

**AFFORDABLE HOUSING TRUST FUND UNDERWRITING STANDARDS**

**5-31-2023 April 2025**

**Proposals are required to meet CPED's underwriting standards to be eligible for funding. The City has an expectation that Projects will need to increase the deferred developer fee to address funding gaps prior to closing.**

**1. DCR Debt service coverage/ECR expense coverage ratio:**

- A) 1.15 DCR minimum for year 1 and a minimum of 1.00 for years 2- 20
- B) 1.05 ECR minimum for 10 years, 1.02 for years 11-20.

Should the project reflect a negative cash flow, an operating deficit reserve account will be required to be capitalized at the initial closing to satisfy any deficit through year 20. Interest must also be included. **The proforma should show this use and source.**

**2. Developer Fee:** Defined in the AHTF Program, Policies and Procedures.

**3. Income and expense trend factor over 20 year cash flow:** Expense inflator should be 1% higher than the revenue inflator.

**4. Maximum rents:** ~~The project rents for affordable units should fall at or below the maximum rent allowed for the targeted income level per attachment 1. For the purposes of underwriting, if the project falls in a non-concentrated area and is new construction, the project should accommodate a minimum of 20% of the units at the High HOME Rent Level (also per attachment 1). The projects assigned HOME funding and the required number of HOME units is subject to change based on final underwriting and will be determined prior to closing.~~

The rent and income limits for each unit must match. For example, a unit that is intended for a 50% AMI household must have a 50% AMI rent limit and a 50% AMI income limit unless there is project based rental subsidy or State Housing Support funding in the project. For example, a 30% AMI income limit may be matched with a fair market rent (FMR) limit if there is a rental subsidy.

Rent increases for occupied AHTF units are limited to once annually. This limit applies to the rent charged for the unit and not the portion of tenant paid rent for residents assisted with Section 8 or other rental assistance, which may increase or decrease based on changes in income. This limit also applies regardless of the term of the lease or any language in the lease that would allow rents to increase more than once annually. Rents must always comply with limits imposed by the program(s) that financed the development and/or respective unit. This includes other Minneapolis funding sources as well as funding sources provided by other funders.

The limitation on rents includes rent, services and utility payments or monthly allowances for services and other non-optional charges. If a project is receiving HOME funds from the City, the utility allowances must be determined using either the HUD Utility Schedule Model or another HUD allowed project specific methodology under 24 CFR 92.252(d). If a project is not receiving HOME funds from the City, the utility allowances shall be determined as the described above except that if another government-provided funding source for the project allows a different utility allowance, the City will accept such alternative utility allowance.

Upon determination that HOME funding applies to a given project, rents and the operating proforma will be adjusted to comply with HOME rent limits.

5. **Management and Operating Expenses (excluding real estate taxes and reserves):** Based on anticipated stabilized operating expenses occurring after the development is placed in service or upon full occupancy:

- A) General Administrative expenses (including marketing and leasing).
- B) Payroll 9 salaries, payroll taxes, fringe benefits
- C) Utilities
- D) Maintenance and Repair (including turnover costs)
- E) Property Management Fee: Up to \$75 per unit per month, minimum of \$5,000 annually provided that a higher fee may be permitted if funded by MHFA and allowed by MHFA's underwriting for the project. This fee should be the last operating expense paid after debt service.

Please include three years of comparable property audits or previous operating expenses audits to support operating expense budgets.

6. **Replacement Reserves:** Reserves for replacement shall be budgeted at no less than \$300 per unit per year for senior housing and \$450 per unit per year for all other housing.
7. **Operating Reserves:** Projects will be required to capitalize an operating reserve account at closing with no less than 6 months of management and operating expenses and debt service.

**NOTE:** Projects with any remaining reserves will be required to maintain those reserves with the project for the period of affordability. The LPA must include a provision addressing the terms and conditions for disbursement from the reserve accounts that specifically states that upon the transfer of any ownership interest or at the end of the compliance period, whichever is earlier, any funds remaining in the reserve accounts must remain with the development for the term of the loan or the affordability period, whichever is longer. Existing developments applying for City refinancing will be required to show existing reserves as a source.

8. **Vacancy Rate:** 5% - 7% for residential / 20% for Commercial. For any residential vacancy rate less than 7%, supporting information must be included in the market study.

9. **Sources and Uses Analysis:**

- A) Identify all sources (both private and public) of funds with dollar amounts and timing of availability of each source:
  - i. Firm commitment letters with all terms and conditions for all mortgages, grants, bridge (interim) loans and investment tax credits (historical, low-income, if applicable);
  - ii. If the applicant is a partnership or limited liability corporation, a copy of the partnership agreement or operating agreement, which will indicate the cash contributions by the partner(s) or member(s); and
  - iii. If equity is committed by the developer or owner(s), evidence of available equity funds.
- B) Identify all uses of funds associated with the project:
  - i. Acquisition documentation, such as purchase agreement, option or closing statement and appraisal or other documentation of value;
  - ii. Construction cost estimate, construction contract or preliminary bid(s);
  - iii. Contracts, quotes or other agreements substantiating key professional costs and the

basis for estimating other soft costs and working capital items, including capitalized reserves;

- iv. Agreements governing the various reserves which are capitalized at closing (to verify that the reserves cannot be withdrawn later as fees or distributions);
- v. A third-party appraisal (to substantiate the value of the land and the value of the property after rehabilitation or the structure being built);
- vi. IF LIHTC are utilized, documentation on the syndication costs (legal, accounting, tax opinion, etc.) from the organization/individual who will syndicate and sell the offering to ensure that the project can support the fees necessary to syndicate/fund the project.

**10. Market Assessment:** As defined in the AHTF Program Policies and Procedures.

**11. Subsidy Layering Review:** Analysis and certification of investment funding needed to make a project feasible. Also known as a 'gap analysis'. In addition, if HOME funds are awarded to a project, the number of HOME assisted units will be calculated using the Cost Allocation Standard Method 24 CFR 92.216.