AFFORDABLE HOUSING TRUST FUND UNDERWRITING STANDARDS
1-23-2020

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

   A) 1.15 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.

2. **Developer Fee:** Defined in Part I, Section VIII P of the RFP.

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.

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 $60 per unit per month, minimum of $5,000 annually. 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:** Defined in Part I, Section VIII EE of the RFP.

11. **Subsidy Layering Review:** Analysis of investment funding needed to make a project feasible. Also known as a ‘gap analysis’.