## Guide to Completing Project Development Template Worksheets

## The HOME Development Template file consists of an Excel Workbook which contains four tabs as follows:

## Cover Page

## Project Financing

## Project Development

## Project Operating

## 20 Year Cash Flow Project

*Complete each worksheets. The information is used to determine the gap financing that may be needed to provide quality affordable housing that is financially viable for at least the period of affordability and the minimum amount of HOME funds needed to carry out the proposed housing activity*. Costs will be closely reviewed to ensure "good faith" estimates have been provided and costs are reasonable. *Applicants/developers proposing to do rental projects should complete all worksheets. (Entities proposing to undertake housing for homeownership do not complete worksheet, "D. Operating".)* **ONLY ENTER INFORMATION IN THE GREEN or WHITE AREAS. THE YELLOW AREAS ARE SELF- CALCULATING CELLS.**

*If the proposed project consists of scattered site housing, a separate set of worksheets must be completed for each unit. A project may include more than one site only if the sites are within a four block area of each other. However, due to the limited amount of HOME funds available, entities may still want to consider submitting a separate set of worksheets for each scattered site in the event available funding is not sufficient to cover all units. Each unit can then be evaluated and considered separately.*

# COVER PAGE - SOURCES

Complete this worksheet to provide summary information on the project, project owners, project cost and sources of funding and the HOME funding request. Include all sources of funding from lenders, equity, other funders, and HOME gap funding request. Copies of all commitment letters or letters of interest from funders, lenders, and equity investors must be included with application. The "Total " cell will 'self-calculate when numbers are entered into the green cells.

# PROJECT FINANCING & PROPERTY INFORMATION

Complete all sections of this worksheet to provide information on the property, debt financing and other sources of funding. Provide information on debt secured/being secured to undertake project as well as existing debt/liens on the property. Lender(s)’ commitment letters, copies of promissory notes for each mortgage, other commitment letters/documentation for donations, gifts, grants, and any other source of funding must be provided as attachments.

#  PPROJECT DEVELOPMENT

This worksheet is used to calculate the total development budget. The budget should provide sufficient detail to determine total project development costs and funding. It should include all sources and uses of funds for hard and soft costs. (Sources & Gap will self calculate from information in Cover Page. If necessary, listed costs in 'white spaces" can be changed to reflect most descriptive cost applicable to the project. All costs must be eligible and reasonable (in line with size and complexity of project). Estimates must prepared by qualified individuals - contractor/engineer/architect.

**Acquisition Costs -** Soft costs related to acquisition, such as the appraisal and closing costs, should be listed under soft costs. A third party appraisal that justifies/documents the acquisition cost.

**Construction Costs -** The actual amount for construction/rehab should be entered. As support documentation, detailed work write-ups, bid specifications, bids, etc., are expected to accompany application. Besides the "hard" costs of materials and labor, the contract price will typically include such components as an allowance for the contractor's project-related expenses or "general requirements" such as building permits, the contractor's overhead, and the cost of a performance bond or letter of credit provided by the contractor to insure that the project will be completed (if required). This amount could also include site improvements such as excavation for foundations or utilities, grading of the site, walkways, on-site roads, landscaping, outdoor lighting or parking spaces. If developer is acting as the general contractor, the contractor's overhead, and the cost of a performance bond or letter of credit would be shown under soft costs. The City will not allow developers to include profit and overhead in projects/developments they own. ECD staff will compare the overall per square foot cost of construction to the range of PSF costs of recent similar HOME projects. The analysis will note any unusual project factors that impact the cost estimate.

## Soft Costs

“Reasonable and necessary” soft costs include such costs as title and escrow, financing fees, development period interest, real estate taxes during construction, legal fees, permits, appraisals, environmental studies, architectural and other related professional services, audit costs, relocation costs, affirmative marketing expenses, and capitalized reserves. A soft cost contingency of up to 5% may be included.

**Architectural** fees should be based on estimates from an architect.

**The engineering** fee should also include mechanical or structural engineering costs, if any, incurred as part of the design process.

**Appraisal** - The cost for as-is appraisals and after-rehab appraisals. Appraisals are required and are used in project feasibility analysis.

**Environmental reviews** - required to determine clearance are conducted by the City's Community Development Office. Only costs outside of this process should be included.

**Property/casualty** insurance should be obtained by the developer for the interim period before builder's risk insurance comes into effect. If the developer is also the general contractor, the developer should obtain builder's risk insurance as insurance against casualty and liability risks during construction. Otherwise, builder's risk insurance is typically obtained by the building

contractor and will be included in the construction contract amount. In addition, developers must also obtain commercial general liability insurance, the cost of which is typically covered by the developer fee.

**Pre-funded Reserves** – For large projects, HOME funds or other funds can (at City’s discretion) be used to pre-fund a reserve so long as the amount is reasonable and is required by a lender or equity investor.

**Rent-up marketing costs** - This line item includes the estimated costs of rent-up, such as advertising. Developers should make sure that the staffing costs of rent-up are covered either in the development budget or in the operating budget for the first year, but not in both.

**Soft cost contingency** - This is a contingency amount that may be used if one or more soft costs are higher than anticipated.

**Developer Fee** - Developer fees as a percent of total development costs generally fall between 10% and 15%. If funded by HOME, HUD requires that the fee be reasonable, appropriate, and customary in the market for this type of development project. The maximum allowable developer fee is 15% of total hard and soft costs. Developer fees should be calculated based on the estimated time, effort and risk required of the developer. In general, higher developer fees are allowed if the developer is not being reimbursed by any funding source for construction financing costs and holding costs and/or has equity at risk in the project. Fees should be lower if HOME or other sources are funding all holding costs and the developer has little or no equity in the project. Fees should also be lower for "easy" projects -- such as acquiring and selling homes in good condition that require little or no rehabilitation. The City will not allow both paying a developer fee and reimbursing the developer for staffing and other internal costs; this raises the possibility of "double dipping."

**Tenant Relocation** – Costs related to relocating tenants are eligible under HOME. However, because it can be very costly and the City is required to follow federal requirements in providing notifications to the tenants, developers should not undertake projects requiring relocation without first having a discussion with the City. Tenants cannot be displace/lease not renewed for the purpose of participating in this program.

#  PROJECT OPERATIONS

The Operating Pro-forma worksheet is designed to summarize a rental project's bedroom distribution, income targets, operating income and expenses, net operating income (NOI) before debt service, and debt service. The operating budget must include a projection of all rents and other revenue, all project expenses, and all debt service payments, with a calculation of the resulting net operating income and Debt Service Coverage Ratio. The information also transfers to the worksheet "E. 20 Year Cash Flow Projection" which is used to estimate the project’s long- term financial viability.

The worksheet also calculates the debt that the project can actually support (based on debt service ratio, terms and rate). Additionally, the sheet summarizes the return on investment (ROI) and the loan to value ratio (LTV) - current and as proposed. This information is used by staff in evaluating the project feasibility. The sheet contains self-calculating cells (Yellow). Do not change information in the yellow cells. Enter information in the white or green cells only.

## Income/Rental Revenue

Enter the number of dwelling units of each type. A pro-forma could be used for several scattered-site units in one project, but with single-family rentals, the pro forma will typically be for a single dwelling unit, though it might be for a 2-4 unit property. All HOME-assisted units shall have rents that are at or below the published HOME rents for the unit size as of the date of the application. A vacancy rate of 5% is allowable. Applicable utility allowances and a reasonable escalation rate (typically in the range of 2-3%) is included in the 20-year projection. Under the appropriated column, enter utilities that the tenant will pay from the utility sheet provided. **Do not change the rents.** The pro-forma will self-calculate the annual rent revenue. Other income includes income from sources such as common laundries or renting a function room. If applicable, provide a brief description.

## Expenses/Operating Costs

In the designated cells, estimated annual expenses for the project/development that will be covered. Expense descriptions can be can be changed, if necessary. Estimated expenses should be reasonable and related to the project/development. (Example - program/social service operations are not expenses related to the project/development). ECD staff will review both individual line item expenses and the overall per unit per year operating costs against other recent, HOME-funded projects. Property management fees of 5-7% of collected rents are allowable. Replacement reserves must be included at a level that is appropriate for the type of project (i.e.., new construction vs. rehabilitation, large family vs. seniors, etc.) A reasonable inflation rate is included in the 20-year projection. Tenants in scattered-site rental units are typically responsible for grounds maintenance, per their leases.

Net operating income (NOI) is calculated by subtracting total operating expenses from total income. This indicates the amount of income available to pay debt service and provide for "debt service coverage." "Supportable debt" is then automatically calculated by a formula based on the NOI and the assumptions in the "supportable debt service calculation" grid. The minimum acceptable debt service coverage ratio shall be 1.15 and the maximum allowable shall be 1.25. This information is used by staff in considering the "gap" financing the City needs to provide.

The sheet also shows the estimated return on investment (ROI) and the loan to value ratios (LTV), which are used in evaluating the project/development.

# 20-YEAR CASH FLOW PROJECTION

It is a standard requirement of lenders for borrowers to provide a multi-year cash flow projection for a period of years equal to the term of the loan. This projection spreadsheet includes assumptions about inflation in rents and operating costs which automatically calculate increased income and expense amounts for each year. This projection is used primarily to demonstrate that the debt service can be paid in each year. The analysis covers a twenty year period. The analysis must at minimum, cover the period of affordability. This sheet self- calculates.

# ATTACHMENTS

**Proof of Financing**: Please attach proof of financing for the proposed project. A separate pro- forma should be completed for each project (address).

**Appraisals:** Current and as proposed. Appraisal cannot be more than six months old.

**Proof of Insurance:** Property/casualty insurance, builder's risk.

# Detailed Work Write-up/construction plans, bid specifications, bid responses.