NSP REBUILDING NEIGHBORHOODS ONE HOME AT A TIME

# The Neighborhood Stabilization Program

## Policies & Procedures Manual

JUNE 29, 2011

Jacksonville
Where Florida Begins.

Housing and Neighborhoods Department

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NEIGHBORHOOD STABILIZATION PROGRAM

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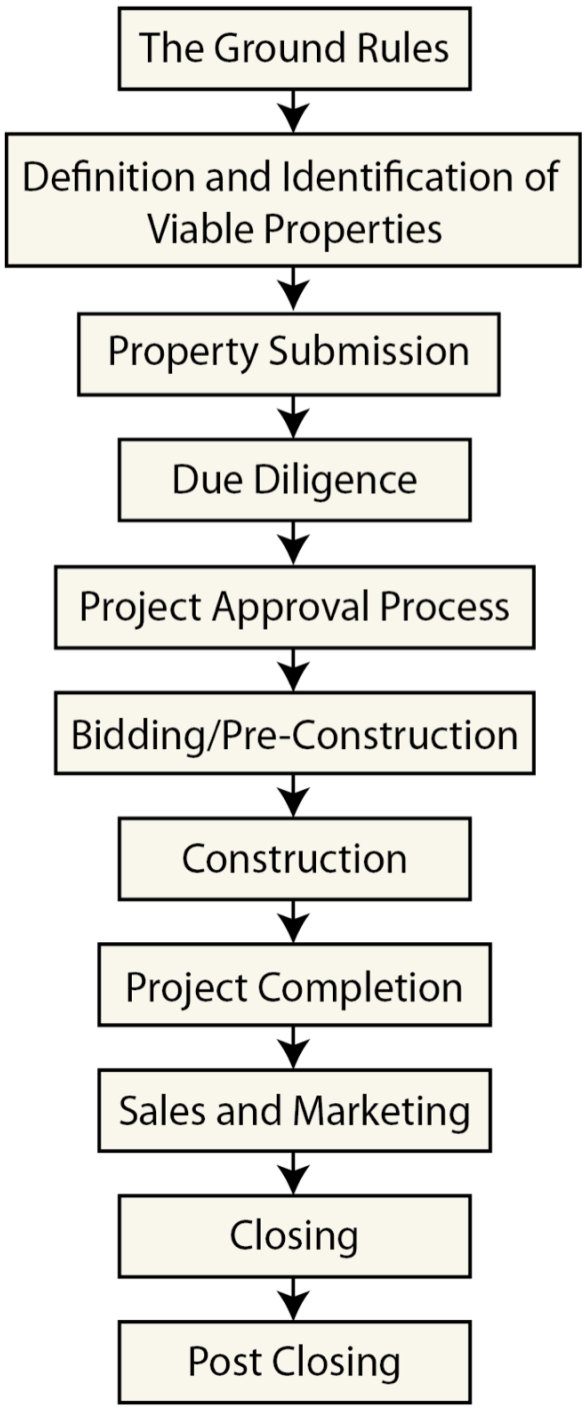
This Policies and Procedures Manual is designed to give process clarity and direction to participants throughout the life-cycle of an NSP single-family home. The specific nature of the manual adds to transparency while holding the Developers *and* the City accountable for timely performance. As we continue to fine-tune the process to increase efficiency and meet production goals, the City reserves the right to amend the manual from time-to-time. Any changes in this manual will be delivered to all participants as well as added to the City's Housing and Neighborhoods NSP web page. In addition, a full copy of this manual as well as all attachments will be available for download at the City's NSP web page as well. We are available for any questions that may arise through a project and we welcome any feedback you may have.

Wight Greger – Director, Housing and Neighborhoods Department

# The NSP Project Lifecycle



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STEP I

# The Ground Rules

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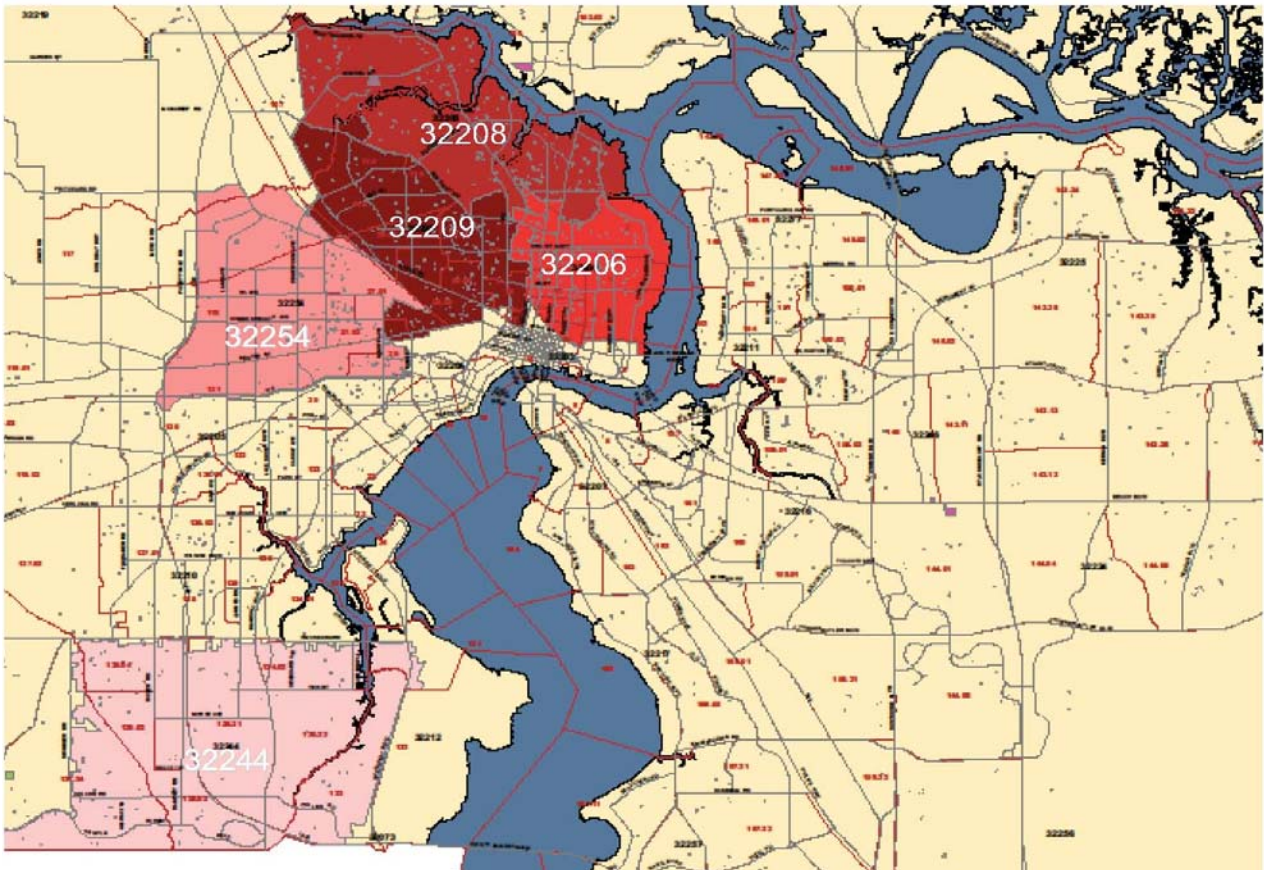
# Step I: The Ground Rules

## A. Target Areas

The Target areas for NSP I are the following zip codes: 32206, 32208, 32209, 32244 and 32254. See the detailed map below.

From time-to-time the target areas may be modified in order to ensure that the funds are reaching all of the target areas and not just concentrated on any one area. Currently the 32244 and 32254 zip codes have been put on hold due to a higher than expected number of projects in that area.

**NSP I Target Areas**



The target areas for NSP III are primarily located only in the Springfield area. A detailed map of the current boundaries is below.

## NSP III Target Areas

## B. Property Types

For our **"Rehabilitation"** strategy - targeted properties for this portion of NSP are single-family abandoned or foreclosed homes within the target areas that are in need of rehabilitation in order to improve and stabilize the surrounding neighborhood.

For our **"Redevelopment"** strategy – targeted properties for this portion of NSP are single-family abandoned or foreclosed homes in need of demolition or vacant lots that represent a reasonable and logical opportunity to build a new home to improve and stabilize the surrounding neighborhood.

A more detailed explanation of specific property characteristics is detailed below in Section II.

Note that the HUD definition of "abandoned" and "foreclosed" have changed several time during the program but they are currently defined as follows:

**Abandoned** – *A home or residential property is abandoned if either a) mortgage, tribal leasehold, or tax payments are at least 90 days delinquent, or b) a code enforcement inspection has determined that the property is not habitable and the owner has taken no corrective actions within 90 days of notification of the deficiencies, or c) the property is subject to a court-ordered receivership or nuisance abatement related to abandonment pursuant to state or local law or otherwise meets a state definition of an abandoned home or residential property.*

***Foreclosed*** – *A home or residential property has been foreclosed upon if any of the following conditions apply: a) the property's current delinquency status is at least 60 days delinquent under the Mortgage Bankers of America delinquency calculation and the owner has been notified of this delinquency, or b) the property owner is 90 days or more delinquent on tax payments, or c) under state , local, or tribal law, foreclosure proceedings have been initiated or completed, or d) foreclosure proceedings have been completed and the title has been transferred to an intermediary aggregator or servicer that is NOT an NSP grantee, sub recipient, contractor, Developer, or end user.*

Although the HUD definitions of Foreclosed or Abandoned are somewhat generously written, we are asking Developers to concentrate on homes that have completed the foreclosure process. From a "best practices" position, we have found that short sales and abandoned homes often take an inordinate amount of time to complete and usually waste due diligence dollars and projects that are unlikely to close.

## C. Financial Structure

The City of Jacksonville (COJ or City) will provide financing to NSP approved Developers for acquisition and construction of approved projects of up to $99,000 per project. The City's NSP funding to the Developers is based on a reimbursement basis ONLY. The Developers must therefore have access to, and be able to document substantial capital or other funding sources to "front-load" the projects.

***A loan of up to $99,000 per NSP project from COJ on a REIMBURSEMENT BASIS***

**The Developer and the City will enter into a contract (attached as Exhibit V) outlining all of the terms and conditions of each specific project** including but not limited to the following highlights. Please review the full contract for more detail:

a. The property must be acquired at a price equal to or less than 99% of the appraised value as determined by the City's NSP approved appraiser.
b. The Developer will use the City's approved closing agent for acquisition and re-sale of all NSP homes.

c. The Developer will detail all intended expenses of the project by way of a detailed proforma that is to be signed by the Developer and City and included as an exhibit to the contract between Developer and City.
d. The City's mortgage must be in first position.
e. Combined Loan-to-Value (CLTV) between the City's first mortgage and any second mortgage can never be great than 100% of the "Total Project Costs plus Profit".
f. The contract for construction is between the Developer and the COJ approved GC (not the City) and must include the required addendum provided by the City that states the GC will adhere to all programmatic guidelines and General Conditions.
g. The home must be sold to a buyer meeting the NSP financial qualifying conditions.
h. The City will provide up to $40,000 of buyer purchase assistance for the re-sale of the home to a qualified buyer, based on the NSP eligibility requirements.
i. The home must be offered for sale, marketed and sold only for the approved sales price as detailed in the Developer's contract with the City unless given specific written direction otherwise by NSP staff.
j. The City will cover the shortfall between the cost and the sale price (Gap Subsidy) by reducing the payoff of the City's loan to the Developer as appropriate on a case-by-case basis but no more than the amount of the loan.
k. The Developer has the right to resell the home to COJ or its approved designee at a reduced profit 6 months after Project Completion, if they are in good standing with the City and have used their best marketing efforts to actively sell the home.
l. The Developer's profit will be 16% of the Total Project Cost if sold to an eligible buyer or reduced to 10% if sold to the City or its designee, less any concessions agreed between COJ and the Developer or less any penalties or fees.

## D. Max Number of Applications and Projects Outstanding per Developer

***The number of applications allowed for each Developer will be decided on a case-by-case basis.***

In order to promote fairness and efficiency, the City will determine the maximum number of new applications that it will accept from each Developer and when they can be submitted. This will be on a case-by-case basis for each Developer based on existing unsold projects, past individual performance, capacity and financial ability. Limiting the number and staggering the receipt of applications will also create a more cohesive and balanced intake process and avoid a rush to submit applications without proper thorough analysis.

## E. Developer Obligations

The NSP Developers must be committed to providing the appropriate staff, financial strength and attention to details that will allow them to:

1. Timely function on a reimbursement basis.
2. Place deposits on a timely basis.
3. Demonstrate the ability to manage General Contractors appropriately, including assurances that all subs are timely paid.
4. Be compliant with requirements of all other COJ programs and be in "good standing" with COJ.
5. Cause NSP construction to be completed per contract schedule.
6. Deliver or cause to be delivered all NSP documents as requested by NSP on a timely basis.
7. Ensure compliance with all NSP rules including General Conditions*, Technical Specifications*, Policy and Procedure Manual, Contractual Obligations, Contract Amendments to GC and Buyer, and any other programmatic requirements as may be amended from time-to-time.
8. Thoroughly review any houses that they submit into the program to ensure that they are viable and marketable by using their construction and sales expertise.

- Note that NSP Technical Specs and General Conditions are not attached to this document due to their length. They are both available as a reference in the NSP office, on the City's NSP web page and they have been previously provided to each Developer and to each NSP approved GC.

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STEP II

# Definition and Identification of Viable Properties

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# Step II: Definition and Identification of Viable Properties

## A. Property Lists

The City of Jacksonville will provide lists of foreclosed properties for the Developers to review and consider for submission into the program. The City is considering doing further detailed initial reviews of the properties at some point in the future to create a short- list of eligible properties. This will help to eliminate the inefficiencies caused by property selection errors, wasted due diligence and multiple Developers taking time to disqualify the same properties.

The Developers are always welcome to submit properties that they procure from their own methods as well. Regardless of the quality of the lists provided by the City, the Developers are responsible for completing a thorough review of the property. The Developers should use their expertise and experience to review the homes, neighborhoods and property specifics to determine financial viability and marketability of the project. The successful rehabilitation or construction of the home and resale to an eligible buyer is the ultimate goal of the program. It also is the ultimate obligation of the Developer and must be properly evaluated when considering each new project.

***The Developers should use their expertise and experience to determine financial viability and marketability of each home.***

## B. Property Condition Best Practices

Based on the past successes and challenges of NSP, here are some property conditions to avoid or to focus on to increase your odds of project approval when reviewing properties to be considered for the program.

1. Avoid homes with asbestos siding and shingles. The homes can often be identified by the roofing and siding style before any testing is done. The replacement and abatement of these items is often too cost prohibitive.
2. Don't pick the best house on the block. It's inconsistent with the overall program goal by not contributing to the overall revitalization of the neighborhood and often leads to valuation issues once completed.
3. Don't forget marketability. In order to have programmatic success the homes have to be resold.

4. Avoid homes with fuel tanks.
5. Avoid homes with swimming pools. Costs to remove are often prohibitive.
6. Avoid homes next to railroad tracks, factories, industrial areas or other unusual locations. Be aware of noise and odor and check to ensure home has residential land use and zoning. Concerns here often lead to FHA ineligibility.
7. Avoid homes with well and septic. In some instances newer septic systems can be approved or replaced but a home with a septic is typically only FHA eligible if the home is connected to city water.
8. Avoid homes with major structural issues. Although many homes have had some minor structural issues, these items are often difficult to estimate and repair. They can be cost prohibitive to repair.
9. Avoid homes with obvious unknown conditions. If there is apparent termite damage but the extent is unknown due to access issues or inspection limitations, it is virtually impossible to estimate properly.
10. Avoid functional obsolescence. Houses that are 3/2s and 4/2s are great targets. A 5/1 or a 1 bedroom home would need major redesign in order to be marketable.
11. Avoid homes with unpermitted additions unless the intent is to remove the addition and it is cost effective.
12. Be aware of drainage, flooding and elevation issues. These problems are often impossible to overcome.
13. Avoid homes that are over-improved for the neighborhood. A 2 story 5/3 in a neighborhood full of 2/1s will be tough to appraise.
14. Focus on homes that are built after 1960 to avoid a SHPO concern that may come into play late in the due diligence process.
15. Try to identify homes that may have aluminum wiring as the re-wiring process is often cost prohibitive and may require unnecessary wall board replacement.
16. Be mindful of the acquisition costs and rehabilitation costs. The pro-forma needs to make sense and the Gap subsidy needs to be as conservative as possible.

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STEP III

# Property Submission

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# Step III: Property Submission

1. Developer reviews foreclosure lists and visits targeted properties.
2. Developer completes preliminary review.
3. Developers must check property tracking sheet to ensure that it has not been submitted by another NSP Developer participant prior to submission.
4. At Developer's discretion, if they feel it is a viable project, they complete the Property Application Form as attached in Exhibit A and deliver to COJ (email address is PropertyApps@coj.net) along with the following documents:
    a. Any proposed changes to the specs through the attached Change in Scope form attached as Exhibit B
    b. If there will be any change to the layout, a new floor plan must be submitted at this time
    c. The Lock Box code and any specific access instructions
    d. Direct contact info for a responsive party with the Developer
    e. Plans and Specs (If new construction)
    f. Copy of a HUD1 and any notes and mortgages (if property has already been acquired)

5. The properties must be acquired at 99% or less than the value as determined by the City's approved appraiser. Write the Purchase and Sales Agreement (PSA) as needed or take the business risk through your deposit with the Seller as appropriate.
6. Developer must deliver a copy of the *offer* to purchase to NSP staff within 24 hours of application submission.
7. Developer must deliver a copy of the accepted PSA to NSP staff within 24 hours of receipt.
8. Developer MUST remain engaged and monitor their offer and property availability daily. In the event the property is put under contract by someone else, the Developer has an obligation to cancel the due diligence process within 24 hours. This is to ensure that COJ minimizes any unnecessary DD expenses. Failure to comply will result in the Developer being charged for due diligence fees incurred as a result of late cancellations.

***Developers will be responsible for unnecessary DD fees incurred as a result of late cancellations.***

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STEP IV

# Due Diligence

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# Step IV: Due Diligence (DD)

## A. Property Application Form

The Developer completes the Project Application form completely and emails to the City along with all appropriate documentation. The City receives the application, reviews for completion, assigns a project number and adds to the property tracking sheet.

## B. COJ Site Visit

If the property has not been previously previewed by the City, the City will perform a site visit with 2 business days to review overall site conditions. At this point the project will either be denied or continue with the due diligence process.

## C. Third Party DD Reports

Property due-diligence reports are then ordered concurrently by COJ NSP staff:

1. Title and survey are ordered from City Approved Title Company.
2. Environmental studies are ordered including SHIPPO. If samples are taken, they will be forwarded to the appropriate lab for testing as needed.
3. Work Write Up is ordered from COJ approved Construction Management Group.
4. Structural analysis (if needed as determined by COJ Construction Management).
5. Appraisal is ordered.
6. WDO is ordered.

## D. Completed DD Reports

The City notifies the Developer of receipt of the documents through email by sending a copy of the reports to the Developer as they are received.

## E. Deal Breakers

If the City believes that any of the DD results are a potential deal-breaker, (e.g. asbestos remediation estimated at $70k), the City will contact the Developer to discuss and will cancel the project if mutually agreed or by completing a project cancellation form (Attached as Exhibit C), however the City reserves the right to cancel at their own discretion if needed. The City will then cancel all remaining due diligence reports wherever possible to avoid unnecessary charges.

Also, if the *Developer* determines that any of the due diligence reports are a deal-breaker based on their expertise and analysis of the multiple reports, (e.g. Appraisal amount higher than seller's final offer or multiple smaller issues on various report combine to make the cost excessive), they must contact the City within 24 hours and cancel the project by completing a project cancellation form.

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STEP V

# Project Approval Process

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# Step V: Project Approval Process

## A. Project Approval Submission Package from Developer

When DD is completed, COJ will notify the Developer of the results and completion of DD stage via email within 1 business day. The Developer has 3 business days to review for project viability and then choose to either cancel or prepare and submit a project approval request. The Project Approval Request from the Developer must contain the following:

1. Submission Checklist (Attached as Exhibit D)
2. Completed and Executed Pro-forma (An example is attached as Exhibit E)
3. Completed and Executed Sources and Uses (An example is attached as Exhibit F)
4. Fully Executed Sales Agreement for Property Acquisition or proof of ownership (If not previously provided)

## B. Project Approval / Denial

Upon receipt, the City has 1 business day to approve or deny the project based on the following criteria:

1. Property meets guidelines
2. Developer is in compliance with other projects
3. Financial viability of the project
4. Gap subsidy amount
5. Property marketability and common sense
6. Extent of the Scope of Work
7. Environmental Concerns

## C. Contractual Documents

1. The City immediately upon approval issues an LCL - Loan Commitment Letter (An example of which is attached as Exhibit G) or issues a denial as appropriate.
2. The City then requests the contract documents through our legal team, prepares the documents and delivers them to the Developer for execution. This process takes approximately 3 weeks.
3. The Developer will sign the contract and return to the City NSP staff within 5 business days.
4. The City will route the contract through all of the appropriate departments for signature and deliver to the Developer upon full execution.

## D. Acquisition Closing

1. The Acquisition Closing must take place or be coordinated through the City's approved Title Company. Even when the Seller requires use of another title company, the City's Approved Title Company must still be involved to provide the proper protection and controls required by way of their contract.

2. The City's approved Title Company will provide a copy of the closing statement (HUD 1) to:
   a. COJ – for file
   b. City's Bidding Consultant – to prepare bids, schedule and attend open house
   c. City's Marketing / Web Consultant – to update website
   d. City's approved inspection group – to attend open house

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STEP VI

# Bidding/Pre-Construction

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# Step VI: Bidding/Pre-Construction

## A. Bid Preparation

Upon receipt of the closing statement for acquisition, the consultant handling the bidding will do the following:

1. Schedule a Pre-Bid Conference time and date.
2. Prepare bid packages.
3. Update the website with the detail regarding bidding and dates.
4. Invite all eligible GCs to attend the Pre-Bid Conference.
5. Host the Pre-Bid Conference.

## B. GC and Sub Eligibility

In order to be eligible to bid on an NSP project a GC must submit a NSP GC Participation Form (Attached as Exhibit H) along with all necessary documentation as required. The applications are submitted to NSP staff, reviewed and approved or denied as appropriate. The City maintains a list of all eligible GCs and encourages all interested GCs to apply. Applications are submitted year-round. Approved GCs may be required to submit updated information to maintain eligibility periodically.

A GC who is affiliated, owned or controlled by a Developer will not be eligible to bid on any projects owned by that same Developer. These affiliated GCs can however, bid on NSP projects for other Developers provided that they are an NSP approved GC.

GCs must list all subs for licensed trades on the bid documents at the time of bid. If that chosen sub is not used in the indicated trade, a written release must be obtained from the sub that was originally selected. A minimum of two bids are required for any subcontractor work over $1,500.

***GCs are encouraged to use subcontractors and suppliers that have a JSEB designation.***

There is no longer a list of approved subcontractors for NSP homes. GCs can use whatever subs they deem are the most appropriate for the job. GCs and subs must maintain the proper insurances, be qualified for the work, have the appropriate licenses and follow all federal, state and local laws. GCs are encouraged to use subcontractors and suppliers that have a JSEB (Jacksonville Small and Emerging Business) designation from the City of Jacksonville. The JSEB participation goal for NSP is 25%.

## C. Pre-Bid Meeting / Walk-Through

- All NSP Approved GCs and the Developer will be notified via email of date, time and address for a Pre-Bid Conference and home walk-through. This will give the GCs an opportunity to tour the home and determine if they want to bid on the work prior to requesting source reference documents.
- The home inspection will be included in the email invitation sent to all eligible GCs.
- The Pre-Bid Conference and walk-through will be approximately 3 hours for prospective GCs to review the home, register to bid and purchase the source reference documents if the GC will be bidding.
- All eligible GCs are strongly encouraged to attend the pre-bid walk through.
- GCs must be on the NSP Approved GC list in order to be eligible to bid.
- For Redevelopment (new construction), the pre-bid meeting will take place in the NSP office.
- The cost of the source reference documents is $50 and they will be available for review and pick up at the time of the walk through.
- At any time up until the closing of the bid, any NSP eligible GC may pay the fee and pick up the source reference documents.
- When picking up the source reference documents, bidders will be registered and eligible to bid on that project.
- The details of the bid deadline, opening date and location and other pertinent info will be included in the invitation to the pre-bid conference.
- Representatives from the City's Construction Management team will be available during the walk through to assist with any additional information or any clarifications relative to the scope of work as needed.
- If there are any substantial questions or clarifications leading to potential changes in the scope of work, they can be formally submitted to the City's Construction Management Team through a Request for Additional Information – RFI. (Attached as Exhibit I)
- If any RFI's are received, the appropriate responses will be emailed to all registered bidders for that project.
- The Construction Management Team will coordinate dissemination of the responses to all registered bidders.

## D. Bid Drop Off

During the bidding process, sealed bids can be dropped off during normal business hours to COJ at the 8th floor, Ed Ball Building NSP Department. Full instructions will be provided in each invitation to the pre-bid conference. Bids envelopes will be time and date stamped when received and bidders will be required to sign a "drop off" log to verify timeliness of acceptance.

## E. Bid Openings

When the bidding period closes, there will be a formal bid opening that is open to the public at COJ, 8th floor, Ed Ball Building. The bid openings will be within a few days after the bid closing so that multiple bid openings can be grouped back-to-back to increase efficiency for all. The lowest qualified bidder will then be awarded and notification will be sent via email to the GC, the Developer, the City's approved Construction Management Consultant, and COJ for the project file.

## F. Developer and GC Enter Into a Contract

The Developer and GC must coordinate with each other, finalize terms and execute a construction contract within 7 calendar days of the bid award and then the Developer must prepare and compile the necessary documents needed for the Pre-Con meeting.

The City of Jacksonville asks that the Developer seek legal counsel to create their own individual contract template for NSP construction agreements with the GCs that meet their own unique needs as well as the requirements of the program. A contract addendum has been provided for the Developers to use in all NSP contracts between Developers and GC's (An example is attached as Exhibit J). It requires the GC to be bound by the General Conditions, the Tech Specs and any other COJ NSP requirements.

**In addition, here are some suggested items to include in contract between the Developer and GC:**

- Specific references to specs
- Full Sets of plans (if appropriate)
- Specific references to NSP General Conditions
- Performance Standards
- Detailed Construction Schedule
- Penalties for delays that mirror the penalties between COJ and the Developer
- Abandonment or Non-responsive clause
- Clarifications of GC obligations and liabilities relating to maintenance, landscape and security during construction.
- Ability to terminate at will
- Arbitration / Mediation clause
- GC Warranty
- Job Abandonment clause
- Lien satisfaction obligations
- Dispute resolution obligations
- Proof of payment from GCs to subs

***Developers should seek legal counsel to create a contract template for their agreements with the GC's that is suitable to meet all of their needs and the requirements of the program.***

## G. The Pre-Con (Pre-Construction) Meeting

The Pre-Con meeting will be held at the property and will be scheduled with the City's Approved Construction Management Consultant within 14 calendar days (21 days for New Construction) of the latter of the bid award date or receipt of a fully executed contract from COJ. The Developer will be penalized $100 per calendar day for every day the Pre-Con meeting is delayed beyond day 14 (21 for NC). During those 14 days (21 for NC) there are many obligations that the GC and Developer must quickly address in order to be prepared for the meeting. Those items are as follows:

1. A properly executed contract between the GC and Developer that includes the City's required NSP construction addendum (A copy of which is attached as Exhibit J).
2. All necessary permits to begin construction including but not limited to:
    a. Electrical
    b. Plumbing
    c. HVAC
    d. Roofing
3. Permit Box Installed
4. Completed Construction Schedule (Attached as Exhibit K)
5. Draw Schedule
6. Notice of Commencement
7. Notice to Proceed
8. Fully Executed Contract with COJ
9. Subcontractor list
10. Complete Bid Package including the schedule of values
11. Proof of all required insurance – Builder's Risk and General Liability

After receipt and review of the appropriate documents, the GC, Developer and Construction Management rep will execute a Project Commencement document (Attached as Exhibit L) that details the general expectations, construction schedule and penalties for delayed completion. The basic terms of the agreement are as follows:

***After the Pre-Con meeting, construction must commence with 10 days and must be completed within 120 days or the Developer will face penalties.***

- Construction must commence within 10 calendar days of the pre-con meeting. The Developer's penalty for delay is $100/calendar day. If construction hasn't commenced after 60 days past the pre-con meeting, the Developer's Contract with the City will be considered to be in "Default" and will be cancelled. The Developer will be charged for all DD expenses.

- Construction must reach "Project Completion" within 120 calendar days of the Commencement Date for rehabs and 150 calendar days for new construction. The Developer's penalties for the number of calendar days of delays past the required completion date are as follows:
  - Day 1-30 is $30 per day
  - Day 31 - 60 is $50 per day
  - Day 61-120 is $100 per day
  - After 120 days past the required completion date the Developer's contract will be considered "In Default" pursuant to the terms within the Contract and the City will require the Developer to deed the property over to the City or its designee and thereby forfeit all profit. The Developer may also be subject to suspension from NSP and other COJ programs.

At the PreCon meeting the City will also provide the Developer with the appropriate signage to install in the yard during the construction process. The Developer is required to keep the City's signage in the yard through the process up until the closing to a qualified Buyer unless they receive specific direction otherwise in writing from the City's NSP staff.

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STEP VII

# Construction

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# Step VII: Construction

## A. Periodic Onsite Inspections

During the construction process the COJ NSP Construction Management Team will conduct periodic inspections of the project's progress. It is critical that the inspectors are allowed adequate access to properly assess progress. The inspectors will be looking for the level of progress relative to the schedule as well as adherence to Tech Specs and General Conditions.

In the event the City's NSP inspector discovers any unsafe condition or any activity that doesn't meet Tech Specs or General Conditions, **they have the authority to stop construction activity immediately** and the obligation to notify the Developer immediately so the Developer can coordinate with the GC to take corrective action.

## B. Draws and Draw Inspections

After the initial acquisition or after work has been completed on the project, the Developer can submit a Draw Request to the City. Mobilization is not considered a reimbursable fee and it should be avoided in your contracts with GC's. Draws are based on a re-imbursement basis only. The Draw Request should include the Payment Request Form (Attached as Exhibit M) along with all supporting documentation, including fronts and backs of all checks. This draw request package is to be delivered to the City's Construction management team for review.

***Mobilization is not considered a reimbursable fee and it should be avoided in your contracts with the GC's.***

The Construction Management Team will review the documents for completion and then inspect the home within 2 business days. The Developer will be notified via email when the inspection is completed whether the draw is approved or adjusted as needed according to the work completed to date. The draw request will then be delivered to the NSP Program Manager for execution and payment processing. The payment will be made by ACH as appropriate when approved by NSP and processed by Accounting.

It is expected that the Developers will be using additional funding sources for initial funding as well as for any obligations above the City's $99,000. It is important to remember that the City's Construction Management Team will be completing draw inspections on behalf of the City only. Any draw inspections needed for additional financing must be through the lender's inspectors pursuant to a separate agreement.

It is also important to remember that at no point should the total amount of all loans and expenditures on a project be greater than 100% of the Total Approved Project Cost.

***The total amount of all loans on the project MUST be less than the Total Approved Project Costs.***

It is the Developer's obligation to ensure that they do not receive more money from Lenders than what is needed to complete the project.

For example*: If acquisition costs are $50k and Construction and Soft Costs estimated at $100k, your Total Approved Project Costs as Detailed in your Pro-Forma would be $150k. If the City is lending $99k and a 3rd Party Lender has a $75k loan your loans would total $174k and you would be considered to be in "Default" of your contract with COJ as well as possibly being in a fraudulent situation.*

## C. Change Orders

When unexpected conditions arise during the construction process, it may be necessary to submit a change order. Allowable changes are often based on unknown conditions or items that were inadvertently omitted from the Scope of Work. All changes to the contract with the GC must be submitted and approved by the Construction Management Team and NSP Program Manger prior to commencement of the work. It is our intent to avoid and minimize Change Orders whenever possible to avoid the additional expense and to maintain consistent home spec levels.

Change Orders should be completed on the appropriate NSP Change Order form (Attached in Exhibit N), signed by the Developer and GC and forwarded along with any supporting documentation to the City's Construction Management Team for review and approval processing.

## D. Material Substitutions

We encourage the use of alternative materials from what is detailed in the Tech Specs where it is logical and cost effective. The alternative materials must be of equal or better quality of what is detailed in the Tech Specs. These approvals are on a case-by-case basis and must be individually approved and properly noted in the files.

To submit a material substitution request, simply complete the Material Substitution form (Attached in Exhibit O), PRIOR TO BEGINNING THE WORK, attach any supporting documentation and submit to the City's Construction Management Team. The City will have 48 hours to approve or deny the request and will communicate the response via email and copy the file accordingly.

## E. Maintenance

It is the ultimate responsibility of the Developer to take all reasonable steps to ensure that the home is safe, secure and well maintained throughout construction AND post completion. In most instances these maintenance items are allowable fees and are included on your pro-formas.

Examples of maintenance related items are that often need additional focus are:

- Watering lawns and shrubs regularly
- Mowing lawns regularly
- Trash and debris removal around home
- Keeping the interior of the home clean
- Running AC/Heater to acclimatize the home and reduce moisture

Change orders submitted for expenses related to the lack of proper maintenance will not be approved. Damage to the home and /or landscape due to a lack of proper maintenance will ultimately become the responsibility of the Developer.

## F. Security

Properly securing the home throughout construction AND post construction is the responsibility of the Developer. The GC should follow all related security matters indicated in the General Conditions and it is the Developer's obligation to make certain that they follow through.

Here are some best practices to follow as it relates to properly securing NSP homes during AND post construction:

- Work with the JSO to inform the patrol captain of your area that your home is under construction and you would like additional patrols if possible to help deter any theft or vandalism.
- Install alarm units when possible. Monitoring the alarms and putting out a sign indicating it is secure will often prevent significant theft.
- Ask the alarm company if there is a way to attach an alarm trigger to the AC condenser.
- Collaborating with the GC to install GPS recovery units in AC condensers or other major items to promote recovery of units if stolen and to lead to capture of the thieves.
- Talk with the neighbors around the home. Express your efforts in revitalizing the neighborhood. Ask for their help to keep an eye out for trouble and to report it immediately.

- Record serial numbers for all major appliances, hot water heater, and AC system as early as possible.
- If there is a break in, theft or vandalism, call the police and file a report immediately. Include the serial numbers in your report to help promote recovery and capture of the thieves. Make a claim with your insurance company as appropriate.
- After vandalism or theft, ensure all preventative actions above are in place and repair or replace the items no later than 7 calendar days after the incident.

In spite of the obvious theft risks when completing a home, we ask that you complete all homes in the NSP program without holding back any items for closing or post-closing. It is critical that the homes are 100% complete in order to maximize the marketability and to expedite the close-out process. If faced with vandalism or theft on a completed project, the Developer has 7 calendar days to cure the issue or be faced with a $100 per day charge for every day thereafter. If all of these processes are followed, we can ensure that we have taken all reasonable steps to help mitigate theft-related issues while keeping the program on track.

## G. Driving the Process & Conflict Resolution

During construction, it is critical to note that the City's Construction Management Team will inspect the homes only on behalf of the City. It is the Developer's obligation to provide adequate personnel to oversee each of their NSP projects, to manage their draws, to manage quality control, manage progress and to hold the GC accountable for their timely performance. It is also critical that there is thorough communication between the Developer and their staff to communicate issues, progress reports and any policy changes.

***It is the Developer's obligation to provide adequate personnel to oversee each of their NSP projects, to manage the process and hold the GC accountable for timely performance.***

One of the Developer's key roles in the NSP process is to assist with your "boots-on-the-ground" expertise to ensure the NSP Projects are properly and timely completed. When faced with a challenge, setback or disagreement, it is the obligation of the Developer to cure the problem quickly using all of your expertise and enforcing your agreement with the GC as appropriate. In the event that there are frequent issues, the City will evaluate the Developer accordingly when considering future releases or future participation.

## H. Contractor/Subcontractor Complaint Resolution/Elimination Process

It is the desire of the City of Jacksonville Housing and Neighborhoods Department (HAND) to provide amicable solutions in the event of there are contractor conflicts in the management of any NSP project. Conflicts may result from, but not limited to, lack of quality workmanship, unprofessional behavior, failure to pay sub-contractor and/or building supply companies, lack of productivity (including abandonment) and/or failure to comply with trade practices and adherence to guidelines as set forth within the NSP. It should be clearly understood that NSP Developers are responsible for managing the NSP General Contractor (GC) and in turn the GC's are responsible for managing their subcontractors. The approach to this four step process is as follows:

**1. Notice**

HAND receives a complaint based on, but not limited to, one of the issues previously identified. Regardless of the complaint being in relation to the GC or the subcontractor; a written notification of the complaint is given to the Developer, via email or USPS, with instruction for the Developer to address with the GC per the required GC-Developer agreement.

The written notification must clearly define the scope and narrative of the problem and, if applicable, contain two or more photographs of the problem area, the location and the observed condition.

**2. Curing Period**

A timeframe no greater than ten (10) days, unless written consent for an extension is provided by the Director of HAND or the Manager of NSP, will be given to the Developer to resolve and document the resolution accordingly.

In the event the presence of HAND staff is required, the Developer must make a request in writing and coordinate a time and date for all parties to meet onsite to discuss. At the scheduled meeting, every effort must be made to reach an agreement and must remain in compliance with all guidelines of the NSP program. Any agreement must be followed up in writing and completed within a timeframe no greater than ten (10) days, unless written consent for an extension is provided by the Director of HAND or the Manager of NSP.

Upon full resolution of said complaint, a final report must be submitted by the Developer. The final report must contain date of final resolution; (if applicable) date workmanship was re-inspected by the party originally observing the problem, Lien Releases, evidence of full payment and a brief write up describing if the fix remedied the original complaint.

**3. Demand for Performance**

In the event a GC or subcontractor refuses to remedy the complaint and it has been well documented by the Developer and validated by the Director of HAND or the Manager of NSP, NSP staff will prepare a 'Performance Demand Letter'. Said letter will clearly state the complaint in its entirety and demand that the problem be remedied by the GC by a specific date. The demand shall clearly state that if the complaint is not remedied by a specified date that the GC and/or subcontractor will be permanently removed from the NSP program. Said letter will be delivered via certified mail to the Developer, GC and subcontractor.

Upon full resolution of said complaint, a final report must be submitted to NSP by the Developer. The final report must contain date of final resolution; (if applicable) date workmanship was re-inspected by the party originally observing the problem, Lien Releases, evidence of full payment and a brief write up describing if the fix remedied the original complaint.

**4. Permanent removal from program**

The NSP staff and Developer will continuously monitor the complaint for full resolution as set forth within the "Performance Demand Letter"; however, if it is determined that the complaint still exists and no resolution has been fulfilled by the GC or the subcontractor, the Director of HAND and manager of NSP will review all facts regarding the complaint and a determination will be made as to whether the removal from the NSP will be carried out solely with the GC or dually with subcontractor (if applicable). In the event a decision to remove is made, a "Non-Compliance and Removal Letter" will be sent to the Developer, GC and subcontractor outlining the non-compliance issue and the immediate termination of participation within the NSP.

Full documentation of all four steps within this process must be held by the NSP and the Developer for audit purposes.

## I. Bi-Weekly progress meetings with Staff and Team

NSP Staff and Team Members will meet on a bi-weekly basis to review and discuss every project within the NSP pipeline in its various stage of progress. NSP will obtain updates from all Developers, Consultants, Lenders and Partner agencies as needed to ensure that we have up-to-date progress reports. Contractual, Construction, Compliance and Sales issues will be discussed and vetted as necessary.

NSP REBUILDING NEIGHBORHOODS ONE HOME AT A TIME

STEP VIII

# Project Completion

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# Step VIII: Project Completion

## A. Pre-Final Inspection

When the Developer has inspected the project and is satisfied that it has met all obligations within the Scope of Work including all appliances, washer and dryer and all landscape, the Developer should contact the City's Construction Management team via email for a Pre-Final inspection. Along with the request for a Pre-Final inspection, the Developer must provide the following:

a. A list of Material Suppliers and Subcontractors (See form attached as Exhibit P)
b. Certificate of Occupancy
c. Lien Release Waivers (See form attached as Exhibit Q)
d. Maintenance Plan
e. Security Plan
f. Inventory of home with appliance model numbers and serial numbers
g. Termite treatment and termite bond
h. Proof of dwelling insurance

The inspector will inspect the home and complete a Pre-Final Inspection creating a "punch-list" of items that must be completed in order to pass a Final Inspection (A Pre-Final Inspection form is attached as Exhibit R). Both the GC and the Developer's project manager must attend this inspection so they can both review the results and execute the pre-final inspection punch list report at this time.

## B. Final Inspection

Once all of the punch-out items detailed in the Pre-Final Inspection have been completed, the Developer should contact the City's Construction Management team via email for a final inspection. The inspector will inspect the home and "pass" the inspection if everything is complete or "fail" the inspection if anything is still unfinished. The Developer will be charged a $250 fee for a second final inspection.

Assuming that the home is ready and **all necessary paperwork has been received**, the home will pass the Final Inspection and will have reached "Project Completion". It is critical that both the GC and Developer's project manager attend this inspection so that all parties can sign the Final Inspection Form as well as the Project Completion notice (An example of which is attached as Exhibit S).

***"Project Completion" is defined as when a home has passed the Final Inspection AND when all necessary paperwork has been delivered to the City.***

This date thereby becomes the "Project Completion" date that is referenced in the Developer's Contract with the City. The City's Construction Management team will provide the original Project Completion notice to the City for its file and provide copies to all parties.

Once the home has reached "Project Completion", the Developer must maintain the home in completed and marketable state and shall not remove any appliances or systems from the home. The Developer must take all steps to secure the home and its contents as discussed in the Security section above.

## C. COJ to Order Updated Appraisal

NO Final appraisal should be ordered by COJ or any potential purchaser's bank until after the home has reached "Project Completion". If a Developer is contacted by a purchaser's bank's appraiser prior to Project Completion, DO NOT allow them to appraise the home and DO NOT allow them to have access to the home.

After the home successfully reaches Project Completion, the City may order an updated "as-built" appraisal to reaffirm the value given in the "subject-to appraisal". Once received, the City will review this update and consider any potential changes to the Approved Purchase Price as discussed in the following section.

NSP REBUILDING NEIGHBORHOODS ONE HOME AT A TIME

STEP IX

# Sales and Marketing

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# Step IX: Sales and Marketing

## A. Sales Prices and Appraisals

The Sales Price of a home is determined by the Appraised "Subject-to Completion" value as determined by the City's approved NSP Appraiser. This is the number the Developers must use to market the home throughout the construction process. This number is included on the Developer's approved pro-forma that is included as an exhibit to the contract between the City and Developer. This sales price must be used for all marketing efforts of the home and is the only allowable Approved Sales Price until given specific written direction otherwise by the City's NSP staff through an approved Price Adjustment Form (Shown in Exhibit T). No offers lower than the Approved Sales Price may be accepted by the Developer.

***No offers lower than the Approved Sales Price may be accepted by the Developer.***

When a home has reached Project Completion, the City may order an updated appraisal. After that appraisal has been received by the City and reviewed for sufficiency, the City will email the Developer, the website manager and the City's sales staff regarding any potential price change. This updated Approved Sales Price is the ONLY price that is then acceptable to use in a contract with a Buyer. Any potential change to the Approved Sales Price due to the Bank's appraisal is addressed in section "F" below.

## B. Updating Marketing Website and Materials

When the City's Sales and Marketing staff receives notification of Project Completion and sales price adjustments the website and any marketing materials will be updated accordingly. This is also the time that the home will become eligible for all of the City's sales and marketing campaign efforts as discussed in the section below.

## C. City's Sales and Marketing Efforts

The City's Sales and Marketing Staff will coordinate numerous marketing campaigns throughout the year to assist the Developer with the sale of an NSP home to an eligible Buyer. Efforts shall include:

- Workshops
- Home Specific Flyers
- Open Houses
- Mailers
- Press Releases

## D. Developers' Sales and marketing Efforts

It is critical to note that the City's Sales and Marketing Staff's role is to complement the sales efforts of the Developer and not to replace them. The Developer should continue to use their expertise to market the home effectively as required within their contract with the City. The City will request regular updates of sales efforts and activities by property address. If the Developer fails to market the home effectively, they may be considered in Default of their contract with the City.

## E. Purchase and Sales Agreements

Whether it's the NEFAR contract, FARBAR contract or some other type of contract, the Developer should use whatever Purchase and Sale Agreement (PSA) that they believe is most appropriate based on their experience and what they believe is right for their organization. If in any doubt, the Developer should contact their legal counsel to discuss the options.

It is critical, however, for the Developer to use the contract addendum that has been provided by the City to ensure compliance and proper buyer eligibility. This document is attached as Exhibit U. This document must be signed by the Buyer and Seller at the point of sale.

Once a PSA has been completed, the Developer should immediately forward a copy of the agreement, addenda, amendments and a pre-approval letter to the City's NSP Sales and Marketing Staff for review, tracking, coordination and website updates. If the contract is incomplete or non-compliant with NSP policies, the City's Sales and Marketing Staff will advise via email of the corrections to be made.

## F. The Buyer's Lender

The City's Sales and Marketing staff will complement the Developer's efforts in coordinating with the Buyer's Lender. Pursuant to the PSA addendum, the Buyer must choose one of the City's NSP approved lenders and be eligible based on the current guidelines in order to receive the Purchase Assistance and close on the home. It is also critical that the Developers get prospective Buyers pre-approved by one of the NSP approved lenders prior to entering into a PSA.

After the home has reached Project Completion and has an executed purchase and sales agreement the Buyer's lender will order an appraisal as well. It is critical to be certain that the house shows as well as possible and has been properly maintained as discussed in previous sections. **When the appraiser arrives, please provide them with a copy of**

**the Scope of Work so they can understand the extent of the renovations as well as any relevant sales comps that you may have available or that may have been provided by City staff.**

In the event that the Bank's appraisal comes in lower than the City's Approved Sales Price, the City will not automatically allow a sales price reduction. The Developer must deliver a copy of the Bank's low appraisal to the NSP staff for review. The City has 2 business days to respond to the Developer in writing with a written authorization to accept the lower Sales Price through a Price Adjustment Form or with a plan to challenge to appraisal value with the Lender.

NSP REBUILDING NEIGHBORHOODS ONE HOME AT A TIME

# STEP X

# Closing

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# Step X: Closing

## A. Set Closing Date

All NSP closings must take place through the City's Approved Closing Agent. Closing dates must be planned carefully in order to set proper expectations and avoid over committing to Buyers. Unlike traditional closings, NSP transactions have many more parties involved in funding and approving the closing. As such, allowing additional time and buffers is critical in achieving a smooth closing for the Buyer. The closing dates should only be scheduled after a home has successfully reached Project Completion.

***Closing dates should only be scheduled after a home has reached "Project Completion".***

## B. Buyer Approval from Bank

The approved NSP lenders will coordinate with the City's funding staff and provide an approval as well as a complete underwriting package for each buyer. The City's funding staff will review the package and underwrite accordingly to ensure the Buyers meet all programmatic funding obligations. The City will also issue an approval along with a specific amount for the Purchase Assistance.

When the closing is properly scheduled, the City's Funding staff will prepare all necessary mortgages, notes, and compliance documents and forward those to the City's approved Closing Agent. The package from the City will contain specific directions for execution and directions for recording and return as appropriate. The City's Sales and Marketing staff will assist with coordination and tracking as appropriate to facilitate a smooth process.

## C. Close-Out Package

After the City and the approved Lender have approved the Buyer AND the home has reached Project Completion, the Developer must submit a final "Close-Out Package" to NSP staff. **The Developer must provide an updated executed final pro-forma and all supporting proof of bills, payments and receipts.**

If everything is complete, a closing can be scheduled and all parties will be prepared approximately 5 days after satisfactory review of the close-out package. The City will calculate a payoff, calculate the Gap Subsidy, sign the final pro-forma and prepare the Purchase assistance as appropriate. All of the documents will be forwarded to the Closing Agent for final preparation.

## D. HUD 1 Closing Statement

Prior to closing, the City's approved closing agent will provide a copy of the HUD to be reviewed by City staff for completion and compliance. The City NSP staff will review the HUD just as the Banks do and issue an OK for closing if it meets all applicable requirements. If the HUD is approved, a reimbursement letter is emailed to the Lender for the NSP subsidy amount. A Commitment letter and Income Certification letter are completed and emailed to the closing agent for the buyer to sign at closing. If the HUD is not approved, the City will advise the Closing Agent of the concerns and the closing may be delayed accordingly. **The homes are only allowed to close after the City's NSP staff has reviewed and approved the closing statement.**

## E. Closing

At closing the Developer should attend and bring all keys, manuals, 3rd party warranty agreements and have the appropriate signer available to execute all documents. The Developer will also deliver a 1-year warranty to the Buyer that covers all items included in the rehabilitation or construction. If possible, the Developer will also deliver a guide to the Buyers that offers tips for a new homeowner and information about the municipal services, schools, cable, phone, electric, trash pickup, recycling and other pertinent information.

NSP REBUILDING NEIGHBORHOODS ONE HOME AT A TIME

STEP XI

# Post Closing

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# Step XI: Post Closing

## A. Documents

After the closing of the home to an eligible Buyer, the following documents will be sent from the closing agent to the City's NSP Funding staff to be reviewed and included in the original file:

1. Original Signed HUD
2. Photo ID
3. Signed Commitment Letter
4. Signed Income Certification
5. Original recorded Note and Mortgage
6. Reimbursement request from COJ accounting for Lender

## B. Post Closing Review

After receiving all closing documents, NSP Funding staff reviews the Buyer file for completeness and addresses any outstanding items or concerns.

## C. Lender Reimbursement

After ensuring that the Buyer's file is properly complete, a check request is prepared and sent to accounting for reimbursement to the Lender. After processing, the check is sent to staff and then forwarded to the Lender.

## D. Sales and Marketing Web Site updated

The City's Sales and Marketing staff will take all necessary measures to ensure that the website and all collateral materials are properly updated to reflect homes available for sale and homes under construction.

## E. Final File review for completeness and filed in Closed-Out Projects File

All components of the homebuyer file inclusive of the qualification documents, certificates and awards will be forwarded to the NSP staff by HAND Compliance Unit. The homebuyer file will become part two of the main project file.

## F. Complete File Compliance Review

Each file is reviewed by a member of the HAND Compliance Unit to ensure that it contains all of the proper documentation and that all NSP Policies and Procedures have been followed. In the event deficiencies are noted, the Developer may be required to provide documentation and/or information to cure the deficiency within 7 days.

## G. Developer Obligations

The Developer will provide a third party 12- month warranty to every Buyer at Closing. The City is in the process of negotiating an agreement to assist with providing this at closing. The Developer should continue to be a point of contact for the Buyers to handle any warranty related items not included in the third- party warranty and assist in any other reasonable post closing matters.

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