HACSC Underwriting Tool Instructions - Project-Based Voucher Program

<u>Purpose</u> – The HACSC Underwriting Tool is used to help evaluate the project's assumptions against the required HUD Subsidy Layering Review (SLR) criteria. The Underwriting Tool will be used in scoring and evaluating projects under a HACSC PBV Request for Proposals.

<u>Important Notes</u> – Figures in this Underwriting Tool must match your general project proforma, unless a deviation is requested in these instructions. In instances where a deviation is requested, please complete the Underwriting Tool as instructed but do not alter your project proforma to match.

HUD has permitted some Housing Credit Agencies to perform SLRs on their behalf. Projects that leverage LIHTCs may request that CTCAC perform the review. Please note that CTCAC may incorporate different safe harbor standards, use different definitions, or use different calculations than HUD in the review process. Where noted, HACSC has identified a non-exhaustive set of these differences.

Only HUD or HUD-certified Housing Credit Agencies may perform the official SLR to determine the project's compliance with PBV Program requirements. By accepting a complete Underwriting Tool, HACSC does not confirm a project's compliance with those requirements. HACSC encourages you to perform your own evaluations to prepare for any official SLR submission.

<u>Instructions:</u>

<u>New Construction or Rehabilitation Projects</u> - Complete all sections.

<u>Existing Housing Projects</u> - Complete only the *Operating Assumptions* and *Operating Standards Test* tabs. Although a SLR is not applicable to existing housing, the Underwriting Tool may still be evaluated.

1. **<u>Underwriting Tool Selection</u>**

   There is one Underwriting Tool for LIHTC projects and one Underwriting Tool for projects that will not be leveraging LIHTCs. Please download the appropriate Underwriting Tool.

2. **<u>Development Assumptions</u>**

   Fill in the yellow cells with your anticipated development costs. Specify *Other* costs as appropriate.

3. **<u>Operating Assumptions</u>**

   A. Fill in the yellow cells of Column C with the various bedroom sizes for each unit type.

   B. Fill in the yellow cells of Column D with the number of units per bedroom size

   C. Fill in the yellow cells of Column E with the anticipated per-unit monthly tenant payment. This is **<u>only</u>** the tenant portion of rent and should not include any anticipated PBV subsidy.

   D. Fill in the yellow cells of Column F with the anticipated per-unit monthly subsidy from the PBVs. For these PBV units, the sum of the estimated tenant payment and estimated subsidy should not exceed the applicable payment standard. The current payment standards can be found on the HACSC website under the "General" tab.

E. Fill in the cells in Column K. For Property Management Fee, choose either the fixed annual fee or a percentage of net revenue, but not both.

   a. Rent increases must trend between 2% and 3%.

   b. Operating expenses must trend between 1% and 3% for the first five (5) years. After year five (5), they are required to trend at 3%.

   c. Vacancy rates may not exceed 7%.

   Note – any cell in Column K that is highlighted in **red** is outside of these ranges and must be adjusted.

4. **Development Standards Test**

No action necessary on this page.

Contractor Fee Test – the combined contractor fees may not be more than 14% of hard construction costs.

Developer Fee Test - the developer fee may not be more than 15% of total development costs.

5. **Operating Standards Test**

Fill in the yellow cells as appropriate for each year of the requested HAP Contract term. **All fees must be included "below the line" in the Fees section and shall not be included in the Debt Service section, even if it is a mandatory fee payment, per HUD guidance.** HACSC recognizes that this may deviate from standard underwriting practices. In your general project proforma, you may keep fees "above the line" as you deem appropriate.

Debt-Coverage Ratio Test - the debt-coverage ratio must be between 1.10 and 1.45 in any given year. HUD or CTCAC may require justifications outside this range.

** CTCAC may require that the debt-coverage ratio be at least 1.15 by Year 3. **

Cash Flow Test – the HUD-defined cash flow of the project may not exceed 10% of operating expenses in any given year. HUD or CTCAC may require justifications outside this range.

** HUD permits projects to deduct any portion of the deferred developer fee and any deposit to reserves from the adjusted cash flow calculation. Additionally, CTCAC may also permit residual receipts to be deducted from the adjusted cash flow calculation. **

For non-LIHTC projects, the Underwriting Tool will deduct deferred developer fees and reserve deposits automatically and calculate the adjusted cash flow.

For LIHTC projects, the Underwriting Tool will deduct deferred developer fees, reserve deposits, and residual receipt payments automatically and calculate the adjusted cash flow.

In all cases, please note the different methods that HUD and CTCAC use for calculating the adjusted cash flow.