

Commonwealth of Massachusetts
Capital Improvement and Preservation Trust Fund (CIPF)
Rental Application Guidelines

A. Overview

The Capital Improvement and Preservation Fund (CIPF) is a state bond funded program that assists in the preservation and improvement of existing privately owned, state or federally assisted affordable rental developments. The legislation that established CIPF describes an eligible property as one which includes housing at risk of losing affordability restrictions due to: 1) the potential for the prepayment or payment of its mortgage; 2) the expiration of federal or state low-income housing tax credits or other state subsidies would lead or has led to the termination of a use agreement; and, 3) the expiration or anticipated expiration of a project-based rental assistance contract. In general, projects with the risk of converting to market within the next 36 months will be deemed to be at greatest risk and will be given priority for funding. *All applicants must meet the requirements of Chapter 159 of the Acts of 2009 (Chapter 40T), as applicable.* The process through which owners of these projects may seek CIPF is described in these guidelines.

Guided by the legislative intent, DHCD has prepared the following program guidelines for CIPF. To the extent possible, the guidelines are consistent or compatible with existing DHCD programs, including the Housing Stabilization and Investment Trust Fund, the HOME Investment Partnerships Program, the Low-Income Housing Tax Credits Program (LIHTC), and the Housing Innovations Fund.

CIPF may be used for the acquisition, refinance and/or rehabilitation of existing structures for rental use. In addition, no less than 50% of the total units must be available and affordable to households at or below 80% of the area median income as determined by the U.S. Department of Housing and Urban Development (HUD) and a minimum of 10% of the of the affordable units must be reserved for households at or below 50% of the area median income.

Applicants may seek Capital Improvement & Preservation funds either as a single public source or in combination with other public funds, such as Low-Income Housing Tax Credits, HOME Program funds, Housing Stabilization and Investment Trust funds, Affordable Housing Trust funds, Housing Innovation funds, etc. If CIPF are sought in combination with other state subsidies, certain per unit limits will apply.

CIPF applicants include community development corporations and for-profit or non-profit organizations. DHCD encourages projects that have non-profit sponsorship.

B. Eligible and Ineligible Costs

CIPF fund may be used for development hard costs and soft costs. Eligible hard costs include:

- Cost of demolishing and constructing or rehabilitating housing;

- Cost of acquiring property;

- Cost of essential improvements including improvements to permit use by persons with disabilities, abatement of lead-based paint hazards, repair or replacement of major housing systems in danger of failure, and energy-related repairs or improvements;
- Cost of making utility connections; and,
- Cost of site improvements such as on-site roads, sidewalks, bicycle paths and sewer and water lines.

Eligible related soft costs include:

- Financing costs, such as building permits, legal fees, property appraisals, credit and title costs, etc.;
- Engineering, architectural, or related professional services;
- Initial 18 month operating deficit reserves;
- Project audit and cost certification costs;
- Relocation costs, affirmative marketing, and fair housing information/education; and,
- Developer’s fee, developer’s overhead directly related to carrying out the project, and development consultant’s fee, the sum total of which may not exceed 12.5% of the sum of acquisition, hard and soft cost; or those amounts acceptable to the LIHTC program, if applicable. Development consultant costs included in developer fee limits consist of all consultants performing developer services, e.g. green consultants, historic consultants, tax credit consultants, relocation consultants, etc.

DHCD requires that all rehabilitation costs are reasonable, with no unusual or excessive amenities proposed; and that project soft costs are “reasonable and necessary.” Acquisition costs for the properties should not exceed the value determined by as-is market appraisals.

CIPF funds may not be used to:

- Provide project reserve accounts (except for the initial 18 month operating deficit reserves as described above), or operating subsidies;
- Provide project-based rental assistance;
- Provide public housing operating subsidies; and,
- Provide compensation for a project’s delinquent taxes, fees or charges.

The development and operating pro formas for all CIPF projects must conform to the standards DHCD currently uses to evaluate other multifamily rental applications submitted to programs such as the Low-Income Housing Tax Credits Program, the HOME Investment Partnerships Program, Housing Innovation Fund, Housing Stabilization & Investment Trust Fund, etc. It also is the Department’s expectation that acquisition costs, construction costs, “soft” costs, and developers’ fees will conform with the standards set forth for other DHCD preservation and production programs.

Please note: Applicants who receive CIPF funding will be required to submit a full cost certification prepared by a Certified Public Accountant at project completion. DHCD will accept a cost compilation prepared by a CPA for projects with fewer than 20 units sponsored by a non-profit. Upon completion of the development, any cost savings from the original budget for the development, including 100% of the unused soft cost contingency, shall be paid pro rata to the MassDocs participating lenders as a prepayment of their respective loan and/or grant. At the option of DHCD, the savings may be held as a capital reserve for the development.

C. Property Standards

Housing that is constructed or rehabilitated with CIPF funds must meet all applicable state and local codes, rehabilitation standards, ordinances, and zoning ordinances at the time of project completion. CIPF-assisted housing must meet all applicable state and local housing quality standards and code requirements.

In addition, new construction must meet the model energy code, as published by the Council of American Building Officials and must be built to appropriate Energy Star standards. All new construction or substantial rehabilitation in structures that are three-stories or less must secure Energy Star Certificates of Compliance. In general, rehabilitation projects must demonstrate affirmative efforts to improve energy efficiency.

All housing also must meet the accessibility requirements of MAAB, the Americans with Disabilities Act, and Fair Housing Act at CFR 100.205 and Section 504 of the Rehabilitation Act of 1973. And, new construction of rental housing must meet site and neighborhood standards at 24CFR 893.6(b).

Please note: Applicants should consult the most recent Tax Credit QAP and DHCD HOME/HSF/CATNHP design guidelines for guidance with respect to general design, “green design”, accessibility, and building wiring. All applications should include completed Appendices H & I, found in the most recent Tax Credit QAP whether or not a project is seeking Low Income Housing Tax Credits.

D. Expenditure Limits – Form of Assistance

In general, DHCD will award a maximum of **\$40,000** per unit for projects with more than 25 units and a per project maximum of **\$2,000,000** and will award **\$50,000** per unit for projects with 25 units or less and a per project maximum of **\$1,250,000**. The amount of CIPF available each fiscal year will vary based on an annual capital-spending budget approved for DHCD by the Executive Office of Administration & Finance, and by the needs and demands of other capital programs operated by DHCD.

Commitments for funding sources other than CIPF funds must be included as part of the application package.

Sponsors must obtain a commitment of funds from the community in which the project is located. If an application is submitted for a project located in a HOME entitlement or consortium community, the application must include a commitment of local funds. In general, preference will be given to applications with full match commitments.

CIPF loans are secured by mortgages running between the Massachusetts Housing Partnership Fund, Inc. acting as DHCD’s financial intermediary for the CIPF program, and the borrower. In general, the loans are secured by zero-interest, deferred payment junior mortgage notes. The loan terms must be consistent with all statutory provisions of the CIPF. The loan terms may vary if the borrower is seeking an allocation of Low-Income Housing Tax Credits, as well as other DHCD program subsidies, in support of the preservation and/or rehabilitation of a particular project. Upon request, DHCD may approve an interest rate greater than zero for a CIPF loan. However, since such loans are made with the proceeds of Commonwealth of Massachusetts general obligation bonds, the interest rate must be approved by DHCD.

At the end of the CIPF loan term, the borrower has the option of requesting an extension of the affordability period and further deferring payment on the mortgage note. Prepayment of the note will not affect the term of the affordability restriction, which will remain in effect.

E. Eligible Rents & Eligible Occupants

CIPF rental rates for affordable units should be consistent with other DHCD programs such as Low-Income Housing Tax Credits, HOME, Housing Stabilization & Investment Trust Fund program or project-based Section 8. Developers are permitted to charge up to LIHTC rents for CIPF units only upon initial rent-up and upon turnover (not upon lease renewal). Please note that units funded with HOME and CIPF must comply with HOME rent rules. Rental rates must be supported by market studies acceptable to DHCD. The proposed rent structure for the projects must incorporate rent increases consistent with current Department trending assumptions for affordable multifamily housing.

Please Note: If the units receive federal or state project-based rental subsidies or if the tenants have federal or state rental subsidies and are paying no more than 30% of their monthly adjusted income toward rent, then the maximum rent (i.e., tenant contribution plus rental subsidy) is the rent allowable under the federal or state rental subsidy program. Owners/management agents are permitted to collect up to the maximum rent allowable under the applicable tenant-based subsidy program in the event a mobile voucher holder resides in a CIPF unit.

F. Resident Selection Plan

The application for CIPF must contain a profile of the tenants currently occupying the project. The narrative must include information on current and projected rent levels, number of bedrooms in the unit currently occupied, plans for relocating some tenants within the property from very large units to units more appropriate to household size, income eligibility of existing residents, and so on.

The application must contain a detailed description of the process that will be used to select tenants to ensure that the selection process will be fair over time. The resident selection plan also must include a detailed description of ways in which the development team will promote affirmative and fair housing marketing efforts. Applicants must incorporate DHCD's most current Fair Housing Mission Statement and Principles including changes enacted by HR 3221, into project marketing. In addition, please note the following:

1. A tenant selection plan may not have the effect of excluding non-residents from a project.
2. Only if an applicant can clearly demonstrate local need for the proposed units, and that such preference will not be a violation of duty to affirmatively further fair housing or will not have disparate impact on protected classes, will local preference be considered. Under no circumstances will local preference be afforded to more than 70% of the units. If the percentage calculation of local preference units does not produce a whole number, DHCD will *round down*. There shall not be any durational limits on residency or employment in any plan; any proposed tenant selection plan that includes local preference shall define local affiliation in accordance with DHCD's Affirmative Fair Housing Marketing Guidelines (May 2013). Affirmative Fair Housing marketing shall extend to both the local community and surrounding metro area.
3. When scoring applications, DHCD will give higher consideration to projects with wider applicant pools.

G. Funding Criteria

In order to be considered for funds, projects must meet the following selection criteria:

- Demonstrated risk of payment or prepayment resulting in a significant loss of affordable units;
- Expiration of a use agreement for low-income housing;
- Termination or non-renewal of a project-based rental assistance contract;
- Appropriate scope of rehabilitation or construction, including standards for energy efficiency and healthy homes principles;
- Commitment to extended term of affordability
- Inclusion of Minority and Women Business Enterprises (M/WBE) members of the development team; Appropriate total development cost for properties included in proposal;
- Low soft costs and developer's fee;
- Minimum request for DHCD assistance;
- Financial viability of the project;
- Demonstration of site control;
- Demonstration of zoning;
- Degree of local support, including local funding commitments; and,
- Incorporation of the principles and characteristics of sustainable development.

H. Readiness to Proceed

In order to demonstrate readiness to proceed and ensure maximum project competitiveness, applicants should meet as many of the following criteria and submit as much of the following documentation as possible:

1. Narrative indicating that the proposed project will meet or has met the requirements of Chapter 159 of the Acts of 2009 (Chapter 40T);
2. Evidence of Notice to Tenants, Tenant Organizations, Chief Executive Officer of the Municipality, the Community Economic Development Assistance Corporation (CEDAC) and DHCD, as required by 40T
3. Evidence that all other sources of funding has been committed and no project related demolition, remediation and/or construction has begun prior to DHCD application submittal;
4. Evidence of site control for all parcels and buildings (i.e., deed, purchase and sale agreement, purchase option, etc.);
5. Evidence of as-of right or zoning approvals and/or a completed 40B or Article 80 process;
6. Comprehensive Sources and Uses that address such areas as bonding, clerk of works, security, etc.;
7. Reasonable developer fees;
8. Draft plans & specifications for the design of the site and building(s);
9. Estimates for construction from a general contractor or professional cost estimator;
10. ASTM Phase I environmental report completed within the last twelve months, lead paint report for both structures and soil, and radon tests for all structures (if any of the reports recommend remediation, a soil remediation plan should be submitted);
11. Submission of as-is appraisal;
12. Sign-off from Massachusetts Historic Commission;

13. Detailed resident selection plan;
14. Detailed market plan, including affirmative fair housing marketing;
15. Narrative describing how the marketing, resident selection and other applicable policies will incorporate the Department's Fair Housing Principles, including outreach to households least likely to apply; and,
16. Photographs of the buildings.

I. Capacity

The capacity of each team member must be described in the application. The application also should indicate which members of the development team are listed as Minority Business/Women's Business Enterprise by the State Office of Minority and Women Business Assistance (SOMWBA) and/or members listed as Section-3 eligible. The application must also include a management plan to ensure that the rental properties will be maintained over time.

J. Annual Data Collection

In order to help DHCD assess the impacts of local preference on affirmative marketing goals and compliance with applicable civil rights laws, all applicants who receive CIPF funding will be required to report household characteristic data for all CIPF-assisted units at the time of final rent-up and on an annual basis from that point forward. The report will include but may not be limited to the following data points: capital subsidies restringing the unit, size of the tenant household, income level of the tenant household, race and ethnicity of the head of household (to the extent available), number of children under the age of six, number of children under the age of 18, and type of rental assistance if any. Project owners or their specified designees will be required to report using the web-based data collection system developed by DHCD.

K. Application Process

DHCD makes CIPF funding available through a Notice of Funding Availability (NOFA). Applicants must submit an application for funding using the Department's Mass One Stop+ web-based application. . If you are seeking multiple DHCD resources, or if you wish to confirm application fee requirements, please refer to the current NOFA for specific submission information.

Although most development projects change over time, and some projects change substantially, DHCD must evaluate all project applications in a fair and equitable way. The Mass One-Stop+ application essentially is a "snapshot" of a project on the day of submission. Each project will be reviewed based on the materials contained in the One-Stop on the deadline for all submissions. The Mass OneStop+ website is found at <https://massonestopplus.intelligrants.com>

For further information please go to our web page at www.mass.gov/dhcd or call the CIPF staff at (617) 573-1300.