

# Pre-agreement Costs for Transitional Housing

April 7, 1995

MEMORANDUM: Robert L. Paguin, Deputy Director, Community Planning and Development, 1AD

ATTENTION: David J. Lafond, Program Manager, 1ADM4

FROM: Andrew Cuomo, Assistant Secretary for Community Planning and Development, D

**SUBJECT: Request for Waiver of Pre-Agreement Costs for Southern New Hampshire Services Transitional Housing  
Community Development Block Grant (CDBG) Program  
City of Nashua, New Hampshire**

This is in response to Robert Paguin's memorandum of January 11, 1995, recommending approval of a waiver of pre-agreement costs requested by the City of Nashua, New Hampshire. The City is seeking the waiver in order to provide additional funding to allow Southern New Hampshire Services (SNHS), the local regional Community Action Program Agency, to complete the acquisition and rehabilitation of a property located at 131-137 West Pearl Street in Nashua to serve as a Single Room Occupancy (SRO) facility for 40 formerly homeless women.

According to the City's December 21, 1994, letter to Katherine Baumgardner of the Manchester Field Office, SNHS received a conditional commitment from the Department of Housing and Urban Development (HUD) in February 1994 for a Section 8 Moderate Rehabilitation SRO Program grant for \$2,164,800. The original application and pro formas were based on costs to renovate certain buildings located on Railroad Square in the City of Nashua, which SNHS intended to acquire at public auction. SNHS was subsequently outbid for the site but was able to locate another suitable one at the West Pearl Street address. However, the cost of acquisition and rehabilitation for the location exceeds the original Railroad Square estimates by \$252,000. Although SNHS has been able to provide equity for \$75,000, a gap of \$177,000 remains, for which SNHS has requested CDBG assistance from Nashua. Nashua is willing to finance the gap with CDBG funds; however, its annual allocation for Fiscal Year (FY) 1994 was \$835,000, most of which was already pledged when the SNHS proposal was submitted in January 1994. Therefore, the City has pledged \$35,400 of its FY 1995 CDBG funds. A local bank will provide a bridge loan for the remaining \$141,600.

The City is requesting a waiver of pre-agreement costs as set forth at 24 CFR 570.200(a) (5) and (h) to allow the reimbursement of the \$141,600 in private bank funds that are scheduled to be expended during 1995 with \$35,400 increments from its CDBG FY 1996, 1997, 1998 and 1999 allocations; the City would make annual contributions to SNHS for this purpose. Pursuant to the requirements of 24 CFR 570.5, the City states that it would be a hardship if it is not able to take advantage of the currently proposed financing structure, in that it has no other source of funds available to assist SNHS. SNHS has indicated to the City and HUD CPD staff that the project will not be feasible without the Moderate Rehabilitation commitment, which includes reduced rate financing, and the gap financing through the local bank and

CDBG. If the project is not completed, 40 homeless women will not be assisted with affordable housing and related support services.

In telephone conversations between Headquarters CPD staff and Ms. Baumgardner and Mr. Paul Newman of the City of Nashua subsequent to the receipt of this waiver request, it has been learned that SNHS has acquired the site and begun rehabilitation. Although mindful of the risk it is taking by initiating the project before the City formally commits its CDBG funds, SNHS is under a November 1995 deadline to receive a certificate of occupancy in order to execute its Annual Contributions Contract, thereby preserving the Section 8 Mod Rehab commitment. If the CDBG waiver is not forthcoming, SNHS will be unable to close on or repay the bridge loan, as the project is not expected to otherwise produce sufficient revenues to do so. The bridge loan commitment is subject to the assignment of CDBG funds, which the City cannot accomplish without the waiver. Although rehabilitation has commenced, SNHS has not closed on the bridge loan, nor has it executed contracts for work to be paid for with the bridge loan proceeds. SNHS reportedly will not close on the bridge loan or incur any costs that are to be reimbursed with CDBG funds until after the start of the City of Nashua's 1995 CDBG program year. Thus, no pre-agreement waiver should be necessary for the FY 1995 funds.

The requirement at 24 CFR 570.200 (h) is a limitation on the reimbursement of certain costs that may be incurred prior to grant award. A waiver of this section of the regulations may be granted to permit reimbursement of the regulations may be grant award, provided the activities were undertaken in compliance with applicable CDBG requirements, such as citizen participation, environment, procurement, etc. Reimbursement cannot occur until after a waiver is authorized.

For HUD to authorize a waiver of the limitation at 24 CFR 570.200(h) to permit the reimbursement of costs for the subject homeless facility activities, the Department must determine that applying the requirements will result in undue hardship and adversely affect the purposes of the Act. Taking into consideration the benefit to the City of Nashua in meeting its community development objectives of assisting its homeless population in a timely manner and the fact that this service is a goal in the State's Continuum of Care objectives, I have determined that failure to grant a waiver of pre-agreement costs in this case would cause undue hardship and adversely affect the purposes of the Act. Without the CDBG funds, SNHS will not be able to complete the rehabilitation, thereby jeopardizing the completion of the facility, its financial stability, and the ability of the City and SNHS to assist the target population of homeless women. Therefore, under the authority of 24 CFR 570.5, I hereby waive the limitations on pre-agreement costs at 24 CFR 570.200 (a) (5) and 570.200(h) to permit the reimbursement in the amount of \$35,400 from each of the FY 1996 - 1999 CDBG entitlement grants to the City of Nashua that are needed to complete the renovation of the proposed SRO facility at 121-127 West Pearl Street.

This project must be included in the City's proposed and final Consolidated Plans for FY 1996, FY 1997, FY 1998 and FY 1999. In order for these pre-agreement costs to be eligible under OMB Circular No. A-87, this activity must be specifically set forth in each fiscal year's grant agreement. Block 8 of HUD form 7082 (Rev. 4/14/93 on HUD Forms on the LAN) may be used for this purpose. In conveying this waiver to the City of Nashua, please advise the City that reimbursement is contingent upon the availability of CDBG funds and the activity being in compliance with the statutory and regulatory provisions in effect at the time of the award of the grant from which the funds will be drawn.

Cc: John E. Wilson