

HOME Workshop

2008 Funding Round



Welcome!

OAH HOME
Workshop
Housekeeping

- Refreshments
- Bathrooms
- Cell phones



OAH HOME Workshop Agenda

- Financing Resources
- Underwriting Policies
- Home Policies
- Break
- Setting HOME Units
- Rents
- Sight and Neighborhood Standards
- 8 Step Process
- Wrap Up



Financing Resources

Contact:

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You can't build a reputation on what you're going to do.
Henry Ford

Financing Resources

Section 8 – Core Plan

- \$8.9 Million Available
- \$2 Million Maximum Loan
- \$500,000 Minimum Loan
- Rural, CHDO (DCA), PJ (outside)

Home Workshop

OAH Underwriting Policies

Contact:

Theresa Hill
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Underwriting Policies

Core QAP
Section 9

- Annual Operating Expense
- Builder Cost Limitations
- Construction Contingency
- Preliminary Commitment Letter
- Debt Coverage Ratio
- Developer Fee Limitation

Underwriting Policies

- Identity of Interest Land Purchase
- Permanent Debt Financing
- Rent up Reserve
- Replacement Reserve
- Revenue, Expense, and Vacancy Trends

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HOME Underwriting Policies

Contact:

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thill@dca.state.ga.us



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HOME Underwriting Policies

- Assumption for Land Purchase
 - Lesser of Sales Price or Appraised Value
- Construction Cost Certification
 - CPA with Opinion
 - Prior to or at Final Draw
- Construction Commencement
 - Within One Year of Commitment

HOME Underwriting Policies

- Construction Hard Costs
- Conversion – Within 24 Months of loan closing
- Developer Overhead and Consultants Fees
 - Not to exceed 50% of total Development Fee

HOME Underwriting Policies

- Fixed or Floating Units
 - Designate at Commitment or Will Be Floating
 - Must be Fixed if not Comparable Units
- HOME Units – Specify in Initial Application
- Identity of Interest
 - Third Party Front End Analysis – DCA Commissioned

HOME Underwriting Policies

- Subsidy Layering Review
- Syndicator Asset Management Fee
 - Paid after debt service and excess cash flow payment

HOME Underwriting Policies Loan Terms

- Construction Period Interest Rate 0%
 - Unless AFR Required
 - QCT or DDA must be set at AFR (cannot decline Boost)
- Permanent Interest Rate $\geq 1.00\%$
 - Rural: $\geq .50\%$ (yrs 8 - 15)
 - $\geq .25\%$ (yrs 16 - 35)
- Term 15-35 Yrs

HOME Underwriting Policies Loan Terms

- Non-Fully Amortizing Loans - Rural
 - Principal (portion) and Interest must be paid monthly
 - Excess Cash Flow Account Required
 - Future Market Value must exceed outstanding loan balance
- Operating Deficit Reserve
 - 4 Months Operating Expense + Secured Debt Service

HOME Underwriting Policies

- Payment and Performance Bond – Required
 - Identity of Interest (Contractor and GP/Owner)
 - Request Waiver
 - Include Cost of Letter of Credit or Loan in General Requirements
- Retainage
 - 10% until 50% complete
 - 5% thereafter

Determining HOME-Assisted Units

Marie Palena

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Reference: HUD CPD Notice 98-2



Maximum HOME Investment

- HOME maximum per unit subsidy limit applies
- The amount of actual subsidy per unit will depend upon:
 - Proportion of total project cost that is HOME-eligible
 - How many units are HOME-assisted units AND
 - The financial needs of the project

HOME-Assisted Units

- Five or more HOME-assisted units
 - At least 20% of the HOME assisted units must be occupied by very low income families ($\leq 50\%$ AMI)
 - Remaining HOME-assisted units must be occupied by families with incomes $\leq 60\%$ AMI
- HOME-assisted unit rents may not exceed Fair Market Rent (FMR)

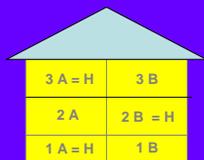
Determining HOME UNITS

- Only units receiving HOME \$ are subject to HOME requirements
- Number of HOME units must be specified at application submission
 - HOME units: must select "fixed" or "floating"

HOME-Assisted Units

- Number of units specified in Application
- HOME allows proportional funding
 - Amount depends on unit sizes and features
- Fixed & Floating units
 - Fixed: specified individual units always HOME
 - Floating: total nbr is fixed, individual units float

Fixed & Floating Units - Example



- Fixed = 1A, 2B, 3A always HOME units
- Floating = unit numbers change but always have 3 HOME units

Allocation Costs

- Determine total HOME eligible costs (no long-term reserves)
- For projects with HOME and non-HOME units, allocate costs across units
 - If HOME and non-HOME units are *comparable*, costs can be *pro-rated* ("floating" units must be comparable)
 - If units are *not* comparable, *actual* costs must be determined unit-by-unit (must have "fixed" units)

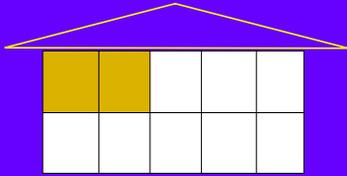
Allocation Limits

HOME investment is lowest of:

- 221(d)(3) limits applied to rental units
 - DCA Threshold, Section F, Unit Cost Limitations (HOME),
- Proportion of total cost that is HOME eligible
- Actual amount of funding based on "Subsidy Layering Analysis" (financial needs of project - gap)

Nbr of HOME Units - Example #1

- Total cost: \$800,000
- 221(d)(3) Limit (1BR): \$117,000/unit
- Proportion of units: 20% of units
- HOME investment: \$160,000



Nbr of HOME Units Example #1

- Maximum investment for HOME-assisted units per 221(d)(3) limit:

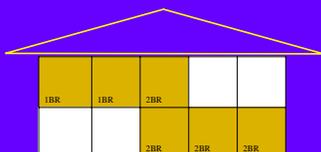
$$2 \text{ units} \times \$117,000 = \$234,000$$

- Proportion of units that are HOME-assisted:
(20% of total units x total cost)

$$20\% \times \$800,000 = \$160,000$$

Nbr of HOME Units Example #2

- Total cost: \$900,000
- 221(d)(3) limit (1BR): \$117,000
- 221(d)(3) limit (2BR): \$142,000
- Proportion of units: 60% of units
- HOME investment: \$540,000



Nbr of HOME Units Example #2

- Maximum investment for HOME-assisted units per 221(d)(3) limit:

$$2 \text{ units} \times \$117,000 = \$234,000$$

$$4 \text{ units} \times \$142,000 = \underline{\$568,000}$$
$$\$802,000$$

- Proportion of units that are HOME-assisted:
(60% of total units x total cost)

$$60\% \times \$900,000 = \$540,000$$

Determining HOME Units

Question and Answer

2018 HOME Workshop

Calculating HOME Rents

Appendix I Threshold Criteria
Section E and G

Teresa Crowe

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Calculating HOME Rents

Utility Allowances

- Applications utilizing both DCA Tax Credit and HOME funding must use the utility allowance of the PHA that administers Section 8 for the locality of the project. Most often this will be DCA.
- Applicants may use the DCA Energy Simulation Tool for electric allowance only - see Threshold Section 1.G.(4)(B).

Calculating HOME Rents

Utility Allowances (continued)

- Projects utilizing USDA assistance (for buildings or residents), or HUD annually reviews rents and utilities, must use allowances provided by those sources.
- This excludes USDA 538 and HUD insured loans such as the 221(d)(4)

Calculating HOME Rents

Utility Allowances (continued)

If local PHA does not have a particular allowance (i.e., A/C), then applicant should add in the corresponding DCA allowance amount and explain in Comments section.

Calculating HOME Rents

- High HOME (60%) and Low HOME (50%) rent limit (Published by HUD)
- Adjust rents for tenant-paid utilities
 - Subtract utilities to determine rent paid by tenant
- HOME rents may go up or down over time
 - But not lower than floor rents determined at final DCA underwriting

Calculating HOME Rents

- What is the High HOME rent for a 2 BR unit with a \$75 UA?
 - Answer: $\$535 - \$75 = \$460$
- What is the Low HOME rent for a 3 BR unit with a \$95 UA?
 - Answer: $\$627 - \$95 = \$532$

MSA: Albany	Eff.	1 BR	2 BR	3 BR	4 BR
60% High HOME Rent	507	543	651	753	840
50% Low HOME Rent	422	452	542	627	700
Fair Market Rent (FMR)	427	456	535	718	741

Calculating HOME Rents

- Most Frequent Error
 - Fair Market Rents not used when applicable.
- Consequence
 - Project deemed infeasible and fails threshold because of insufficient cash flow.
- Solution
 - Carefully select rents and double-check them.
 - Make sure the FMRs are used when applicable.

Calculating HOME Rents

Tax Credit and HOME

- In Projects with five or more assisted units, at least 20% of the HOME units must be based on 50% or less AMI Rents (Low HOME)
- In developments including tax credits, each Building must meet the 40/50 rule
- Developments should also meet the minimum tax credit set aside chosen
- For mixed income, market rate units cannot be rented for less than the low income units (gross rent less utility allowance)



Calculating HOME Rents

Calculations on 40/50 Rule (Bldg by Bldg basis)

- 1) If have 5 or more units designated as HOME assisted units, then must have 20% of the units at 50% or less
- 2) With HOME funds, then must meet 40/50 rule if HOME interest rate less than AFR while claiming 9% credit
- 3) If the building has 20 units, and there is 5 home assisted units in that building, that is 25% of the total
- 4) To meet the 40/50 rule, must have 8 units in that building at 50% or less – another 3 units would be needed to comply with the 40/50 rule
- 5) Consider the LIHTC set aside chosen over the total development



Calculating HOME Rents

Calculations on 40/50 Rule (Bldg by Bldg basis)

Example

- Bldg = 20 Units
- 5 Units HOME Assisted = 25% of total bldg
- 8 units (40%) to meet 40/50 rule
- 3 more units needed at 50% or less to meet requirement



Calculating HOME Rents

Question and Answer

ADDITIONAL HUD & HOME PROGRAM REQUIREMENTS

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SITE & NEIGHBORHOOD

ENVIRONMENTAL



Site & Neighborhood Requirements



Site & Neighborhood Standards

- General Rule: Proposed sites for new construction projects with HOME funds can not be located in areas of minority concentration.
- See 24 CFR 92.202. Although 24 CFR 92.202 references 24 CFR 983.6(b) for site selection standards, 24 CFR 983.57 should be reviewed instead as the regulation was moved from 24 CFR 983.6(b) in 2006.

Site & Neighborhood Standards

- Areas of minority concentration are areas where the percentage of minorities is more than 50%.

WARNING!

- Areas close to this percentage could be deemed to be minority concentrated by DCA!
- A site and neighborhood review should be undertaken as a part of due diligence!

Site & Neighborhood Standards

- Rule Exception: A project may be located in an area of minority concentration only if:
 - “Sufficient” and “comparable opportunities” exist for housing for minority families, in the income range to be served by the proposed project, outside areas of minority concentration; **OR**
 - The project is necessary to meet overriding housing needs that cannot be met in that housing market area.

Site & Neighborhood Standards

- For HOME applicants, DCA is required to make a finding that the property meets HUD's site and neighborhood standards or that a policy exception exists.
- DCA will review the information and issue a finding as to whether the property meets the requirements of site and neighborhood standards.

Site & Neighborhood Standards

- Documentation Requirements:
 - Census maps of the location of the site and the surrounding census maps.
 - Documentation (e.g., photographs, applicant commissioned market studies, redevelopment plans, etc.) to support an exception to the general rule that shows sufficient/comparable opportunities or an overriding housing need exists.

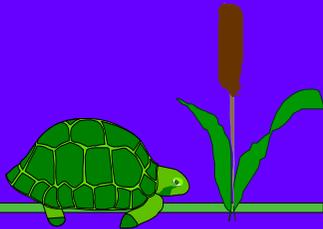
Site & Neighborhood Standards

Applicants are strongly advised to read the HOME Manual regarding site and neighborhood standards to determine what needs to be addressed. Depending on the location of the site, additional information may be required by DCA!

Site & Neighborhood Standards

- New pre-Application process for 2008
- Use provided pre-application form
- Provide the required documentation!
- Pre-approval is subject to the DCA site visit and market study
- Deadline: April 15, 2008

Environmental Requirements



GENERAL REQUIREMENTS

OVERVIEW

- All developments utilizing HOME funds are required to assess the environmental effects of that activity in accordance with the provisions with applicable laws and policies.
- DCA requires applicants to conduct various activities including a Phase I, as outlined in the Qualified Allocation Plan and DCA's Environmental Manual.

OVERVIEW

The environmental review process required by the HOME program is regulated by the Federal Code of Regulations at 24 CFR Part 58.

As a responsible entity, DCA must:

- determine NEPA Classification for the HOME program
- review program using 24 CFR Sec. 58.6 & Sec. 58.5
- publish any required public notices and submit documentation to HUD
- obtain a letter of Environmental Release for all activities associated with HOME funding.

Environmental Review Process

- Once an application for HOME funding is submitted to DCA, HOME Applicants will receive and sign a letter stating they that must refrain from undertaking activities that would have an adverse environmental impact.
- During this period, HOME Applicants may not commit or expend HUD or non-HUD funds.

Environmental Review Process

WARNING!

Completion of the environmental review process is mandatory before taking a physical action on a project site.

Environmental Review Process

Prohibited activities include:

- Acquiring
- Rehabilitating
- Converting
- Leasing
- Repairing, with some exceptions
- Construction

Environmental Review Process

The following activities are allowed and may occur prior to the completion of the Environmental Assessment Review:

- Purchase of a real estate land option
- Relocation costs (if applicable)

Environmental Review Process

Activities that generally have no physical impact on the environment are exempt under 24 CFR §58.34(a)(1)-(11). Exempt activities include the following:

- Environmental and other studies;
- Information and financial services;
- Administrative and management activities;
- Inspections and testing of properties for hazards or defects;

Environmental Review Process

Exempt Activities (continued):

- Purchase of insurance;
- Engineering or design costs; and
- Assistance for temporary or permanent improvements that do not alter environmental conditions and limited to protection, repair and restoration activities only necessary to control or arrest the effects from disasters or imminent threats to public safety including those resulting from physical deterioration.

Environmental Questionnaire

- The HUD & HOME Environmental Questionnaire is revised and must be completed and included as part of the Phase I Report at pre-application submission or Application Submission for HOME/HUD funded Projects.
- Incomplete questionnaires or missing supporting documentation may result in significant delays in the Request for the Release of Funds from HUD.

HUD & HOME Questionnaire

- Divided into three (3) sections:
 - **Part A** should be completed by the Applicant;
 - **Part B** should be completed by the Environmental Professional; and
 - **Part C** should be completed jointly by the Applicant and the Environmental Professional.

HUD & HOME Questionnaire

There are several new categories added to the HUD & HOME Environmental Questionnaire including:

- Endangered Species
- Wild and Scenic Rivers
- Air Quality
- Farmlands Protection
- Thermal/Explosive Hazards
- Runway Clear Zones (development)
- Hazardous Materials
- Environmental Justice

Publication

Once the Environmental Assessment Review is completed & reviewed by DCA, and assuming no issues arise, DCA will publish a notice informing the community where the project site will be built in the community.

If there are no objections after 15-17 days, DCA will request a release of funds from HUD.

Example of a Timeline for a HOME projects

If DCA announces awards in mid-September 2008, then:

- DCA reviews environmental documentation by mid-October (2-3 wks)
- DCA publish notices: mid-October 2008
- If no objections, DCA requests release of HUD funds: late October 2008
- HUD's review period: approximately 17 days
- HUD gives DCA the Authority to use Grant Funds: Early November
- DCA gives clearance letter to proceed with activities: early to mid November.

EIGHT-STEP PROCESS



Floodplain and Wetlands

DCA should:

- avoid funding developments in floodplains and wetlands
- avoid adverse effect to floodplains and wetlands
- require the study of alternatives to project



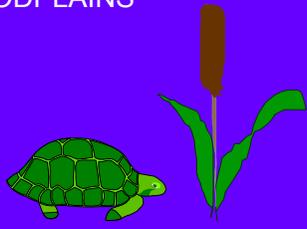


Decision Making Process

- Requires:
 - consideration of alternatives
 - public notices
 - mitigation of damages
- The decision making process is also called the 8-step process.

Georgia Dept of Community Affairs OAH 208 Funding Round 69

FLOODPLAINS




OAH 208 Funding Round
70

Protection of Floodplain

- General Rule: In no event will any HOME funded new construction or rehabilitation projects be accepted for funding that will place buildings in a 100 year floodplain/floodway unless it will be reclassified out of the 100 year floodplain/floodway for those areas where buildings and improvements will be placed prior to project completion.
- Policy: Avoid construction in the floodplain.


OAH 208 Funding Round
71

The 8-Step Process Step 1

Is the site in the 100 yr Floodplain?
If NO, Applicant must:

- Photocopy FIRM Map and panel;
- Mark the site on the required Site Map; &
- Include a copy of the FEMA map(s) for the subject property in Appendix A of the Phase I Report, *although* there is no 100-year floodplain/floodway identified on the subject property.

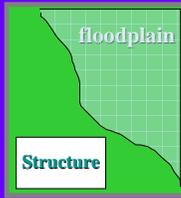

OAH 208 Funding Round
72

HUD's Floodplain Management 24 CFR Part 55



The 8-Step Process Step 1

- Is the site in the 100 yr Floodplain?
- If NO to building or construction, Applicant must:
 - Photocopy FEMA Map and panel
 - Mark site on FEMA and Site Maps
 - Include EP opinion
- If funded, then you must create a covenant or restriction & drainage plan to prevent damage to floodplain.
- Proceed with project.

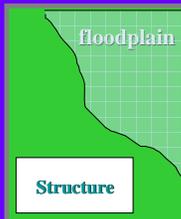


The 8-Step Process Step 1

Is the site in the 100 yr Floodplain?

- The site?
- The building?
- Both?

If YES to building or both,
continue to Step Two!



Step 2 Early Public Notice

- Allow 15 DAY comment period
- Notice shall state:
 - The name of the project
 - Proposed location
 - Describe the activity
 - Amount of property in the FP
 - Location of the environmental record
 - Name the DCA official to send comments.



Step 3 Evaluate Alternatives

What are the alternatives?

- Alternative sites?
 - natural conditions
 - social demands/needs
 - economic cost
 - legal limitation
- Alternative methods to achieve project goals?
- A "no project" alternative?

Step 4 Identify Impacts

- Impact to the floodplain
- Impact to people and property

Types of impact:

- positive and negative
- concentrated and dispersed
- short and long term

Step 5 Minimize, Restore and Preserve

- Minimize harm to lives and property
- Limit fill of floodplain
- Minimize grading
- Relocate non-conforming structures
- Preserve natural drainage
- Maintain buffers
- Use detention ponds
- Minimize tree cutting

Step 6 Reevaluate the Project

Is project still feasible considering:

- exposure to floods?
- potential to increase hazards?
- new information gathered in Steps 4 and 5?

Step 7 Publish the Final Notice

If it is determined there is no alternative:

Publish Final Notice

- justify location in Floodplain
- list alternatives considered
- list all mitigation measures
- wait seven days.

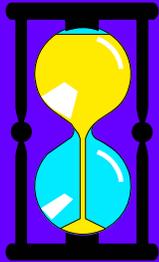


Step 8 Implement the Project

DCA Program Staff must:

1. Continue to monitor
2. Ensure mitigation measures are implemented

Eight Step Process Timing:



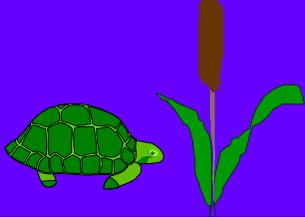
Process must be complete
prior to FONS!!

Application Requirements

Provide:

- A FEMA Conditional Letter of Map Amendment or Map Revision Based on Fill showing property eligible for reclassification out of floodplain/floodway area at time of Application Submission or evidence that the property is eligible for flood insurance which will be in place if awarded funding from DCA.
- The Final Letter must be provided prior to cost certification process or conversion, whichever is first to occur.

WETLAND PROTECTION



 OAH 2018 Funding Round 85

Protection of Wetlands

- **General Rule:** No project will be accepted for any DCA funding or approved for tax credits (including HOME funds and/or other HUD funding sources) if more than one-tenth of an acre of jurisdictional wetlands will be disturbed on the subject property.
- **Policy:**
 - avoid destruction/modification of wetlands
 - identify long and short term impacts (destruction and /or modification of wetlands)
 - avoid support of construction in wetlands
 - requires 8-step process

 OAH 2018 Funding Round 86

Protection of Wetlands

- The presence of jurisdictional wetland areas or any potential jurisdictional wetland areas on the property must be clearly shown on the Site Map, and the Environmental Professional must provide a jurisdictional wetlands delineation to verify existence of wetlands and to determine the extent thereof.
- A copy of the NWI map, USGS topographic map and any necessary wetlands delineation report must be included in Appendix A of the Phase I Report.

 OAH 2018 Funding Round 87

Protection of Wetlands

Avoid assistance unless the 8-step process is completed and:

- there is no alternative;
- minimize harm to wetland; and
- consider economic & environmental impact.

24 CFR Part 55

- HUD's wetlands regulation and currently only covers flood plain.
- Similar to floodplain regulation
- Requires 8-step process
- Can be conducted jointly for floodplain and wetland

Environmental Standards

New pre-Application process for 2008
Mandatory!

- Use provided pre-application form (includes noise waiver request, if needed)
- Provide the required documentation!
- Pre-approval is subject to the DCA site visit
- Eight-step process not required at pre-application, but is required at application submission!
- Deadline: April 15, 2008

Environmental

Questions?



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91

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Please complete your surveys before
you leave!

Thanks for coming!



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92
