

**CITY OF IRON RIVER RENTAL
REHABILITATION**

PROGRAM GUIDELINES

JANUARY 2007

I. Purpose of Program

Iron River has been designated a Cool Cities Blueprint Community (Blueprint). Under this designation, all communities should strive to be vibrant, affordable, sustainable, diverse environments where people choose to live and stay.

The purpose of Rental Rehabilitation (Rental Rehab) program is to encourage the renovation of affordable, mixed-use housing within the target area and to make the commercial district a vibrant and attractive place to live and work. This program offers an option for property owners to rehabilitate rental units under a program sponsored by the Michigan State Housing Development Authority (MSHDA) while providing affordable housing for residents of the community.

II. Source of Funds for Rental Rehab

(MSHDA) has federal or state funding through the Office of Community Development, Housing Resource Fund. These funds are available for mixed-use rental rehab of existing buildings in commercial districts. These funds are distributed and monitored through MSHDA for the U.S. Department of Housing and Urban Development (HUD). The goal is to rehab buildings for combined use-retail on the lower floors, with affordable living space above. The MSDHA program is designed to allow rehabilitation of rental units for the betterment of the community and thereby providing affordable housing located in a commercial district.

III. Time Frames

It is anticipated that the City of Iron River (City) will submit its application for grant monies for the Rental Rehab program in May 2007. Prior to submission, interested property owners will be expected to file a letter of interest with the City as well as certain other documentation listed within these guidelines. The Dickinson Iron Community Services Agency (DICSA) will serve as grant administrator for the Rental Rehab program.

IV. Eligibility Requirements for Applicants

Ownership: An eligible applicant must be an individual, partnership, limited liability company or corporation which owns a commercial building within the target areas outlined in the Blueprint footprint (Attachment 1). The owner(s) must show proof of ownership either by a recorded deed or a recorded land contract with both seller and building owners on all liens and compliance documents. All property taxes and assessments on the property must be paid up to date.

Location. Applicant's property must be located in the footprint (Attachment 1) of the Cool Cities Blueprint.

Insurance. The building must have current hazard insurance coverage at the time of the application and when work commences. Coverage must include damage from fire and federal flood insurance (if applicable).

Credit History. The property owner must provide satisfactory proof that: he is creditworthy, has paid his bills in a timely manner, can either put up the equity himself required as the matching amount for the grant described herein or has a bank guarantee that such funds will be available.

Rental Agreement. As part of the affordability requirements of the program, the owner(s) must agree to rent 51% of the units in the building to renters whose income must not exceed 80% of the Area Median Income, for a period of at least 5 years. The five year affordability period starts at the certificate of occupancy and "rent up" of one unit in the project. The rents on these units must not exceed the Fair Market Rent for Iron County as established by HUD, for the same 5-year period.

Program Requirements:

- Assisted buildings must be mixed-use (commercial space below, residential unit(s) above).
- After renovation, all units must meet or exceed applicable Building Codes and conform to all local zoning ordinances. **All units in a building must meet these standards, even if they are not assisted units, i.e. not participating in the rental rehab program.**
- 25% of the rehab cost is funded by the property owner, and the owner must have the financial capacity to provide funding for his/her share of the project prior to beginning rehab. The property owner must demonstrate that they have satisfactory credit and that they have a commitment, in writing, from a financial institution or other proof that their share of the project dollars is available. The property owner will sign a release in order to permit access to this information. Information received will be kept confidential to the extent possible.
- No efficiency apartments may be created or renovated using MSHDA funds.
- No permanent relocation of tenants may occur as a result of the program.
- The units cannot be assisted through another federal housing rehabilitation assistance program, nor have an existing housing rehab mortgage on the property.
- **The owner's portion of the project costs will be spent prior to the disbursement of grant funds.**

All renters must meet the income requirements listed below. Renters must verify their income by completing a Family Composition form, an Income Checklist for the head of household and spouse (if married) and each household member over 18 years of age, and sign a release to verify their earnings and assets. Gross income will be verified using:

- Third Party Verification: Verification from the source of the income is preferred (employer, Social Security Administration, Family Independence Agency, etc.) or;
- Review of Documents. Documents provided by the renter/applicant(s) (e.g., pay stubs, tax returns, etc.) may be most appropriate for certain types of income and can be used as an alternative to third party verification.

The applicant's annual gross income projected 12 months into the future must not exceed 80% of area median income to be eligible. Gross income means all income earned by all household members over 18 years of age (income of members between 18 and 25 will not be included if they are full-time students and can show proof of enrollment).

Income includes:

- the gross amount, before any payroll deductions, of wages and salaries, overtime pay, commissions, fees, tips, bonuses, gambling winnings, and prizes won (except Michigan Lottery winnings and prizes paid in a lump sum, which are considered assets);
- overtime earnings will be based on the year to date and will be projected over the next 12 months;
- the net income from the operation of a business or profession or from the rental of real or personal property and for this purpose, if this operation results in a loss, such loss may not be used to offset income generated from other sources;
- all dividends and interest income, including otherwise tax-exempt interest;
- the full amount of periodic payments received from Social Security (including the Medicare allowance), housing assistance payments, annuities, insurance policies, retirement funds, pensions, disability or death benefits, and other similar types of periodic income;
- payments in lieu of earnings, such as unemployment and disability compensation, worker's compensation and severance pay;
- the full amount of public assistance payments;
- periodic and determinable allowances, such as alimony and separate maintenance payments received, housing allowances received, and regular contributions or gifts received from persons not residing in the dwelling, where such sums are received on a recurrent basis and which may reasonably be expected to continue;
- the distributive share of partnership income;
- all capital gains that are recurring;
- child support payments received by an applicant for the benefit of the applicant's child or children;
- income earned off of assets; and
- all regular pay, special pay and allowances of a member of the Armed Forces.

Self-employed persons must submit business and personal IRS tax returns (including any depreciation schedules) for the previous two years. Net annual income will be determined by averaging the two-year's income unless information provided suggests that recent changes in income warrant a higher or lower projected income. Additionally, "Family Income Qualification" on each rented unit needs to be verified annually.

Effective 09/05/06, the following income limits for renters apply:

Household Size	1	2	3	4	5	6	7	8
Income Maximum	\$28,650	\$32,750	\$36,850	\$40,950	\$44,250	\$47,500	\$50,800	\$54,050

V. Limits on Loan Amounts

Any amount received from MSHDA for rehabilitation of rental housing units comes in the form of a loan financed with CDBG Rental Rehab funds which will not exceed \$25,000 per rental unit. However, an additional \$10,000 per rental unit may be allowed for improvements that reduce lead paint hazards to acceptable limits and will be included in the mortgage. The minimum CDBG investment by a property owner is \$1,000 per unit.

VI. Loan Terms for Grant Funds

MSHDA will fund 75% of the total rehab cost per unit, up to a maximum of \$25,000 per unit. The owner(s) must leverage 25% of the total project cost plus any amount over the maximum allowable MSHDA funding per unit/project cost. An additional \$10,000 per unit is available to mitigate lead-based paint on buildings built prior to 1978. The \$25,000 per unit is a no-interest loan requiring a 5-year lien, forgiven at 100% after the 5th year. The amount of money the owner must contribute is 25% plus any amount which exceeds MSHDA's maximum total allowable per unit/project cost. This will be based on the **total project cost** – not the amount of assistance received from MSHDA. The basic requirements for the \$25,000/unit assistance are:

1. Only 51% of the units in a project (unit structure) must be rented to tenant households with incomes below 80% of the Area Median Income (AMI). The remaining 49% of the units may be rented to tenant households exceeding 80% of AMI. Please note the following for additional clarification:
 - One-unit structures must be occupied by a tenant household not exceeding 80% AMI.
 - Two unit structures or more than two unit structures must have at least one half/or 51% of the units occupied after rehabilitation by a tenant household not exceeding 80% of the AMI.
2. The rent for the first year following completion of rehab will remain the same and subsequent rent increases for the following 4 years cannot be more than the published HUD Fair Market Rate for Iron County. After the 5 year period has been completed and the loan has been forgiven, the above limitations no longer apply.
3. The primary purpose of the project is to rehabilitate mixed-use buildings containing both rental units and commercial space. The rehab money cannot be used for improvements *exclusive* to the commercial space. Façade improvements may qualify as part of a rehab project when:
 - The project is principally housing rehab in scope and the façade improvements are considered an integral part of the housing rehab activity; and
 - The façade improvements are generic or uniform to the building (i.e., windows, exterior painting or siding)
4. Fair Market Rent Limits as of 2006 (rates are adjusted annually):

Fair Market Rent Limits by Unit Size*

Size	1-Bedroom	2-Bedroom	3-Bedroom
Fair Market Rent	\$415	\$503	\$615

***Rent limit includes all utilities including utilities paid by renter**

A mortgage will be required on the property. This mortgage may not be assumed or assigned without the prior written approval of MSHDA. If the property is sold within the 5 year loan period, the amount of assistance will be recaptured as program income and returned to MSHDA. If proceeds from sale of the property at fair market value are insufficient to repay the loan, the lien will be discharged in return for the full proceeds of the sale.

However, the new owner(s) may have the option to continue the affordability requirements of the mortgage for the remaining period of time, and the loan will be forgiven at the end of the 5 year period as long as program requirements have been met.

The lien may only be subordinated for better rate and term financing, (no new debt being incurred), per MSHDA policies.

VII. Eligible Costs for Rental Rehab

Property owners may include as part of their 25 % match any work performed to bring the rental units up to Code, including correcting code violations, money expended to obtain necessary building permits and their related fees, as well as any monies expended for other inspections required by the program.

The primary purpose of the rehab must be for the improvement of rental apartments. Therefore, CDBG funds cannot be used on improvements exclusive to the commercial space. However, improvements that affect the whole building, such as new roof, new windows, upgraded electrical and plumbing may be eligible.

Any proposed improvements must be approved by the grant administrator as part of the work specifications and cost estimates to be submitted with the project detail.

The City Building Inspector will inspect each property to determine any building code violations. A certified Lead Inspector/Risk Assessor will determine any lead paint hazards. A certified Asbestos Inspector will determine any asbestos issues present. It will be required that an architect prepare plans for the project. Specifications will be prepared, which will be reviewed and approved by the owner(s), to be used in the bid process. The owner(s) will make the final decision on the contractor to be used. An environmental assessment will be conducted on all properties and all older buildings will be photographed and a letter submitted to the State Historic Preservation Office (SHPO). A lien will be drawn up on the property for the amount of the CDBG assistance. The lien will be forgiven after the 5-year affordability period. After construction begins, the owner(s) and project administrator must approve bills submitted for

payment. The individual projects will be periodically inspected to determine if the work is in compliance with the specifications as prepared and a final inspection must occur before final payment can be awarded. All properties must conform to city/state/county building codes, and city zoning ordinances, even if they are not assisted units. Twenty (20) % of project costs will be held back pending final inspection and approval.

If a tenant moves out during the affordability period, any new tenant must also meet the required income guidelines. Fair Market Rent levels may be adjusted yearly.

After the final inspection referenced above, an inspection must also be conducted at the end of the third year of the affordability period and must comply with Home Quality Standards (HQS) and all local city/state/county building codes and city zoning ordinances.

Asbestos and Lead-Based Paint Regulations-Eligible Costs:

All costs due to Asbestos and Lead Based Paint Regulations, including any inspections, will be included in calculation of project hard costs and included in the lien. An additional \$10,000 per project to address asbestos and lead paint hazards may be allowed. In addition to direct costs (e.g. risk assessments, clearances, soil treatments) that are conducted because of the Asbestos or Lead-Based Paint (LBP) rules, hazard reduction costs may also include the incremental costs of rehab activities that are safe work practice requirements. Incremental costs are not the full cost of the rehab activity, but just those additional costs incurred because of safe work practice compliance

VIII. Selection Process - Applicants for Rental Rehab

The City of Iron River will solicit letters of interest to determine interest in the program. Notices advertising the program will be placed on the City's web page and at City Hall. Direct mailings will be sent to all building owners within the target area. Verification of all eligibility and program requirements will be completed before a loan can be considered. The program administrator will be responsible for obtaining all verifications on applicants and ensuring that all program requirements have been met. Only those applicants who meet the eligibility and program requirements will be considered for the program. Participation in the program is limited by the availability of funding. If interest in the program exceeds the available funds, City staff will use a lottery to select **qualified** loan recipients.

IX. Fair Housing and Equal Opportunity

The City of Iron River is committed to fair housing. The City encourages minority and female owned qualified businesses to participate as bidders for the various projects.

All complaints and concerns regarding fair housing issues must be presented to the fair housing contact person in writing. The City, if unable to resolve the complaint, will direct the individual

to the Michigan Department of Civil Rights and the U.S. Department of Housing and Urban Development. All complaints and concerns received will be forwarded to MSHDA's Office of Community Development. The City will provide to all applicants and interested persons the addresses and telephone numbers of the Michigan Department of Civil Rights and U.S. HUD offices.

Should a discrimination complaint from a contractor or applicant be received, the following procedure will be used:

- A. The complaint is made in writing to the housing program administrator. The administrator will review the complaint and attempt to resolve the problem within 15 working days from the date the written complaint or concern is logged. The City will inform the Michigan Department of Civil Rights and U.S. Department of HUD that a complaint or concern has been received and the City is attempting to resolve the issue. If the problem is not resolved, then,
- B. The contractor or applicant can initiate a complaint with the Equal Employment Opportunity Commission, U.S. Department of Housing and Urban Development, and/or Michigan Civil Rights Commission.

The City will maintain, at the City Clerk's office and City Manager's office, brochures and other Fair Housing materials provided by MSHDA and HUD for distribution. These information materials will be available to the general public and interested persons.

X. Contracting for Rehabilitation Work

Construction work financed through this program will be undertaken only through a written contract between a licensed contractor and the owner(s). The program administrator will assist each recipient in arranging for and obtaining an acceptable construction contract. The construction contract will consist of a document signed by the contractor and the owner(s) and the following steps will be taken before a contract is signed:

1. All contractors must maintain in effect Personal Liability Insurance for no less than \$1,000,000 and Worker's Compensation Insurance as required by state law, while participating in any rehabilitation projects. Proof of insurance is not required to bid on a project; however, proof of insurance will be required before a project contract will be awarded. Only contractors certified for asbestos and/or lead activities with trained workers on the payroll will be eligible to bid on projects containing identified lead or asbestos issues. The contractor will be responsible for all damages to person or property, either on or off the site that occur as a result of his/her work on the project.
2. All contractors must be currently licensed by the State of Michigan in their respective trades. The City will keep a copy of the current license for all contractors authorized to bid on projects.
3. No contractor on the Department of Labor & Economic Growth's list of disbarred contractors may participate in this program.
4. Any contractor involved with asbestos or lead-based paint activities is strongly encouraged to have liability coverage for those activities, either in a general liability policy or individual project policies.
5. The contractor must certify that:

- (a) the work will be performed in accordance with all codes, standards, zoning regulations and specifications, subject to a clear final inspection by the Iron County Building Inspector; and
- (b) the contractor will provide and pay for all materials, labor, tools, permits, licenses and fees and shall comply with all laws, ordinances, rules and regulations of the State of Michigan and the City of Iron River, and
- (c) the contractor will abide by U.S. Department of Housing and Urban Development (HUD) regulations pertaining to equal employment opportunity.

In addition, any contractors who will be working on buildings constructed prior to 1978 and which are determined to have any LBP hazards must have the following training and certification requirements.

For Interim Control Work (including standard treatments when LBP is presumed present), everyone on the job site must have attended one of the following courses:

- (a) The Remodeler's and Renovator's Lead-Based Paint Training Program,
- (b) Work Smart, Work Wet, and Work Clean to Work Lead Safe,
- (c) Other courses approved by HUD.

In addition, all set-up and clean-up work must be carried out under the direct supervision of an on-site Lead Abatement Supervisor who has been certified as an abatement supervisor by the Michigan Department of Community Health (MDCH). Appropriate documentation of certifications will be completed on a certification form and kept in the contractor's files. The Lead Abatement Supervisor will also be responsible for developing an occupant protection plan for tenants living in the unit during renovations.

The City of Iron River will maintain a list of potential contractors to be used for bidding purposes. The contractors will be asked to identify their category of specialization, which will be used to solicit bids for certain projects. The City will invite a reasonable number of qualified contractors to bid on the project. All announcements concerning the program will indicate minorities and female-owned businesses are encouraged to participate. For projects with identified asbestos or lead hazards, only contractors certified for those issues with certified workers will be eligible to submit a bid. Only certified and licensed Asbestos Abatement Contractors can perform asbestos activities.

A minimum of three bids will be solicited with the work awarded normally to the lowest qualified bidder. However, the project administrator and the property owner(s) have the option of selecting alternate bidders based on the following factors:

- the availability of qualified contractors or
- the need to complete the work in a timely fashion when low bidder cannot complete the project within a reasonable time.

The owner(s) may elect to have an alternate bidder, provided the difference between the lowest bid and the alternate bid price is paid for by the owner(s). All bids will be received by the grant administrator and will be opened on the date and time specified in the bid packet. Bids received prior to the stated deadline for submission will be kept unopened until such date, and all bids must be submitted on the forms provided. Improperly completed bids may be rejected.

Completed work must be satisfactory to the owner(s), the contractor, and the program administrator. Both the owner(s) and the contractor will give the Iron County Building Inspector access for all inspections. The owner(s) must keep all guarantees and warranties furnished by the contractor on material and equipment for a period of two years.

XI. Implementation of the HUD Lead-Based Paint Hazard Rules and MIOSHA Asbestos Standards

A. Implementation of the HUD Lead-Based Paint Hazard Rules (24 CFR Part35)

Buildings constructed prior to January 1, 1978 and requesting assistance under the Rental Rehab Program are subject to the HUD Lead Based Paint (LBP) Regulations. These standards apply to both the exterior and interior of the structure as well as any outbuildings or garages. Structures that may have a LBP hazard will be evaluated using the following guidelines as required on all federally assisted projects:

A Lead Paint Inspection and Risk Assessment by a MDCH-certified inspector are required for each structure that was built prior to Jan. 1, 1978. A copy of the results of the inspection is to be submitted to the building owner and/or any of his employees, the Program Administrator, Rehab contractors, and a copy on site for review. The contractor will be required, at a minimum, to use Interim Controls for any LBP hazards that are discovered during the course of the inspection. The owner must disclose any lead based paint hazards to renters. An individual unit by unit and common area Lead Clearance will be required before untrained workers or occupants will be allowed back on the worksite. Clearance of Interim Control work may only be done by state certified persons. Any costs associated with this work will be borne by the property owner and can be part of the property owner's dollar matching amount for the Rental Rehab program requirements.

All owners will be provided with the following documents regarding LBP:

1. EPA/HUD pamphlet "*Protect Your Family*",
2. HUD booklet, "Lead Paint Safety: A Field Guide for Painting, Home Maintenance, and Renovation Work",
3. Copy of the Lead Inspection /Risk Assessment for their property,
4. Results of their Clearance Exam Report, and
5. Handouts explaining the Lead Pre-Renovation Education Rule and handouts on the safe repair and on-going maintenance of painted surfaces that contain lead-based paint

All structures built prior to 1978 must be evaluated for LBP unless they qualify for an exemption. The following situations are exemptions from the rule:

- a. A building that has been tested and found not to contain lead based paint (LBP), or for which any LBP was removed or replaced and the housing cleared.
- b. Rehabilitation that does not disturb a painted surface. For example, roof repair, furnace replacement, etc.

- c. Emergency actions. The definition of “imminent danger” must be pre-approved by a MSHDA Community Development Specialist if something other than a natural disaster, fire, imminent structural collapse, or absence of functional utilities.

The documentation supporting an exemption for any property must be kept on file. The MSHDA Community Development Specialist must also confirm the exemption. If the State Historic Preservation Office (SHPO) requests interim controls in lieu of abatement activities on a property of historic significance, the SHPO request should be documented in writing.

B. MIOSHA Asbestos Standard for Construction: Part 602, (29 CFR 1926.1101); and Part 305, MIOSHA Asbestos Standard for General Industry, (29 CFR 1910.1001)

Asbestos Standards & Rules are very similar to the Lead rules. However, they are administered by a different governmental agency, and compliance requirements are different.

The following apply:

1. All buildings constructed prior to 1981 must have an Asbestos Inspection/Survey.
2. The Inspection/Survey must adhere to the Asbestos Hazard Emergency Response Act (AHERA) inspection protocol & be performed by a Michigan accredited Asbestos Building Inspector or Certified Industrial Hygienist (CIH).
3. A copy of the results of the Inspection is to be submitted to the Building owner & any of his employees, the Program Administrator, Rehab Contractors, and a copy on site for review.
4. If Asbestos is found onsite, the follow up and treatment will be determined for the project based upon the Inspection results. MIOSHA rules and regulations are such that special procedures will need to be included into the project rehab specifications.
5. Any Asbestos Abatement Activities must be performed by a Michigan Licensed and Certified Asbestos Contractor and crew. Any asbestos activities will be part of the project and included in the total project cost. (Same type of rules apply for Lead Contractors, but regulations are through a different governmental agency).
6. All rehabilitation projects will abide by the state and federal regulations as they apply to Asbestos and Lead activities.

XII. Program Implementation

Letters of interest along with supporting documentation will be accepted from all interested building owners. The program administrator will be responsible for processing of applications and obtaining current and projected household income for prospective renters. The program administrator will determine if there are any outstanding tax liabilities against the property before proceeding.

The Iron County Building Inspector will inspect each property to determine any building code violations. A certified Lead Paint Inspection & Risk Assessment will determine any lead paint issues and corrective actions required. Additionally an Asbestos Inspection/Survey will be conducted to determine any asbestos presence and for treatment requirements. Also an Environmental Assessment will be conducted on all properties, as well as, photographs taken to accompany a letter submitted to the State Historic Preservation Office (SHPO) for historical review.

It will be required that a licensed & certified Architect prepare rehab plans and drawings for the existing building space where units are to be developed. Such plans and drawings will need reviewed and approved by the County Code Commission, as well as, the Program Administrator. Rental Rehabilitation plans shall account for all modifications required for county, state, and federal code compliance, fire, health and safety, as well as, other indoor air quality issues and requirements.

Supplemental Rehab Specifications will be prepared after Inspection results and the Architectural plans are completed, reviewed, and approved. Specifications and project plans will be reviewed and approved by the owner(s) and then used in the bid process. The owner(s) will make the final decision on the bidding contractor(s) to be selected for their project.

A Mortgage will be drawn up on the property for the amount of the CDBG assistance. The lien will be forgiven after the 5-year affordability period. After construction begins, the owner(s) and project administrator must approve bills submitted for payment. The individual projects will be periodically inspected to determine if the work is in compliance with the specifications as prepared and a final inspection must occur before final payment can be awarded. All properties must conform to applicable codes, and City zoning ordinances, even if they are not assisted units. 20% of the project costs will be held back pending final inspection and approval.

If a tenant moves out during the affordability period, any new tenant must also meet the required income guidelines.

XIII. Complaint Resolution Procedure

All complaints arising from the implementation of this program must be directed to the program administrator, in writing. The administrator will review the complaint and attempt to resolve the problem within 15 working days from the date the written complaint or concern is logged. If the complaint has not been satisfactorily resolved, a review committee will be established to hear the case.

The claimant may make a presentation or submit a written complaint to the committee for review. The committee will notify the claimant, in writing, of their decision within 30 working days of the date of the committee meeting.

XIV. Management of Rental Rehab Program Bank Account

The grant administrator shall maintain an escrow account as the depository for all funds received under the Rental Rehab program. This account will be separate and distinct from all other accounts and will be for the sole purpose of depositing and disbursing Rental Rehab funds. An escrow account for the owner's matching monies will also be set up for this grant. Escrow funds will normally be drawn on first, before requesting reimbursement from MSHDA. Disbursements of funds will be made by check and will be to cover administrative costs of the program or for contract work performed in connection with rehabilitation assistance.

The contractor will be paid the full contract price after written approval of the completed work has been obtained from the owner(s) and the program administrator. If a progress payment is made, it will be limited to no more than 80% of the value of the contractor's contracted project work satisfactorily completed. Final payment will be withheld until the program administrator receives the contractor's invoice and satisfactory releases of liens by subcontractors and material suppliers for completed work or installed materials, as well as, copies of all permit reports as applicable. In the event of a dispute between the contractor and the owner(s) in regard to the rehabilitation work, the procedure outlined in Section XIII Complaint Resolution Procedure will apply.

XV. Conflict of Interest

The City of Iron River will comply with all state and federal conflict of interest regulations when awarding contracts or loans to owners.

Adopted by

Date: