

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
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OFFICE OF THE ASSISTANT SECRETARY FOR
HOUSING-FEDERAL HOUSING COMMISSIONER

MEMORANDUM TO: All Housing Development Grant (HDG) Program Grantees

FROM: Silvia J. DeBartolomeis, Deputy Assistant Secretary for Multifamily
Housing Programs, HM

SUBJECT: HDG Program Policies: Construction/Drawdown Period

The purpose of this memorandum is to clarify Housing Development Grant (HDG) program policy and procedures relating to Grantee accountability and HDG funds drawdown during the period after all conditions precedent to drawdown have been met and prior to project closeout. This period will generally coincide with the project construction phase. A separate memorandum detailing cost certification and project closeout procedures will follow at a later date.

Basic HDG requirements for the construction/drawdown period are covered by regulation at 24 CFR Part 850 from 850.65 through 850.77; Articles IX, X, and XI and Exhibits A through E of the HDG Grant Agreement, and Handbook 1900.27 Letter of Credit Procedures - Treasury Financial Communication System. The policies and procedures described here augment the instructions in the documents referenced above.

I. Documentation Required for Drawdowns to Pay Construction Costs.

All Grantee HDG disbursement requests shall be based on vouchers or invoices submitted by the Owner or Its representative and certified by the architect, construction manager or other certifying official acceptable to the Grantee. All contractor submissions of monthly requisitions shall be on AIA Forms 702 and 703 (samples attached as Exhibit 1). Evidence of soft costs may be in the form of bills for services performed or, in the case of a financial institution's fee, a letter certifying payment due in accordance with a contractual obligation.

The documentation described above will enable the Grantee to meet the standards of Section 10.01 of the Grant Agreement. In particular, the following must be satisfied:

- a) The standards for timing and amount of cash withdrawals established in Treasury Circular 1075 and HUD Handbook 1900.27. The HUD Departmentwide standard of three days for maximum time elapsed between receipt and expenditure of funds shall also be applied to sub-recipients (i.e. Owners).

- b) The maximum rate of drawdown based on the project leveraging ratio specified in Section 1.01(f) of the Grant Agreement. The calculation of pro rata compliance with the leveraging ratio shall be on a cumulative basis, that is, the ratio must be properly maintained for all funds spent up to and including the requested draw. Thus, one month during which grant drawdowns occur in greater proportion to the use of other funds may be acceptable following a period of low HDG drawdown relative to construction activity.

Formula for Maintaining Leveraging Ratio for Project Disbursements:

(The ratio of non-federal funds previously disbursed + current incurred costs to be paid for with non-federal funds prior to or simultaneous with project expenditure of grant funds from current request) divided by (grant funds previously disbursed + current drawdown request) must be greater than or equal to the project leveraging ratio.

Example: The HODAG Estates project leveraging ratio is 2 to 1. Up to this month, \$200,000 has been paid for project costs from the first mortgage loan and owner's equity while \$50,000 has been drawn down from grant funds and expended for project costs. On the first of the month, the developer receives bills from his contractor, architect, lawyer and construction lender totalling \$80,000. These bills must all be paid on the 15th of the month.

The developer proposes that the Grantee request an HDG drawdown of \$60,000, looking to other sources for the remaining \$20,000. This proposal is acceptable given the above formula for maintaining the leveraging ratio as demonstrated below:

$$(\$200,000 \text{ in previous non-federal disbursements} + \$20,000 \text{ in current costs payable from non-federal sources}) \text{ divided by } (\$50,000 \text{ in previous HDG disbursements} + 60,000 \text{ current HDG drawdown request}) = \$220,000 \text{ divided by } \$110,000 = \text{project leveraging ratio: } 2 \text{ to } 1.$$

- c) Grant funds must be used only to cover items included in the total costs accepted by HUD in Line J-11 Part M-1 of the Project Application and in accordance with Section 8.02 of the Grant Agreement. Actual costs may be higher than the amounts estimated in the Project Application but the line items themselves must not change.

II. Documentation Requirements for Drawdowns to Establish Investment Accounts.

Prior to requesting an HDG disbursement for investment purposes, the Grantee shall have obtained a letter from the principal project architect or contractor that, based on its inspection and other available knowledge, the project will be able to achieve initial occupancy in compliance with all HUD and local requirements in 60 days or less from the date of the requested drawdown. Initial occupancy is defined to mean the date the Certificate of Occupancy is issued by the local jurisdiction for the first unit.

In relation to other funds expended for project costs, the sum of HDG funds drawn down for investment purposes and any HDG funds drawn down to pay project costs must not exceed the maximum rate based on the project leveraging ratio. If a portion of the grant funds designated for investment are held back when the major portion is drawn down based on the restriction relating the rate of drawdown to the leveraging ratio, Owners may advance their own funds in place of the holdback for later reimbursement with HDG funds to achieve timely investment and the desired rate of return.

III. Financial Management Systems.

As indicated in 24 CFR 850.69, each grantee is required to maintain a financial management system that complies with Attachment G of OMB Circular A-102, "Standards for Grantee Financial Management Systems."

Among the financial system concerns are accuracy, timeliness and completeness of records; identification of sources and applications of funds; enforcement of procedures to minimize the time lapse between receipt and expenditure of funds; adequacy of source documentation of transactions, especially HDG disbursements; procedures for determining the acceptability of project costs in accordance with OMB circular A-87; audit responsibilities; compliance with requirements concerning drawdowns for investment and use of minority owned financial institutions.

IV. Audit and Reporting Requirements.

Grantees must allocate resources for and include the Housing Development Grant program in the Single Agency audit pursuant to OMB Circular A-128. Additional audits may be undertaken or provided for by HUD as it finds necessary or appropriate.

A format for Grantee progress reports in compliance with the requirements of 24 CFR 850.75 is currently in OMB clearance.

Grantees will be required to report on the sources and uses of grant funds at Project closeout. Owners and Lenders will also be required to certify their expenditures. Specific reporting requirements will be established in the upcoming memorandum on cost certification and project closeout.

4591.1

Appendix 4

V. HUD Monitoring.

HDG monitoring will be conducted by HUD Field Offices and designed for coordination with Housing Development Grant Grantee Progress Reports. HUD monitoring will cover Owner and Grantee compliance with HDG program requirements, financial management and program accountability standards, fair housing and equal opportunity standards, environmental requirements, labor standards and other Federal requirements.

Attachment
