

M E M O R A N D U M

TO: NSP 2 Consortium Members
FROM: Michele Wildman, Acting Senior Policy Specialist
DATE: November 4, 2011
RE: Pre Purchase of Materials

The practice of making full or partial payment for materials prior to installation on the project structure is permitted under certain conditions and with certain requirements under NSP2. Compliance with the conditions and requirements must be documented . MSHDA will not reimburse for pre-purchase of materials until the following documentation is submitted and approved:

- Grantees must assure that materials paid for are installed in a timely manner in the applicable project. In all cases, the grantee must certify in writing that they expect a project to begin no more than 60 days after purchase. Grantees will be held financially responsible for delivery of prepaid materials.
- In all cases of advance payment, contractors seeking reimbursement are required to provide a 100% performance bond for their full construction contract. Developers must be contractually bound to successfully complete all elements of a project for which they have been paid, including delivery of prepaid materials.
- In all cases of advance payment, the grantee must submit an independent determination that the supplier does in fact exist, the supplier acknowledges a commitment to deliver the materials as proposed, and the supplier confirms the correct physical address for delivery of the materials.
- A detailed list of all stored materials and copies of all invoices for stored materials, along with the physical address where they're stored must be submitted to MSHDA in advance.
- The materials will need to be covered by property insurance where they are stored and MSHDA, the grantee, and the property owner will need to be additional insured's on that policy. A copy of that policy must be submitted to MSHDA.

- Materials stored off-site may not be subject to a lien by the supplier.
- In all cases of pre-purchase of materials, the grantee must have a written method in place for tracking the physical location of the material and for confirming that the material installed is of the same quality as the material paid for. Where material such as cabinets or windows has not yet been assembled, this method would enable to contractor, grantee or MSHDA to determine the status of the assembly and to confirm when the materials are ready for delivery.
- Pre-purchase of supplies on multifamily projects is not permitted until underwriting and loan packages have been submitted and approved by MSHDA's Rental Development & Legal Affairs Divisions.

Reliability of Suppliers: Contractors, developers and suppliers must all be informed that any failure to notify the grantee of changes in the ability of the supplier to deliver, the nature or quantity of the materials, or the delivery address for the materials will result in the disallowance of costs. To the extent that grantees can reasonably evaluate the reliability of the supplier through past experience, direct knowledge, a visit to the physical premise or any other means, this is recommended.

Eligibility of costs and retainage for materials with contractor overhead and profit: Grantees are required to make an affirmative, written determination of what costs will be allowed relative to materials that are not installed. In all cases, retainage equal to 10% for related work will be held by the grantee until project completion.

In addition, the payment of contractor overhead and profit should be commensurate with the level of effort and expense associated with ordering and prepaying for materials, and thus in most cases will be limited. In no case may profit and overhead on prepaid materials exceed the overhead and profit percentage for the project as a whole.

Eligibility of other costs: In all cases, grantees must make a positive confirmation that costs for materials and all related costs are reasonable and in keeping with applicable federal cost principles.

Where the grantee or a subrecipient is procuring materials, supplies, insurance, services or other items, the applicable procurement guidelines must be followed. Reasonable expenditures for bonding, insurance, storage and related items to assure security and delivery are permitted. Grantees must guard against paying unnecessary, duplicative or inappropriate costs.

Upon receipt of appropriate documentation and certifications, grantees will receive approval to draw funds for the pre-purchase of materials within OPAL as a reimbursement.