

# 2008 Financial Feasibility Workshop

Office of Affordable Housing




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## 2008 Financial Feasibility Workshop

- Introductions
- Housekeeping
  - Refreshments
  - Bathrooms
  - Cell phones
  - Wireless Internet

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## 2008 Financial Feasibility Workshop

### Agenda

- Important Dates for 2008 Funding Round
  - Pre-Application Submission Deadline: April 15, 2008
  - Full Application Submission Deadline: June 5, 2008 - 4:00 PM
- Uses of Funds
- Tax Credit Calculation
- Sources of Funds
- Break
- Tax Credit Set Asides
- Income
- Operating Expenses
- Operating Proforma
- Common Feasibility Mistakes
- Wrap Up

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## 2008 Financial Feasibility Workshop

### Total Uses of Funds

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### Uses of Funds

#### Total Cost

- All costs associated with the acquisition of the structures and/or land plus all costs associated with the completion of the development activity
- Identity of Interest between buyer and seller of land/building, requires appraisal, and lower of price or appraised value for underwriting

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### Uses of Funds

#### Total Cost (continued)

- For acquisition credits, building basis is lower of price or appraised value
- Rehabilitation of projects 20 years old or less- average per unit hard cost of at least \$20,000
- Rehabilitation of projects that exceed 20 years old- average per unit hard cost of at least \$25,000

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## Uses of Funds

### Rules of Thumb

- Construction loan interest: approximately amount of one full year's interest - assuming 24 months construction/rehab period
- Projects usually incur construction period costs for RE taxes, construction insurance, legal fees, marketing, FF&E, and relocation (if rehab)
- "Other:" always requires an explanation
- Explain, document if necessary, any unusual costs, or a lack of customary costs

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## Uses of Funds

### Construction Contingency

#### Percent of Construction Hard Costs

- New Construction: 5 - 7%
- Rehabs: 7 - 10%
- Historic Rehabs: 10 - 15%

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## Uses of Funds

### Contractor Fees

#### Percent of Construction Contract

- Builder's Overhead: 2%
- Builder's Profit: 6%
- General Requirements: 6%  
[Includes cost of payment and performance bond or letter of credit or interest and fees associated with the portion of the construction loan (in lieu of a performance bond or Letter of Credit)]
- Limits apply to Total Cost AND Eligible Basis

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## Uses of Funds

### Developer's Fee

- If there is an Identity of Interest between the Developer and the Contractor, then Builder's Profit must be subtracted from Total Cost
- Per Unit Cost Limitation applies to Developer Fee calculation, even if the limitation has been waived
- *DEMOLITION COST FOR NEW CONSTRUCTION IS CONSIDERED PART OF LAND COST*

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## Uses of Funds

### Developer Fee Calculations

- When  $TDC \leq DCA$  Per Unit Cost Limit (PUCL):  
 $Max\ Dev\ Fee = 15\% \times [TDC - DF - Land\ Cost\ (incl.\ demo) - BP^*]$
- When  $TDC > DCA$  PUCL:  
 $Max\ Dev\ Fee = 15\% \times [PUCL - DF - Land\ Cost\ (incl.\ demo) - BP^*]$

\*Builder Profit is deducted when there is an ID of Interest between Developer and General Contractor

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## Uses of Funds

### Developer Fee Calculation Examples

- Assumptions:
  - No ID of interest between Developer & Contractor
  - Total development budget within DCA per unit cost limit (i.e. no cost waiver needed)
- Basic cost info:
  - Land: \$ 1M
  - Building (Rehab; incl. acq. legal fees): \$ 2M
  - Hard & Soft Costs (excluding Dev Fee): \$10M

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## Uses of Funds

### Developer Fee Calculations

- **New Construction**  
Max dev fee:  $15\% \times \$10M = \$1.5M$  (E.B.\*)
- **Acquisition and Rehab** (project eligible for acquisition credit)  
Max acq dev fee:  $15\% \times \$ 2M = \$ .3M$  (E.B.)  
Max rehab dev fee:  $15\% \times \$10M = \$1.5M$  (E.B.)
- **Rehab only** (project *NOT* eligible for acquisition credit)  
Max rehab dev fee:  $15\% \times \$10M = \$1.5M$  (E.B.)  
Max acq dev fee:  $15\% \times \$ 2M = \$ .3M$  (not in E.B.)  
in TDC if supported by a development agreement

\*Eligible Basis

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## Uses of Funds

### Maximum Developer Fee Calculation Acquisition and Rehab

<b>Acquisition</b> Portion	<b>Rehab</b> Portion
Building Acquisition Costs x 15%	Developer Fee less Acquisition Portion

❖ Questions? Ask your Accountant, Consultant or Attorney. You may send written question to DCA within time frame

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## Total Uses of Funds

Questions?

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## 2008 Financial Feasibility Workshop

### Tax Credit Calculation

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### Tax Credit Calculation

- Eligible Basis
  - Costs associated specifically with the construction or the rehab of the project as of the end of the 1<sup>st</sup> year of credit period
- Exclusions from Eligible Basis
  - Land Costs - including Demolition Costs
  - Syndicator costs (including syndicator's legal fees)
  - Cost associated with permanent financing
  - Reserves and costs associated with lease-up

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### Tax Credit Calculation

#### Basis Method

- Subtractions from Eligible Basis
- Federal grants / federal below market loans
- Nonqualified non-recourse financing
- Non qualifying units of higher quality (prohibited in GA)
- Residential portion of Historic Tax Credits

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## Tax Credit Calculation

### Basis Method Eligible Basis Calculation

- Adjustment for QCT/DDA = 130%  
(must use with DCA HOME funds with Interest Rate at AFR claiming 9% Credit)
- Applicable Fraction = Lesser of:
  - Low Income Units / Total Residential Units
  - Low Income Sq Ft / Total Residential Sq Ft(Common Space not included in total residential units nor in total residential sq ft)

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## Tax Credit Calculation

### Eligible Basis Calculation

#### Applicable Credit Percentage – May 2008

- New construction, rehab only, & rehab portion: "9% Credit"
- Qualified acquisition portion only (acq/rehab): "4% Credit"

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## Tax Credit Calculation

### GAP Method

- Total Development Cost cannot exceed per unit limit or waiver amount *(no waiver required if DCA resources are not required to fund costs that exceed limitation)*
- Subtract all Sources **except** federal and state tax credit equity and deferred developer fee
- Equity Factors must match Preliminary Commitments
- Must get reasonable fair market price for State LIHTC, and support if purchased by Applicant

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## Tax Credit Calculation

### Tax Credit Allocation

- Should match Preliminary Commitment
- Credit Amount is least of:
  - 1) Amount Requested
  - 2) Amount determined under Basis Method
  - 3) Amount determined under Gap Method

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## Tax Credit Calculation

Questions?

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### Total Sources of Funds

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## Sources of Funds

### Government Financing Sources (Federal Loans & Grants)

- HUD
  - HOME
  - CDBG
  - HOPE VI
  
- USDA Sec. 515 - "*new money*"

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## Sources of Funds

### Government Financing Sources (Loan Guarantee/Mortgage Insurance)

- HUD 221 (d)(3) / HUD 221 (d)(4)
  
- USDA Sec. 538 Program

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## Sources of Funds

- Federal Grants excluded from Eligible Basis
- Federal subsidies –
  - Federally Sourced: direct or indirect through city, county or state
  - Interest rate must be below AFR
  - Exceptions: HOME, CDBG
- Federal funds with interest rate  $\geq$  AFR not considered Federal subsidy

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## Sources of Funds

Award notification no later than 7/31/08

- FHLB-AHP Loans/Grants
- Local Government Financial Assistance
  - e.g., non-DCA HOME, CDBG, Tax Abatement

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## Sources of Funds

- Non-Government Financing  
(Conventional construction/permanent loans)
- Assumption of Existing Debt
  - Certification from lender as of 4/30/2008
  - Copy of original Note and any amendments/modifications
  - Copy of original Loan Agreement and any amendments/modifications
  - Copy of original Deed to Secure Debt (or other instrument) and any amendments/modifications
  - USDA Sec. 515 Loan "*old and cold*"

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## Sources of Funds

- Federal and State Housing Credits
  - Preliminary equity commitments
- Other Sources
  - Proceeds from the sale of Historic Tax Credits  
(Evidence of National Historic Designation due 8/15/08)
  - Grants from non-government sources
  - Foundation or Trust funding - in the form of below AFR or cash flow loans, grants, or a combination - must be submitted to DCA for approval by April 15, 2008

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## Sources of Funds

### Deferred Developer Fee

- ❑ Deferred portion can not exceed 50% of the total Development Fee at Application
- ❑ Must be supported by detailed repayment and specific terms in Note or Limited Partnership Agreement
- ❑ Must be repaid within 15 years from available cash flow

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## Sources of Funds

### Remember!

- Term, amortization and interest rate in Application must match preliminary commitment
- Loan amount must be specific (No "no more than" or "up to" language)
- Pay attention to other conditions/restrictions
- Alternate financing deadline 8/15/08 (May fail threshold if this deadline is not met!)
- Total Sources must equal Total Uses of Funds

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## Total Sources of Funds

Questions?

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## 2008 Financial Feasibility Workshop

BREAK

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## 2008 Financial Feasibility Workshop

### Tax Credit Set Asides

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### Tax Credit Set-Asides

#### Tax Credit Minimum Set-Asides

- 20/50 Minimum Set-aside
  - At least 20% of the units are rent-restricted and for tenants whose income is 50% AMI or less, adjusted for family size
- 40/60 Minimum Set-aside
  - At least 40% of the units are rent-restricted and for tenants whose income is 60% AMI or less, adjusted for family size
  - Is the most commonly selected Tax Credit Set-Aside by applicants, because it offers the most flexibility in rents for the property.

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## Tax Credit Set-Asides

### 40/50 Rule

40% of the units *in each building* (building by building) is set aside for tenants with income 50% AMI or below.

- Tax credit projects that utilize a HOME loan with the interest rate below AFR and claiming 9% credit
- Applied on a Building by Building basis (Any 2 of 3 below OK):
  - "9% Credit"
  - QCT / DDA Boost 130%
  - Interest Rate < AFR

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## Tax Credit Set-Asides

### 40/50 Rule - Example

#### Building by Building Basis

- Total Units in Project = **100**
- Bldg A Units = **20**
- Bldg A HOME Assisted Units at 50% AMI = **3** (Assumption)
- Nbr units to meet 40/50 rule in Bldg A = **8**
- Additional units at 50% AMI in Bldg A = **5**

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## Tax Credit Set Asides

Questions?

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## 2008 Financial Feasibility Workshop

### Income (Rents and Utility Allowances)

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### Income Rent Schedule

- Tax Credit Rents (30%, 50%, 60%)
- HOME (remember FMR)
- PHA
- PBRA
- Employee Unit ("common space" – no rent charged)

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### Income Utility Allowances

- Structure (i.e., Single-Family or Multi-Family)
- Identify owner or tenant expense
- Identify source and date of current utility allowances
- Identify applicable UA region for DCA UAs

**DCA Section 8 Utility Regions**



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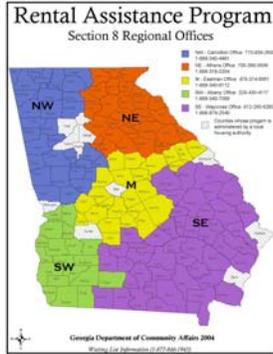
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## Income Utility Allowances

- ❖ Identify source and date of utility allowances – use hierarchy:
  1. USDA – USDA Sec. 515 loans or rental assistance
  2. HUD
  3. Local PHA administering Sec. 8 Programs
  4. DCA (including Sec. 538 if none of the above sources of utility allowances is applicable)
- ❖ Utility Allowances apply to Low-Income units only




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## Income Ancillary Income

- Cannot exceed 2% of Effective Gross Income (EGI)
- Includes:
  - Laundry
  - Forfeited security deposits
  - Application fees
  - Pet fees

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## Income Other Income

- Tax Abatements
- Tax Exemption
- Operating Subsidy

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**Income**  
(Rents and Utility Allowances)

Questions?

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**Operating Expenses**

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**Operating Expenses**  
Operating Expense Budget

- Minimum of \$3,200 per unit for urban projects
- Minimum of \$2,800 for non-MSA rural projects (non USDA)
- Minimum of \$2,600 for projects including USDA as a funding source
- all above excludes replacement reserve

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## Operating Expenses

### Operating Expense Budget (continued)

- Management fee is based on % of Effective Gross Income (EGI) or fixed dollar amount trending with expenses
- Water/Sewer/Trash Expenses
- Property Tax
- Insurance Expense

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## Operating Expenses

### Replacement Reserve

- New Construction: \$240 per unit per year
- Rehab: \$300 per unit per year
- Single-Family: \$420 per unit per year

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## Operating Expenses

Questions?

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Operating Proforma

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Operating Proforma

Revenue-Expense Trends & Vacancy Assumption

- Income increases at 2% per year
- Operating expenses, including reserves, increase at 3% per year
- Vacancy and collection loss is set at 7% of EGI

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Operating Proforma

- Minimum of 1.15 DCR required each year for tangible debt
- DCR's which exceed 1.40 for urban and 1.50 for rural may result in reduction in tax credits
- Deferred Developer Fee not included in DCR
- Deferred Developer Fee must be paid within 15 years from available cash flow
- Permanent debt must be for at least 5 year term

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Operating Proforma

Questions?

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2008 Financial Feasibility Workshop

Common Feasibility Mistakes

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Common Feasibility Mistakes

No Adjustments/Changes to:

- Unit Count and/or Unit Mix
- Rent Structure
- Total Financing Sources
- Total Development Cost

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## Common Feasibility Mistakes

### Clarification & Allowed Feasibility Adjustments

Allowed Feasibility Adjustments include:

- Increase of Deferred Developer Fee up to 50% of total developer fee
- Financing source clarification allowed (May be counted as an adjustment)

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## Common Feasibility Mistakes

- Developer Fee calculation based on the Cost Waiver amt
- Builder's profit is included in the Developer Fee calculation when there is an Identity of Interest between the Developer and Contractor
- Syndicator Legal Fees included in Eligible Basis
- Operating Subsidy in the form of a CDBG Grant included in Eligible Basis
- Loan terms in the Source of Funds is not reflected in the loan documentation submitted

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## Common Feasibility Mistakes

- Rents do not match set-aside
- Selecting incorrect rents
- Owner-paid utilities (water/sewer and refuse collection) are not reflected in the operating expenses nor identified in the UA Section of core app
- Incorrect utility allowances used
  - Outdated Utility Allowance
  - Incorrect Source of Utility Allowance
  - Based on the wrong DCA UA region of the State

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## Common Feasibility Mistakes

Questions?

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2008 Financial Feasibility Workshop

Thanks for coming!  
Please complete your survey before  
you leave!



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