



LINCOLN

Urban Development

**South of Downtown Residential Rental Rehab Program
Policies, Procedures and Program Guidelines**

Lincoln, Nebraska

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TABLE OF CONTENTS

Introduction..... 3

Eligibility 4

Eligible Rehabilitation Costs 5

Ineligible Expenditures 6

Tenant Income..... 6

Financial Assistance 7

Application Process 8

Selection Process 9

Construction Management 10

Evaluation 10

INTRODUCTION

The South of Downtown Residential Rental Rehab Program (SoDo Rental Rehab) is available to owners of affordable rental residential properties in the South of Downtown area to provide financial assistance to rehabilitate their properties. Projects can receive up to \$15,000 per unit for rehab funded through this grant program subject to abiding by terms of a grant agreement.

The goals of the program are to improve the quality of existing affordable housing and extend the life of the building, with outcomes of ensuring tenants are provided with decent, safe, and sanitary housing at an affordable rent, and increased energy efficiency.

The City of Lincoln completed the *Affordable Housing Coordinated Action Plan*, adopted by the City Council in December 2020. The *Action Plan* identifies the need for improving existing affordable housing. During the same time, the City and the South of Downtown Community Development Organization (SDCDO) completed the *South of Downtown Redevelopment and Strategic Plan*, adopted by the Lincoln City Council in February 2021. That Plan identified improving the quality of existing affordable housing as its highest priority and identified a project to establish a rental rehab program. The Plan states that improvements and enhancements that support private rehabilitation of existing rental housing will be identified by Urban Development staff and program guidelines will be established.

Nebraska State Statutes require that an area be designated as Blighted and Substandard prior to the completion of a Redevelopment Plan. Not only did the South of Downtown Area receive that designation by the Lincoln City Council, it was also declared Extremely Blighted in January 2020. Among other things, the TIF period can be extended from 15 to 20 years in an Extremely Blighted area.

The primary source of funds for the SoDo Rental Rehab Program is Community Improvement Financing (commonly referred to as Tax Increment Financing or TIF) generated from growth in valuations and the private developments within the project area. The South of Downtown Area was designated a TIF District in August 2021 for 20 years. Short-term debt is expected to be issued to obligate future funds in phases. The City may issue Community Improvement Financing bonds or notes to fund the project. The City will divide the taxes for the Project Area and will estimate the availability of funds over a three- to four-year period.

The SoDo Rental Rehab Program is administered by NeighborWorks Lincoln through a contract with the City of Lincoln, Urban Development Department.

ELIGIBILITY

To qualify for the SoDo Rental Rehab Program:

Eligible Property

- Properties must be located in the project area: S. 10th to S. 17th Streets, A Street to “J” Street (Lincoln Mall).
- Properties must be a permanent structure available for rent on a year-round basis.
- Mixed-use properties (commercial and residential) are eligible if the commercial use is compatible with the residential use. Assistance is provided for rehabilitation of the residential portions only.
- Properties must be current on property taxes and if the units are in a structure with 3 or more units, licensing must be current.
- Properties where the owner occupies one of the units are eligible with assistance provided to the rental units only.
- Condominium regimes are eligible with assistance provided to rental units only. Common area improvements will be pro-rated based on the percentage of rental units in the building.
- Vacant units are eligible with property owner agreement that rents will be affordable upon completion. See “Eligible Property Owner Requirements,” below.
- Conversion of a vacant commercial building into rental housing is allowable if rents will be affordable upon completion.
- Units must be able to be restored to decent, safe and sanitary condition.
- The property must be insured with a comprehensive insurance policy at the time of application.
- Properties must be in compliance with the City’s housing codes when completed.
- The number of affordable housing units prior to rehab through the SoDo Rental Rehab Program must remain or increase. For example, if 4 units in a 6-plex are affordable prior to rehab, then at least 4 units must be affordable after project completion.

Eligible Property Owner Requirements

- Maximum rents may not exceed the U.S. Department of Housing and Urban Development (HUD) Fair Market Rent (FMR). HUD revises maximums annually.

| | Efficiency | 1 bedroom | 2 bedroom | 3 bedroom | 4 bedroom |
|----------------------|------------|-----------|-----------|-----------|-----------|
| Max rent & utilities | \$766 | \$856 | \$1,067 | \$1,504 | \$1,638 |

Effective date: June 1, 2024, and each year thereafter

Updates can be found [on HUD's website](#).

The FMRs for unit sizes larger than 4 bedroom are calculated by adding 15 percent to the 4-bedroom FMR, for each extra bedroom. For example, the FMR for a 5-bedroom unit is 1.15 times the 4-bedroom FMR, and the FMR for a 6-bedroom unit is 1.3 times the 4-bedroom FMR. FMRs for single-room occupancy units are .75 times the efficiency FMR.

- Applicants must have possession of the unit(s) at the time of application or have a purchase option or scheduled closing date.
- The property owner must agree to maintain affordability for a period negotiated and approved by the City and agree to limit rent increases throughout the affordability period consistent with, and not exceeding, HUD's annual maximum FMRs.
- The property owner agrees not to income discriminate based on source of income and agrees to accept tenants with Housing Choice Vouchers.
- If the current rent is lower than the HUD FMR, a 5% increase at lease renewal is allowed. At no point can rent exceed the HUD Fair Market Rent during the affordability period.
- Applicants must agree to report to the City annually by providing rent roles or ledgers during the affordability period.
- The owner of record may be an individual or individuals, corporation, partnership or non-profit.
- Property owner agrees to allow City/City representative to periodically inspect the rehabilitated units during the term of the affordability period for compliance with the Grant Agreement including meeting property standards.

ELIGIBLE REHABILITATION COSTS

- Bringing up to existing housing code standards in older buildings.
- Replacement or updating of major systems with emphasis on improving energy efficiency:
 - Roofing
 - Windows
 - Doors
 - Siding
 - Gutters
 - Plumbing
 - Electrical
 - Heating
 - Ventilation
 - Air conditioning
 - Insulation
 - Foundations
 - Exterior masonry
- Other energy efficiency improvements.
- Lead-based paint remediation through the City's Lead Hazard Control Grant Program
(Additional requirements apply).
- Costs for temporary relocation of tenants.
- Costs of architectural and engineering services.
- Environmental hazards including radon remediation, asbestos abatement, and mold.
- Removal of architectural barriers to provide accessibility for persons with disabilities.

In projects proposing the rehabilitation of mixed-use properties, only the costs of improvements to the rental residential portions are eligible. Improvements to common areas and systems are eligible on a pro-rata basis proportionate to the rental residential uses.

INELIGIBLE EXPENDITURES

- Luxury items.
- Cosmetic upgrades

TENANT INCOME

Federally funded housing rehab programs typically have income requirements for both homeowners and renters. This locally funded program does not require tenants to income qualify due to the area income statistics from the 2020 Census. The area is comprised of two census tracts: median household income in census tract 20.01 was \$22,000 in 2020 with a poverty rate of 39%. Median income in census tract 20.02 was \$27,000 with a 26% poverty rate in 2020. In comparison, median household income in the city of Lincoln was \$60,063 with a poverty rate of 12.8%. For this reason, and for purposes of the SoDo Rental Rehab Program, rental units in the South of Downtown area automatically qualify for assistance due to the overall median income and poverty rate of residents. This reasoning is patterned after the U.S. Department of Housing and Urban Development (HUD) national objective of Low/Moderate (L/M) Income Area Benefit for the Community Development Block Grant (CDBG) program:

...an area benefit activity is an activity *which is available to benefit all the residents of an area* which is primarily residential. In order to qualify as addressing the national objective of benefit to L/M income persons on an area basis, an activity must meet the identified needs of L/M income persons residing in an area where at least 51% of the residents...are L/M income persons. The benefits of this type of activity are available to all residents in the area regardless of income.
(Source: U.S. Department of Housing and Urban Development, Community Development Program, p. 3.7)

While 'Area Benefit' does not generally refer to CDBG funded rehab programs, it does provide a framework for the SoDo Rental Rehab Program to qualify all rental units in the South of Downtown area, in conjunction with the requirement that rental units must be affordable, as defined by HUD.

FINANCIAL ASSISTANCE

- Financial assistance is provided in the form of a grant subject to prorated claw back if terms of the grant agreement are violated during the affordability period.
- A lien is recorded on the property until the affordability period has been completed.
- Contractors must be approved by NeighborWorks Lincoln prior to project approval.

- Funds are provided as a reimbursement for eligible costs. All construction work is inspected by NeighborWorks Lincoln staff prior to payment being approved. Payment is made directly to the contractor(s).
- Receipts and documentation must be provided to verify costs.
- Contractor shall provide the City with lien waivers from those contractors and subcontractors who have completed work prior to the City reimbursing Contractor the costs requested.
- If during the affordability term the property owner fails to maintain the improvements or is issued a code violation, the property owner shall have thirty days to address the issue or make suitable arrangements with the City to come into compliance. Failure to respond or act will result in the termination of the grant and immediate repayment on a prorated basis.
- The property owner shall have, maintain, and provide proof of Commercial General Liability Insurance for the Property and the work to be completed on an occurrence basis with limits not less than \$1,000,000 combined single limit per occurrence and not less than \$2,000,000 general aggregate. Until the work is completed, the City of Lincoln shall be included as an additional insured on the policy. Written evidence of insurance, including the endorsement naming the City as an additional insured, shall be submitted with the grant agreement contract. In lieu of the property owner(s) providing the insurance, the City will accept the same coverage provided by the contractor(s) also specifically naming the City of Lincoln, Nebraska as an additional insured.
- The property owner shall not begin work prior to the grant agreement contract being fully executed by the City. Any work begun prior to this approval is undertaken at property owner's risk and may not be subject to reimbursement.
- If the property is sold within the affordability period, property owners are subject to repayment on a pro-rated basis.

APPLICATION PROCESS

1. City will open a pre-application period for 30 days at least annually.
2. Interested property owners will submit a preapplication that may include the following:
 - a. Applicant name
 - b. Date applied.
 - c. Business name
 - d. Contact phone number.

- e. Applicant address.
- f. Applicant email.
- g. Rental property address.
- h. Have you submitted this property for consideration in the past.
- i. Number of Units.
- j. How many units are vacant.
- k. What is the median contract rent per unit.
- l. Year Built.
- m. Identify some of the work that may be done on the property.
 - i. (Examples include HVAC, Foundation, Windows, Water Heater, Boiler/Steam Heat, Electrical Box, Attic Improvements, Insulation, Roof, Electrical, Plumbing, Exterior Door, Exterior Lead)
- n. Detail any other type of work.
- o. Source of energy.
- p. How many years do you agree to keep these units affordable.
- q. What is the estimated improvement cost/unit.
- r. If the cost per/unit is over the grant maximum, will you cover the remainder of the cost.
- s. What is the average length of stay, in years, for renters in your units(s)
- t. Is the building, not unit, ADA accessible.
- u. How many of the current units are ADA accessible.
- v. Will the project make the building or additional units ADA accessible.
- w. How long has the owner owned, in years, the property.
- x. Is the property managed by another person/agency/group.
- y. Have you applied for a Lead Hazard Control Grant
- z. Is the property in a historic district.
- aa. Have your tenants taken RentWise.
- bb. What is your plan to minimize disruption in the lives of your tenants during construction?
- cc. To ensure the agreed upon affordability period is maintained, a lien on the property is required for the length of the affordability period. Do you agree to this requirement?

SELECTION PROCESS

1. Urban Development Department staff review applications for preliminary approval based on completeness of the application and confirmation that units are located within the target area.
2. A City-led team comprised of staff from the City, NeighborWorks Lincoln, and partner agencies that may include Lincoln Electric System (LES), Black Hills Energy and others, score applications based on the following criteria:

- a. Length of affordability.
 - i. Affordability periods greater than 30 years receive the most points.
- b. Existing or potential partnership with other housing programs.
 - i. The unit(s) receive additional points if funding can be layered with other programs through the City or its partners.
- c. The rehabilitation/creation of accessible buildings and/or units.
 - i. The unit(s) receive additional points if an accessible building or unit is created.
- d. Age of the building.
 - i. The unit(s) receive additional points if it is in an older building.
- e. Median rent.
 - i. Additional points are awarded for low median rent.

Projects are selected based on the number of points received, funding availability, and totality of the application.

3. Property owners are notified and informed if they have, or have not, been selected.
4. The property owner and NeighborWorks inspector inspect the property to finalize scope of work for the project to be written by the NeighborWorks Inspector.
5. Additional funding sources may be identified based on the type of work, e.g., electrical, gas.
6. The property owner bids the project. Projects must be bid within three months of execution of the grant agreement contract and completed within one year.
7. Bids are reviewed by the NeighborWorks Inspector who ensures bonding and insurance requirements are met.
8. Budget is finalized including a 10% contingency.
9. A contract between property owner and contractor is completed and reviewed by the NeighborWorks Inspector.
10. The contract includes a scope of work, cost estimates and draw request template.
11. The grant agreement contract is finalized between the City and property owner detailing program requirements including proof of insurance. A lien is be placed on the building for the affordability period.

CONSTRUCTION MANAGEMENT

- The property owner must notify tenants of work to be done and follow all Nebraska statutes relating to the entry of units.

- The property owner is responsible for coordinating all construction activities and obtaining the required building permits, inspection certificates, and certificate of occupancy, if required, with assistance from the contractor(s) and NeighborWorks staff.
- The NeighborWorks Inspector monitors construction activity on a regular basis to assure quality and compliance with the work specifications and will notify the property owner if any problems are encountered.
- The property owner will notify the NeighborWorks Inspector and obtain prior approval for any changes in the scope of work.
- Progress inspections are conducted by the NeighborWorks Inspector to ensure work is progressing in a timely manner and in accordance with City codes and scope of work. No final payments are made until all construction is complete and the unit is ready for occupancy (if vacant or if tenants were relocated).
- Invoices are reviewed by the NeighborWorks Inspector, approved, and submitted to the Urban Development Department for payment within 30 days.

EVALUATION

The program is evaluated annually, or until funding expires, to determine:

- Number of affordable units completed and increased.
- Average length of affordability.
- Average cost per unit.
- Increase in energy efficiency.
- Program administration efficiency.

Program evaluation may result in amendments to the Policies and Procedures and Program Guidelines as required.

Prepared by City of Lincoln, Nebraska Urban Development Department and SoDo Rental Rehab Program Team; updated 06/15/24.