2009 Financial Feasibility Workshop

Office of Affordable Housing

Georgia Department of Community Affairs

2009 Financial Feasibility Workshop

Housekeeping

- Refreshments
- Bathrooms
- Cell phones
- Wireless Internet

2009 Financial Feasibility Workshop
Agenda

- Important Dates for 2009 Funding Round
  - Pre-Application Submission Deadline: April 16, 2009
  - Full Application Submission Deadline: May 21, 2009- 4:00 PM
- Legislative Update: HERA & ARRA
- Set Asides
- Uses of Funds
- Tax Credit Calculation
- Sources of Funds

Break
- Income
- Operating Expenses
- Operating Proforma
- Common Feasibility Mistakes
- Wrap Up

2009 Financial Feasibility Workshop

LEGISLATIVE UPDATES

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LEGISLATIVE UPDATES

- Credit Authority: $2.30 per capita
- Tax Credit Assistance Program: $54,481,680
- Credit Exchange: Up to $268 million

HOUSING AND ECONOMIC RECOVERY ACT (HERA)

- Provisions will generally apply to buildings placed in service (PIS) after July 30, 2008
- LIHTC % at least 9% for PIS dates 7/31/08 through 12/31/2013
- 4% “floating” credit % (acquisition credits or with tax-exempt financing) will continue to float. Tax-exempt bond financed projects still considered to be federally subsidized

HERA

- With respect to "Federally Subsidized" Buildings - Eliminates the concept of "below market Federal loans" (HOME, HOPE VI, USDA 515) - **and** -
- Such loans will no longer be subtracted from Basis
- DCA set standards for determining which areas qualify for 30% "boost". Apply by April 16, 2009.
- Rehab threshold increased to greater of $6,000 per Low Income unit or 20% of adjusted Basis.

*** DCA HAS HIGHER REQUIREMENTS ***

HERA

- Period for satisfying 10% test for carryover allocations increased to one year from date of allocation
- QAPs must take into account energy efficiency and historic nature of products (scoring and compliance)
- NCHSA Summary:

http://www.ncsha.org/uploads/ACF5F.pdf

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American Recovery and Reinvestment Act (ARRA)

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American Recovery and Reinvestment Act

- $2.25 Billion TCAP to fill gaps caused by sharply reduced equity in the tax credit market (DCA received $54 million) – Tax Credit Assistance Program (TCAP) Component
- Allows housing credit agencies to "monetize" credits

American Recovery and Reinvestment Act

TCAP – Tax Credit Assistance Program

- Housing Credit awards in FFY 2007, 2008, and 2009 are eligible
- Priority given to projects that can be completed within three years
- 75% must be committed within one year
- Owners must expend 75% of funds within two years and 100% within three years

American Recovery and Reinvestment Act

TCAP

- Funding is subject to Tax Credit rules versus HOME requirements
- DCA is responsible for asset management to ensure compliance, at owner's expense (may be contracted out)
- Eligible Basis not reduced by TCAP

American Recovery and Reinvestment Act

TCAP

- HUD may waive any law or regulation except fair housing, non-discrimination, labor standards, and environmental review
- DCA assumes environmental review responsibilities

American Recovery and Reinvestment Act

Credit Exchange Program

- Permits housing agencies to exchange Tax Credits for cash grants to be provided to project owners
- Exchangeable credits:
  - 100% of credits returned in 2009 and unallocated credits from 2008, **plus**
  - 40% of the state's 2009 population-based credits and any national pool credits awarded in 2009

American Recovery and Reinvestment Act

Credit Exchange Program

- Grants equal 85% of the amount of Housing Credits exchanged multiplied by ten
- Eligible basis is not reduced by the amount of the subaward
- Subawards may be made with or without an allocation under Section 42

American Recovery and Reinvestment Act

Credit Exchange Program

- Any subawards made are subject to the same rent, income, and use restrictions as apply under Section 42
- Housing credit agency must perform asset management to ensure compliance with Section 42; agencies may collect reasonable fees from owners
- Housing credit agencies may contract out asset management duties

American Recovery and Reinvestment Act

Credit Exchange Program

- DCA must impose restrictions, including a requirement for recapture of funds, to ensure compliance
- Restrictions may be enforced by liens or other methods approved by the Treasury
- Grants not used by 12/31/2010 to make subawards must be returned to the Treasury
- Subawards returned to DCA after 12/31/2010 go back to Treasury

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Set-asides

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Set-Asides

Nonprofits	10% of 9% credits
Rural	30% of 9% credits
Preservation	up to $1.8 million
Special Needs	up to $900,000
Supplemental	up to $2 million

Supplemental Set-Aside

- 2008 funded projects which incurred or face substantial unforeseen cost increases or equity reductions as a result of the economic crises
- Troubled properties: projects with DCA HOME or other resources funded prior to 1999 (for more info see http://www.dca.ga.gov/housing/HousingDevelopment/programs/QAP2009docs.asp)
- Other extraordinary needs

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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Set-asides

Questions?

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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

Uses of Funds

Total Cost (continued)

- For acquisition credits, building basis is lower of price or appraised value
- Rehabilitation of projects (avg hard cost "AHC" per unit):
  - 20 years old or less AHC/unit >= $20,000
  - exceeds 20 years old AHC/unit >= $25,000

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

Uses of Funds

Construction Contingency

Percent of Construction Hard Costs

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

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

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*

Uses of Funds

Developer Fee Calculations

- When TDC <= DCA Per Unit Cost Limit (PUCL):

  Max Dev Fee = 15% x [TDC – DF – Land Cost (incl. demo) – BP*]

- When TDC > DCA PUCL:

  Max Dev Fee = 15% x [PUCL – DF – Land Cost (incl. demo) – BP*]

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

Pre-approval for up to 20% Developer Fee must be submitted by April 16, 2009

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

Uses of Funds

Developer Fee Calculations

- New Construction
  Max dev fee: 15% x $10M = $1.5M (E.B.)
- Acquisition and Rehab
  Max acq dev fee: 15% x $ 2M = $ .3M (E.B.)
  Max rehab dev fee: 15% x $10M = $1.5M (E.B.)
- Rehab only
  Max rehab dev fee: 15% x $10M = $1.5M (E.B.)
  Max acq dev fee: 15% x $ 2M = $ .3M (not in E.B.)
  in TDC if supported by a development agreement

Uses of Funds

Maximum Developer Fee Calculation

Acquisition and Rehab

Acquisition Portion	***Rehab*** 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

Uses of Funds

Operating Deficit Reserves

- Must include at least 4 months of debt service plus 4 months of estimated operating expenses, or lender/equity partner requirement, if higher
- *This applies to all projects- tax credit and HOME*

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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 1st 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

Tax Credit Calculation

Basis Method

Subtractions from Eligible Basis

- Federal grants - Exceptions
- Nonqualified non-recourse financing
- Non qualifying units of higher quality (prohibited in GA)
- Residential portion of Historic Tax Credits

Tax Credit Calculation

Basis Method
Eligible Basis Calculation

- Adjustment for QCT / DDA & State Designated Basis Boost up to 130%
- Applicable Fraction = Lesser of:
  - Low Income Units / Total Residential Units
    or
  - Low Income Sq Ft / Total Residential Sq Ft

(Common Space not included in total residential units nor in total residential sq ft)

Tax Credit Calculation

Basis Method
Eligible Basis Calculation

Applicable Credit Percentage
Competitive Round

- New construction, rehab only, & rehab portion: 9%
- Qualified acquisition portion only (acq/rehab): "4% Credit"
  (credit percentage as of April 2009)

Tax Credit Calculation

GAP Method

Possible Scenarios

- TDC <= PUCL (per unit cost limit): Use TDC
- TDC <= Cost Waiver limit: Use TDC
- TDC > PUCL (no waiver):
  - Cannot use DCA resources to fund overage
  - Must provide documentation and explanation of how excess cost will be funded- commitment required

Tax Credit Calculation

GAP Method

- Subtract all Sources **<u>except</u>** federal and state tax credit equity and deferred developer fee
- Equity Factors will be set at $.75-urban and $.70-rural federal tax credits, and $.25 for all state credits
- Must get reasonable fair market price for State LIHTC, and support if purchased by Applicant

Tax Credit Calculation

Tax Credit Allocation

- Credit Amount is least of:
  1) Amount determined under Basis Method
  2) Amount determined under Gap Method
  3) Amount requested

Total Uses of Funds
and
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
  - NSP
- USDA Sec. 515

Sources of Funds

Government Financing Sources
(Loan Guarantee / Mortgage Insurance)

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

Sources of Funds

- Federal Grants excluded from Eligible Basis (with exceptions)
- Federal loan subsidies <u>no</u> <u>longer</u> excluded from Eligible Basis –
  - Must show loan terms and interest rate in Commitment

Sources of Funds

Award notification no later than 7/31/09

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

Sources of Funds

- Non-Government Financing
  (Conventional construction/permanent loans)
- Assumption of Existing Debt
  - Certification from lender as of 4/30/2009
  - 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

Sources of Funds

- Federal and State Housing Credits
  - Federal at $.75 - urban / $.70 – rural; all state credits at $.25
- Other Sources
  - Proceeds from the sale of Historic Tax Credits
    (Evidence of National Historic Designation must be included in order to claim points)
  - Grants from non-government sources
  - Foundation or Trust funding - in the form of below AFR or cash flow loans, grants, or a combination for off site- must be submitted to DCA for approval by April 16, 2009

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

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 8/17/09
  (May fail threshold if this deadline is not met!)
- Total Sources must equal Total Uses of Funds

Total Sources of Funds

Questions?

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BREAK

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Income

(Rents and Utility Allowances)

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Income

Rent Schedule

- Tax Credit Rents (Gross rents may not exceed 30% of the effective AMI table for 50%, 60%)
- HOME (all rents based on 1.5 persons per bdrm)
- PHA
- PBRA
- Employee Unit ("common space" – no rent charged)

Rents must be less than or equal to market study rents

Income

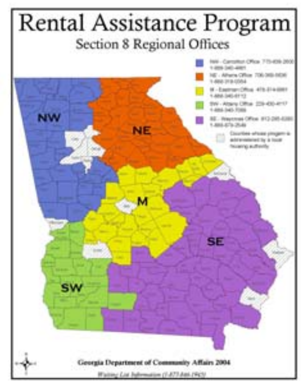
Utility Allowances

- 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

Income

Utility Allowances

- Identify source and date of utility allowances pg 7/49
  - USDA – USDA Sec. 515 loans or rental assistance
  - HUD
  - Local PHA administering Sec. 8 Programs
  - DCA (including Sec. 538 if none of the above sources of utility allowances is applicable)
  - Utility Allowances apply to Low-Income units only



Income

Ancillary Income

Ancillary Income – Cannot exceed 2% of Effective Gross Income (EGI)

- Laundry
- Forfeited security deposits
- Application fees
- Pet fees

Income

Other Income

- Tax Abatements
- Tax Exemption
- Operating Subsidy
- *USDA 538 Interest Credit*

*confirm with USDA prior to including

Income

(Rents and Utility Allowances)

Questions?

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Operating Expenses

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Operating Expenses

Operating Expense Budget

- Minimum Operating Expenses
  - Urban projects $3,600 per unit
  - Non-MSA rural projects $3,000 per unit
- Non-MSA rural includes projects with USDA 515 loans as a funding source
- "Operating Expenses" do not include replacement reserve

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 Expenses
- Property Tax
  - Abatements/Exemptions

Operating Expenses

Operating Expense Budget (continued)

- Insurance Expense
- Security Expense
- Staffing Cost

Operating Expenses

Replacement Reserve

- Minimum Contributions:
  - New Construction: $240 per unit per year
  - Rehab: $300 per unit per year
  - Single-Family: $420 per unit per year
- Must be escalated at 3% per year
- DCA reserves the right to determine reasonableness of operating expenses

Operating Expenses

Replacement Reserve (Continued)

- Basis for Amount:
  - New Construction – Realistic Replacement Plan
  - Rehab projects - Physical Needs Assessment
  - All subject to DCA minimums
- DCA reserves the right to adjust to reflect reasonable Capital Expenditures

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 Revenues and Ancillary Income (PGI)

Operating Proforma

- Ancillary Income limited to 2% of Revenue
- Other Income
  - Operating Subsidy
- Other Income not subject to Mgt fee
  - USDA Interest Credit
  - Tax Abatement

Operating Proforma (Continued)

- Minimum Debt Service Coverage Requirement:
  - 1.15 DCR for each year of the 15-year Compliance Period or HOME loan term (if applicable), whichever is greater.
  - DCRs which exceed 1.40 for urban and 1.50 for rural subject to additional scrutiny to ensure they are not oversubsidized
- Reserves may not be used to meet DSC requirement

Operating Proforma (Continued)

- Cash flow from one year cannot be used to meet DSC requirement in subsequent years
- Deferred Developer Fees
  - Must be paid back within 15 year Compliance period from available cash flow
  - Not subject to minimum DSC requirements
- Debt Service should include FHA MIP (45 bps) and USDA Annual Guarantee Fee (50 bps)

Operating Proforma (Continued)

- "No debt" projects allowed, but subject to additional scrutiny
  - No undue profits/windfall gains
  - Ratio of EGI to Total Operating Expenses (including replacement reserve) cannot be less than 1.05 for each year of the 15-year Compliance Period or HOME loan term, whichever is greater.

Operating Proforma (Continued)

- Asset Management fees must be paid prior to deferred developer fees unless permitted in the Limited Partnership Agreement
- Permanent debt must be for at least 10 year term
- Subsidized Debt Service
  - Do not use "net" debt service
  - Full debt service in debt service section and subsidy in Other Income section

Operating Proforma

Questions?

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Common Feasibility Mistakes

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Common Feasibility Mistakes

Adjustments/Changes to:

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

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)

Common Feasibility Mistakes

- Developer Fee calculation based on the Cost Waiver amount
- 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
- Loan terms in the Source of Funds is not reflected in the loan documentation submitted

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 application
- Incorrect utility allowances used
  - Outdated Utility Allowance
  - Incorrect source of Utility Allowance
  - Based on the wrong DCA UA region of the State

Common Feasibility Mistakes

Questions?

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Thanks for coming!

Please complete your survey before you leave.

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