

CDBG RENTAL REHABILITATION

PROJECT REVIEW TIMELINE*

CA Team Intake Review and Feedback	Complete Due Diligence	Final Approval and Grant Agreement
AIM: 30 DAYS	AIM: 6 MONTHS	AIM: 30 DAYS
<ul style="list-style-type: none"> • MEDC rental rehab workbook • Detailed floor plans • Photos of current site conditions both interior and exterior • Aerial project area map identifying participating properties • Independent third-party cost estimate • Evidence of private funding (e.g., bank commitment letter and/or personal financial statements) 	<ul style="list-style-type: none"> • Application • Certified grant administrator hired • Environmental review • Background checks • Bid project • Potential lead-based paint testing • Asbestos testing 	<ul style="list-style-type: none"> • MSF board or delegate approval • Grant agreement • Release of funds • Commence project
* Timeline assumes complete information submitted		

Eligible Properties

- Privately owned commercial and/or mixed-use buildings that contain vacant residential rental units and/or underused square footage to be improved for quality rental units.
- Please reference the [Community Development Guidance](#) document for more information on place criteria.

Eligible Expenses

- Hard costs and architectural and engineering fees for the rehabilitation.

Rehabilitation Standards

- Housing quality standards established in [24 CFR SEC. 982.401](#) or locally adopted building and housing codes.

- Improvements may include quality enhancing features such as new cabinets, upgraded countertop materials, exposed ceilings and architectural elements, refinished wood floors or new flooring, upgraded light fixtures, upgraded plumbing fixtures, and more.

Program Specific Information

Income and rental rates (see table below for example)

At the time of the initial lease, 51 percent of the units (one if there are only two units) in a structure must be rented to low/moderate income households at the U.S. Department of Housing and Urban Development (HUD) fair market rent rate. The initial lease must be for a minimum of 12 months and the rental amount must be affordable as defined by HUD.

INCOME AND RENTAL RATES EXAMPLE:

Building with three rental units, with two bedrooms each (first 12-month lease)

Rental units 1 and 2: HUD Fair Market Rent	Rental unit 3: Unrestricted unit
Tenant's income is limited by HUD at 80% area median income at the initial occupancy, based on the number of people in the household.	Tenant's income is not limited.
Affordable Rental Rate set by HUD*: The HUD fair market rent rate varies by county and by number of bedrooms in the unit. HUD assumes that renters paying this rental rate will have all utilities paid by the landlord.	The landlord sets their own rental rate. There are no restrictions.
Tenant Paid Utilities: If the tenant is required to pay any of their own utilities, the value of those utilities will be deducted from the HUD fair market rent. See MSHDA utility schedule for rates by county.	
EXAMPLE EQUATION: Allegan County two-person household with a two-bedroom apartment. Tenant pays for the heating/natural gas. \$42,000 income limit \$758 per month (HUD fair market rent based on all utilities paid) -\$24 per month (heating/natural gas) = \$734 HUD fair market rent (based on a deduction for tenant paid utility)	

*Affordable rent is defined as the HUD fair market rents minus any tenant paid utilities.

CDBG RENTAL REHABILITATION

Program Specific Information *continued*

CDBG assistance

- CDBG funding is limited to no more than \$60,000 per unit.
- Minimum 25 percent match from private funds.

Fair and equitable distribution of units

- Projects must demonstrate that there is a fair and equitable distribution of units. Affordable and market-rate units should be of the same size, quality and finish throughout the building.

Unit size

- No unit size requirement.

Appliances

- Appliances are an eligible expense and must be Energy Star rated.

Lead-based paint and asbestos

- Applicants are required to complete a lead-based paint worksheet to determine the applicability of lead-based paint requirements for the project. CDBG will pay for the cost of the lead and asbestos survey/inspection.

Davis-Bacon wages

- The Davis-Bacon Act requires the payment of prevailing wage rates (which are determined by the U.S. Department of Labor) to all laborers and mechanics on **certain** construction projects in excess of \$2,000 that involve federal funding, such as CDBG.

- **Rental rehabilitation projects with seven units or less do not trigger Davis-Bacon wages.** Davis-Bacon wages apply to all rental rehabilitation projects with eight or more units.
- Commercial rehabilitation activities, such as roof repair or fire separation upgrades, that take place in the building during the rental rehabilitation project will trigger Davis-Bacon wages for all investment activities.
- Work with your [CA Team specialist](#) to confirm if Davis-Bacon wages apply based on the full project scope and if so, if residential versus commercial Davis-Bacon wages are applicable.

Helpful tips to consider

- Participating property owners will be required to escrow contributing funds prior to MSF approval.
- If multiple properties are bundled in one application, building owners are encouraged to work with the same general contractor if possible.
- MEDC will pay for a certified grant administrator. CGAs will provide critical grant administrative assistance throughout the application and compliance of the project, including the environmental review and, if applicable, management of Davis-Bacon paperwork once the project is underway.