed, reputable contractors determining the scope of work needed to correct the problem, rather than the field inspector. Obtaining more than one opinion is preferred as much as possible. Remember that corrections to problems with septic systems and wells could put the property in the category of not suitable for rehabilitation.

If the program includes septic systems and/or wells, the policies and procedures must outline what inspections will entail.

Prepare Work Write-up

Prepare Work Write-Up/Spec and be sure to incorporate findings from the Lead Risk Assessment report. Again, work items where lead-based paint hazards exist must be called out in the specs.

Calculate the rehab assistance available if the property owner qualifies for multiple services.

If only one bid is received, DEED Small Cities unit will look for documentation to assess “cost reasonableness” of the project.

What is needed for a good cost estimate?

- Current information.
- Accurate information about customary mark-ups and profit margins.
- An experienced staff person (or access to someone) who is familiar with local practices and prices.
- Line-item estimates.

What should a Work Write-up include?

The Work Write-up should include a detailed description of the installation and workmanship standards and forms the basis for contractors’ bids. In other words, it tells the owner and contractors who are bidding the job exactly what will be fixed or replaced, how it will be done, and what materials will be used. If a risk assessment was required (properties built prior to 1978), the findings and recommendations from that assessment must be incorporated into the work write-up.

It should answer the following questions:

1. What work will be done?
2. How will it be done?
3. Where will it be installed?
4. What material will be used?
5. How much material will be installed?
6. What standards of workmanship will be used?
7. The materials and products used to be of a standard quality and not of a premium quality.

Use “and” or “or” but never together.

Good example: Repair sashes on two north windows of front bedroom and replace two east windows with double pane vinyl windows.

Bad example: Repair and/or replace defective windows

Avoid using: “etc.,” “standard size,” “approximately,” “as needed,” “all missing or damaged,” “any.”

Reminder

Work Write-ups prepared for bidding should incorporate findings from Lead Risk Assessments if findings exist. Work items with lead hazards should be clearly labeled and indicate that only lead-certified contractors can conduct the work. Refer to the SCDP A-Z guide for current contractor lead licensing requirements. Some contractors may request for a copy of the lead risk assessment with their bid packets.

Review Work Write-Up with Property Owner

Owners need to understand the relationship between deficiencies they have identified and code deficiencies that the program can correct with SCDP funds.

This is a critical step in the rehab process because owners will become upset if they feel they are not getting what they really want and yet be financially responsible for the work being completed. Lack of proper communication may result in the applicant dropping out of the project or the project being very challenging to complete.

Once the owner signs off on the Work Write-Up, the project bidding can proceed.

Preparing the Bid Package and Provide to Bidders

1. Create a detailed Work Write-up (or specs).
 - a. Meet with the Owner(s) to review Work Write-up.
2. Prepare bid package.
 - a. If applicable, include all Federal Labor Standards documents
 - b. Review bid package with owner.
 - i. Enter the date when owner approved the Work Write-up and date when bids are due.
 - c. Review contracting procedures with owner.
 - i. Describe the contractor selection process. If the lowest bidder is not selected, describe the consequences to the building owner.
 - ii. Describe importance of timelines.
 - iii. Describe change work order procedures
 - iv. Describe termination of contract terms.

A Work Write-up Cover Sheet for Contractor should be used when submitting the bid. It identifies the owner's name and the project number.

Instructions to Bidders

These should include a review of requirements to participate in your program:

- Adequate insurance, current licenses, appropriate training, and a completed "Contractor Application" form (if not previously submitted) on file with the agency.
- Instructions should provide information on:

- Deadline for receipt of bids and where bids should be sent.
- How long bids are considered valid.
- How bids will be awarded — who selects and on what basis?
- Who will be executing the contract for work?
- The participation in a Pre-construction Conference, if required.
- The requirement for a Proceed to Work Order before beginning work.
- If applicable, federal wage rate requirements
- General conditions may be attached to the Work Write-up to provide owners specific guidance about such matters as:
 - Who is responsible for securing permits?
 - How to handle change orders?
 - Who removes debris?

Labor Standards Forms

If Davis Bacon and Related Act requirements apply to a project, the work write up must include certain mandatory Federal Labor Standards Provision forms and the applicable Federal wage decision in the specifications and contracts.

- The current applicable Davis Bacon wage decision.
 - Federal wage decisions are available online at www.SAM.gov and clicking on the Wage Determinations button.
- HUD 4010 – Federal Labor Standards Provisions.
- Additional forms that will need to be collected prior to bid award should also be included in the bid packet to ensure the contractor will meet the provisions.
- Contractor/Subcontractor Certification
- Contractor Profile form
- Section 3 and Women- or Minority-Owned business certification form

Refer to the Labor Standards folder in the SCDP Google Drive for additional guidance and forms.

Contractor/Owner Contract

The contract will include the Conditions of Project, Work Write-up or Scope of Work and Federal Labor Standards documents. Some agencies make this a separate document but by including it in this package makes expectations known ahead of time.

Ensure the Contractor/Owner Contract addresses Equal Employment Opportunity, Affirmative Action and Section 3 requirements.

Contractor/Owner Warranty

The Contractor/Owner warranty will provide an understanding to everyone concerned what is being guaranteed and for how long.

Reminder

When a project is utilizing both commercial and mixed-use funds on the same building, the work must be viewed as separate activities. This includes separate bid specifications/packets, property owner/contractor contracts and Repayment Agreements. The same contractor may be awarded the bids for the mixed-use and commercial portions of a building, but the contracts must be separated.

Selecting the Contractor and Financing

1. Recruit available contractors.
2. List of contractors contacted with bid packets.
3. Open sealed bids with owner(s) if possible.
4. Evaluate responses for accuracy and cost reasonableness.
5. If only one bid is received, make a note to the file that the bid was reasonable based on your cost estimate or try to re-bid project.
6. If applicable, collect “Contractor/Subcontractor Certification” and “Contractor Profile” forms. Compare to the current wage rate prior to awarding the bid.
7. Owner selects contractor.
8. If contractor is not the lowest, responsible bidder, the owner will need to pay the difference and deposits funds in an escrow account or provide evidence of a construction account.
9. A bid summary spreadsheet should be completed for documentation and SCDP monitoring.
10. Owner signs Contractor/Owner contract.
11. Confirm and identify all sources of funds and assign improvements to each funding source.
12. Rental rehabilitation projects require funds other than those from the SCDP to be eligible.
13. Obtain any escrow funds needed.

Consider how many rehabilitation projects that a contractor can handle at one time. Beware that some contractors might be working on projects with an active SCDP grant(s) in other communities as well.

Tips from Veterans of Past Rehab Programs:

While a preconstruction conference for the rental rehabilitation program is not required, it is highly encouraged. An hour or two spent on the front end with the contractor and owner could save hours of work and hard feelings later.

Managing the Project

Preconstruction Conference and Proceed to Work

- It is important to hold a Preconstruction Conference with contractor and owner.
- If lead-based paint hazards were identified, complete the “Relocation Screening Sheet for Occupant Protection from Lead Hazard Reduction Activities” form and place a copy in the project file for documentation and SCDP monitoring.

- If lead-based paint hazard reduction activities are proposed, tenant household members should not be present at the work site but may remain in the home if all lead safety precautions are met.
- Elderly waiver form must be completed for any elderly person who wishes to remain in the unit during rehabilitation.
- Make sure that the Repayment Agreement is signed.
- Release the Notice to Proceed Work Order only after the Right of Rescission period has passed. Place a copy of the forms in the project file for documentation and SCDP monitoring.

The “Notice of Contract Award” must be completed and submitted to DEED Small Cities unit within 14 days after the contract has been awarded. Refer to the SCDP Google Drive’s Labor Standards folder for sample forms.

Tips from Veterans of Past Rehab Programs:

- If possible, hold the preconstruction conference on-site, after the three-day rescission period has passed. This allows all parties to conduct a walk-through of the property and review the Rehab Work Write-up, item-by-item, and discuss what will and will not be done with a proposed timeline with everyone involved present.
 - While having the owner and contractor together for the preconstruction conference is usually best, it is acceptable to hold separate meetings with the owner and the contractor if there is a schedule conflict between the two parties.
- Have a written agenda so you are certain to cover all relevant points.
- Take notes and place them in the case file. Have the owner, contractor and rehabilitation staff sign and date the notes. They may be very important later.
- Discuss the owner’s role in monitoring progress and the contractor’s obligation to let rehabilitation staff know when they have reached critical stages in the construction process and an interim inspection is necessary.
- Discuss how work will be conducted during business hours and relocation issues with the owners (tenants as applicable) and contractors. Document any steps that should be taken.
- Explain to the owner and the contractor that any work items that are not indicated on the approved Rehabilitation Work Write-up, will not be paid with program funds.
- Discuss with the contractor what they need to do, if a change order is needed, what funds will be used to pay for the change order and how to proceed documenting the needed change order. The rehabilitation staff needs to inform the owner of the change order and how this will be paid for and most importantly discouraging “side deals.”
- Remind everyone that interpretation questions of the Rehabilitation Work Write-up should be directed to the rehabilitation staff; the contractor, owner or tenant should not try to interpret.
- Discuss payment requests and leave a supply of forms with the contractor.
- If applicable, discuss Davis-Bacon prevailing wage reporting requirements, including weekly payroll reporting.
 - Leave a supply of certified payroll forms with the contractor.
- Discuss how disputes will be resolved. The rehabilitation staff should be included in any dispute discussion and will attempt to mediate the conflict.
- Cover the close-out procedures. Explain each document and what they mean.

- Review the work schedule. Everyone should understand when work is expected to begin, how it will proceed, and when it is expected to be completed.
- Issue a Notice to Proceed after the preconstruction conference.

Change Orders

Experienced administrators do everything possible to write the Scope of Work so that change orders are unlikely to occur, but when a call comes from an owner or a contractor, you need to have a policy to address it. This should be covered in your policy and procedure manual.

- Change orders are only allowed if unforeseen events occur.
 - Examples: Framing materials around a window were found to be rotten and in need of replacement, unknown electrical or plumbing violations revealed during rehab process.
- Contractor error in estimating the project or doing the work is not allowed as a change order for increasing the cost of the job.
- Have a process for review of each Change Order by the rehabilitation staff so they are not perceived as “routine” by contractors.
- Change Orders must be agreed to by all parties in writing.
- Change Orders must be reviewed for cost additions or deductions, materials to be used, etc., and marked as such.
- Other records that are affected by the Change Orders, such as the construction contract and/or the owner’s Repayment Agreements or mortgages, may also need to be adjusted.
- If Change Order occurs, place a copy in the file for documentation and SCDP monitoring.
- Once a project has been completed and closed, it should not be reopened to be bid out for additional work.
- If there is a clear code violation that was not addressed during the original inspection and was discovered within a relatively short period of time after closing, please contact your SCDP Representative for consideration on a case-by-case basis.

Disputes

Describe the process for resolving disputes between the contractor and property owner. The dispute process should designate which organization, the grantee community or administrating agency, as having the final decision. DEED Small Cities Unit should be notified if a dispute may impact the timing of a project.

Appeal and Complaint Procedures

There must be a formalized appeal and complaint procedures process for property owners to follow if they have concerns about decisions made or complaints about the quality of work, contractor actions or other issues.

Temporary Relocation

Any temporary relocation costs will need to be paid for with sources other than SCDP. The program must have a relocation plan to either move tenants into a different decent, safe and sanitary unit in the same building while their unit is worked on or pay for temporary relocation expenses.

Temporary relocation is necessary under the following:

- Mandated due to lead-based paint hazard reduction activity (a rare occurrence).
- If the work will not allow the occupants the ability to cook or use the bathroom while they are in the unit.

Notice to Proceed

The grant administrator, not the property owner, will issue a notice to proceed. Make sure that the repayment agreement is signed by the property owner before issuing the notice and that the right of rescission period (3 days) has elapsed. Sample Right to Rescission and Notice to Proceed forms can be found in the Rental Rehabilitation Sample Forms. *No work should begin until the Notice to Proceed has been issued.* A copy of the Notice to Proceed should be retained in the project file.

Paying Contractors and Inspections of Work Performed

DEED Small Cities unit requires a minimum of one inspection. Interim inspections may be held, as needed. On-site inspections should be completed before any contractor payments are made – either interim or final.

There is more than one acceptable way to document inspections.

- Using the actual Work Write-up or specs and dating and initialing each item as it is completed and inspected.
- Some agencies use a Field Inspection Report as another way to document what the rehabilitation inspector found, which can serve as a “punch list” if items need to be corrected before completion.

The following should be documented in the individual files to support rehabilitation payments:

- Lien waivers from the contractor and subcontractors for all work covered by the payment request.
- If applicable, completed certified payroll forms including the “Statement of Compliance” page for each week work is conducted.
- A Completion Certificate signed by the parties involved: the contractor, owner and rehabilitation staff that documents the payments to date and the balance on the contract
 - If the owner refuses to sign, but rehabilitation staff believes that payment is justified, pay contractor without the signature. You may want to bring in another inspector for affirmation, or for a 2nd opinion for situations with gray areas.
- Sworn Construction statement must be obtained for final payment.
- Document all sources of funding in the individual project files.

- Copies of the above-mentioned documents do not need to be submitted to DEED Small Cities Unit but must be retained in the project file for monitoring. Refer to the Rental Rehabilitation Sample Forms.

These documents do not have to be submitted to DEED Small Cities unit for individual draws but will need to be maintained in the file record for monitoring.

Traditionally, agencies withhold a portion of the final payment until the Completion Certificate is signed and all work items are resolved.

Remember, payments should only be made for work that has been completed and inspected.

If applicable, the “Final Labor Standards Compliance Report” must be completed and submitted to DEED Small Cities unit after all construction is completed, all payrolls are received and reviewed, all workers have been paid appropriately, and any violations have been resolved and/or reported to DEED Small Cities unit. See Labor Standards folder in the SCDP Google Drive for the applicable form.

Rehabilitation staff should keep their active “field files” with them when they are out of the office. It can be time consuming to have to trek back to the office if a call comes in for an unexpected inspection.

Rehabilitation staff should make their notes as soon as they get back to their vehicle. It is amazing how quickly cases can blur together if rehabilitation staff must rely on memory of what they saw and what had transpired on-site.

File a lien on the property by recording Repayment Agreement with the county. Place copy in the case file for SCDP monitoring.

Send the owner a Close-out Package which consist of a closeout letter and an optional customer satisfaction survey.

Tips from Veterans of Past Rehab Programs:

Create a separate “field file” that the rehabilitation staff can use during on-site inspections. It should contain a copy of the Work Write-up and the Owner Contractor Contract. This will assist when disputes arise, and work can be accurately evaluated.

After the Loan Possibilities

Condition of Repayment

Describe the triggering actions and the process to follow upon a transfer or resale of the project within the deferred and/or installment loan. If the loan requires regular repayment, describe the consequences of missing payments. How will this payment affect your program income balance for the year?

Subordination Request

DEED Small Cities unit do not process subordination requests. A subordination plan should in your policy and procedural manual. It is the grantee's responsibility to process subordination request, either to approve or deny requests. DEED Small Cities unit's policy allows owners to refinance to secure a better interest rate and/or shorter term during the term of the loan and/or obtain a construction loan to rehabilitation the building but will not allow owners to take out any cash for other expenses.

Reverse Mortgage

If a past SCDP recipient wishes to apply for a reverse mortgage, DEED Small Cities Unit will require repayment of the deferred and/or installment loan before a reverse mortgage can be closed.

Income From Loans Repaid

Definition of Program Income

If any combination of repayments received by the grantee within a federal fiscal year (October 1 to September 30) reaches or exceeds \$35,000, the entirety of those repaid funds will be Program Income and be treated as federal funds. SCDP requirements will apply to their re-use. Reporting to the Small Cities Unit is required by October 15th of each year until all funds have been expended.

Definition of Local Income

If the combination of the repayments falls below the \$35,000 during the federal fiscal year (October 1 to September 30), those repaid funds are considered Local Funds. These funds should be used to further rehabilitation in the community similar to how the original funds were utilized. Reporting to the Small Cities unit is not required.

A repayment will be triggered if owner's sell or transfer the building prior to the deferred loan expiring. Any money paid back to program is treated either as Program Income or Local Income. Under either scenario, DEED Small Cities unit expects the repaid funds to be used to further rehabilitation in the community.

The grantee may need to wait until September 30 of any given year until a determination can be made if the funds received during that period will have a Program Income or Local Income label. DEED Small Cities unit expects that SCDP requirements will be applied to the re-use of these funds.

Please consult the SCDP A to Z Guide for further information on Program Income and Local Income.

Multi-community grant programs

If Program Income or Local Income was generated as a result of a multi-community grant, the generated funds should be utilized in the community that originated the funds. If you have questions on this, please contact your SCDP Representative.

Please consult the *SCDP A to Z Guide* for further information on Program Income and Local Income.