

CHDO Development Process Webinar Part 2 October 25, 2017

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Catalyst Training Schedule



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Upcoming Training

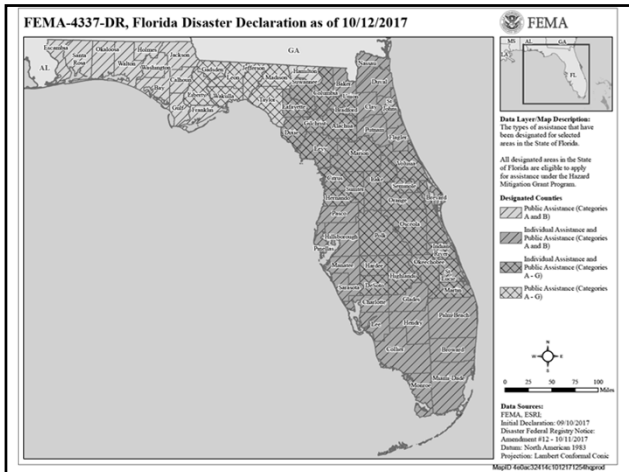
- Weekly Hurricane Update Webinar Friday 1:30
- <https://attendee.gotowebinar.com/register/2296286440148075265>
- The Predevelopment Process Nov. 7 Winter Park
- Rehabilitation Series Part 3 – Webinar Nov 8
- SHIP for Rapid Rehousing – Webinar November 9
- The Development Process Dec. 13 Tampa
- http://www.flhousing.org/?post_type=tribe_events

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NEWS FLASH! HUD Memo October 23, 2017

- CPD Program Waivers- see handout
- Impacts CDBG, HOME, HOPWA, ESG program statewide-
- PJ must request specific waivers
- Impacts CHDO setaside

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CDBG- Waiver Items

- The public comment period for substantial amendments to the Annual Action Plan of the Consolidated Plan is reduced from 30 days to seven days.
- The obligation to provide "reasonable" notice to the public and an opportunity to comment when there is a substantial amendment to the Annual Action Plan is waived for Puerto Rico and the Virgin Islands due to destruction of the communications infrastructure. Grantees are permitted to determine "reasonable."
- CDBG may be used to construct new housing. (Generally, CDBG can only be used to construct new housing if done by special nonprofits.)
- The 15% limit on the use of CDBG for public services is removed.
- Grantees may provide Emergency Assistance Payments for up to six months (instead of three months). Emergency Assistance Payments could include assistance to pay rent, utilities, food, clothing, etc.

HOME- Waiver Items

- Jurisdictions may use up to 20% (up from 10%) of their HOME allocation to cover administration and planning costs due to the disaster.
- The maximum tenant-based rental assistance (TBRA) that can be used toward a recipient's rent is waived for two years. (Normally the maximum is the difference between the jurisdiction's rent standard and 30% of a household's income.)
- The 25% jurisdiction match requirement is waived.
- The requirement that 15% of a jurisdiction's HOME allocation be used by Community-Based Development Organizations (CHDOs) is waived. This could significantly disadvantage mission-driven community development organizations.

Workshop Objectives:

After completing this workshop, you will be able to:

- Understand how to Demonstrate capacity
- Understand the CHDO development activities during predevelopment;
- Understand the underwriting process
- Understand subsidy layering
- Understand how to start a HOME Consortium

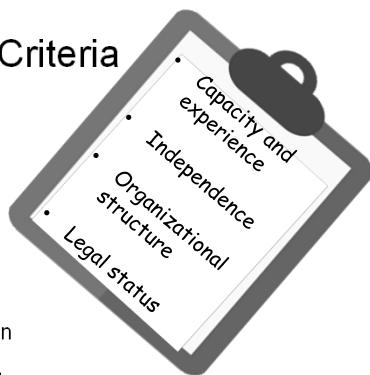
Poll #1 Do you represent a CHDO, Participating Jurisdiction, A non-profit desiring CHDO status, or none of the above?

- Yes CHDO
- Yes PJ
- Want to become a CHDO
- None of the above

CHDO CAPACITY

Qualifying Criteria

- CHDOs must be certified by the PJ
- Required at the time of commitment
- Expected to remain a CHDO during affordability period



CHDO Qualifying Criteria

- CHDOs must meet requirements pertaining to their:
 - Capacity and experience
 - Organizational structure
 - Legal status



Capacity and Experience

- Organization must:
 - Have at least one year of experience serving the community
 - Demonstrate paid staff has relevant capacity to carry out specific activities (PJ recertifies for each project)
 - Have financial accountability standards
- **Can use consultant for first year only to demonstrate capacity**
- Must remain a CHDO for the entire affordability period of a rental project if developer or owner

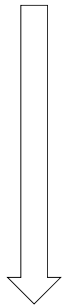
Documentation of Capacity

- Chart of completed projects- size, funding sources
- Organizational Financials- P&L, current budget, audits
- Resumes of key staff
- List of Board members and qualifications
- Chart of Key staff with role in specific project
- Chart of Development Team – developer, contractor, architect, engineer, accountant, legal- experience and qualifications

THE DEVELOPMENT AND PREDEVELOPMENT PROCESS

The Development Process

- Conceptual vision
- **Predevelopment**
- **Site Selection**
- **Programming/Preliminary Design**
- Funding Application
- **Credit Underwriting**
- Funding Award and Initial Closing
- Construction and Lease-Up
- Project Stabilization and Final Closing
- Project Operation and Program Compliance



Predevelopment Process

Predevelopment Stages

1. Assembling Your Development Team
2. Site Selection
3. Due Diligence
4. Go or No Go

Assemble Your Development Team

- Organization
 - Mission
 - Board
 - Staff
 - Capacity (financial, experience, pipeline)
- Developer Partner
- Consultant
- Financing Sources
- Architect/Engineer
- General contractor
- Project Manager
- Property Manager/RE Agent
- Services



Choosing a Co-Development Partner

- Developer business line- rehab or new const.
- List of Projects
- Good standing
- Packaging your deal
- What is their role?
 - Owner
 - Developer only

What is your role?



Developer Capacity

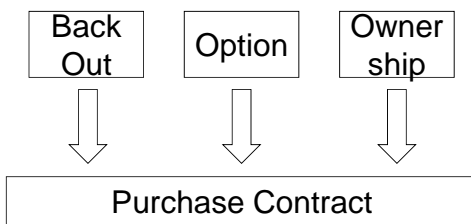


- Do they have appropriate financing? A strong balance sheet?
- Do they have sufficient liquidity?
- Do they have appropriate staffing?
- What other projects are in process?
- Can they sign a guarantee?



Site Selection and Due Diligence

Purchase Contract



Site Due Diligence Checklist

<u>Environmental Factors</u>
What is the soil type and elevation? Does it appear to be buildable?
Is there evidence of hazardous materials or underground tanks on the site?
What was the site previously used for?
What is the degree and direction of runoff?
Is the site in a flood zone? What classification?
Are there wetlands on the site?
Is there evidence that any type of endangered species use the site for habitat?
What are the adjacent uses to the site?
Does the site have existing infrastructure, including utilities?
Does the site have curb appeal?

Neighborhood and Community Factors

- Are there schools nearby? Are more schools planned?
- Is the site served by public transportation?
- Are the streets in good condition? How heavy is local traffic?
- Is there shopping nearby?
- Where are the closest daycare and health care centers?
- Is the site adequately served by fire, police, and EMS services?
- Are there parks and community centers within walking distance?
- Is the site near local areas of employment?
- Is the overall neighborhood in good condition?
- Does it appear to be static or changing?
- Are there many vacant residents or businesses in the area?
- Is the area known as a high-crime area?

Regulatory Factors

- How is the property zoned?
- What are the allowed uses for the property?
- What is the maximum unit density that is allowed?
- What are the parking and setback requirements for the site?
- Are there concurrency requirements that should be considered?
- Will variances be needed to develop the property?
- If variances will be required, what is the process for obtaining approval?
- Are there any special conditions for use of the site?
- Will the project need to comply with accessibility provisions?

Economic Factors

- What is the per unit cost of acquiring the land?
- To what extent will public subsidy be needed to finance the project?
- What are some of the timing issues with the proposed funding?
- To what extent will restrictions imposed by funders delay or restrict development?
- How much will impact fees cost?
- What are the expected utility rates?
- How much earnest money is needed to secure the site?
- Are any special incentives available for developing this site?

Local Government Requirements and Incentives-Summary

- Analyze incentives offered by your city or county-get connected with Housing Specialist
- Check LHAP (Local Housing Assistance Plan)
- Land Use, Zoning and Rezoning
- Fees
- Environmental
- Permitting
- Infrastructure
- Subdivision

Incentives: Will They Work for You and are They Practical?

- Density Bonus
- Expedited Permitting
- Zoning Relief
- Fee waivers or mitigation
- Surplus Land
- Lien removal
- Others?

Land Use and Zoning

- Future Land Use element
- Housing element
- Zoning – base and overlay
- Buy zoned land if at all possible
- Buy land with infrastructure
- Make flow chart of approvals needed
- Land Development Regulations
- Special concerns- historic or form based

Permitting and Fees

- Informal review
- Site Plan
- Development Order
- Building permits
- Impact fees
- Utility impact and connection fees
- Inspection and re-inspection fees
- Recycling and waste fees

Permitting

- Estimate timeframe for reviews
- Ask for expedited review from beginning
- Will need permit ready drawings - costly
- Will need permits to complete underwriting process



Environmental Review and Clearances

- If using federal funds must have Phase I review –city may complete or require developer
- Phase II requirements
- Soil studies
- Water management issues/wetland determinations



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Infrastructure

- City or County provided if possible
- Engineering can be expensive- and is frequently under-estimated
- Most funding sources only pay for on-site utilities
- Can use CDBG to bring it to site

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Subdivision and Planning

- Lengthy process
- If already laid out, check that utilities are still operational
- May require land use plan change
- Can phase development and not pay for all improvements up front

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Subdivision and Planning

Requires public review- could encounter NIMBY

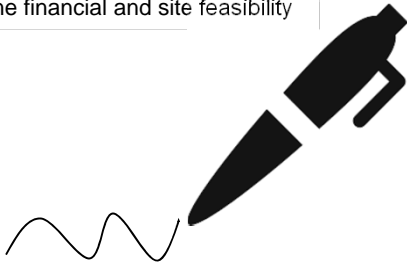
- Be prepared
- Listen to opposition
- Respond to appropriate
- Issues
- Be strong



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Underwriting

Determine financial and site feasibility



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Underwriting Requirement

- Required by 24 CFR 92.250
 - "A PJ is required to develop and use such guidelines to evaluate and ensure that the level of HOME investment does not exceed the amount that is necessary to provide quality affordable housing that is financially viable."
- CPD 15-11 - *Requirements for the Development and Implementation of HOME Underwriting and Subsidy Layering Guidelines*
- Any HOME units in project – must look at *entire* project

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HOME Def. 92.2(2) Commitment to Specific Local Project

PJs may not commit HOME funds to a project consisting of new construction or rehabilitation until:

- All necessary financing is secured
- A budget and production schedule is established
- Underwriting and subsidy layering is completed
- Construction is expected to start within 12 months

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Underwriting- Required before commitment

- Developer Capacity
- Market Demand
- Scope of work
- Cost Reasonableness
- Sustainability (rental)/ Quick sale (ownership)
- Commitment of Other Funding
- Subsidy layering review (SLR)

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Underwriting Process

- Examine *Sources and Uses* document and determine that the development costs are reasonable
- Do an assessment of:
 - Market demand
 - Experience & financial capacity of developer
- Determine reasonable level of profit/return to owner/developer for size, type, complexity of project
- Verify financial commitments are firm

Developer Capacity

- Organizational background
- Has developer completed similar projects successfully?
- Who is on the team? Staff experience + development team
- Has developer worked with this funding before?
- What else is in the pipeline?
- Who is project manager?
- Financial capacity (audited financials, cash on hand, LOC, balance sheet)
- Must have funds available

Project Financing Needs:

- HOME subsidy is appropriate
- Costs and Profits are reasonable for size, type and complexity of project
- Specific funding sources are in line with timeframe for completion
- Project must start in 120 days and be completed within 4 years of contract

Required 3rd Party Analyses

- Appraisal
- Market Study
- Capital Needs Assessment for existing properties
- Survey
- Environmental (soil, wetlands, wildlife, historic)

Property Standards- New Construction

- State and/or local housing codes and standards
- Accessibility
- Disaster mitigation (where relevant)
- Written estimates, contracts & documents
- Construction progress reports

Property Standards- Rehab

- Written rehab standards
- Capital needs assessment
- Meets standards at time of occupancy

Capital (Physical) Needs Assessments

Professional written evaluation of property condition:

- Health and safety
- Accessibility
- Environmental
- Remaining useful life of all systems
- Rehab needed
- Estimated cost present
- Schedule and cost of future replacements

Subsidy Layering Requirements

- HOME Final Rule at 92.250(b)
 - Always been required (including having SL Policy)
- CPD Notice 98-01 provides guidance
- PJ must establish written guidelines
- Carry out prior to committing \$\$\$ to project
- Certify in Consolidated Plan and now in IDIS (together with Underwriting)

Subsidy Layering is...

- Analysis of project financing to:
 - Ensure appropriate HOME and/or CDBG subsidy
 - HOME investment is sound over time
 - Accurately project income and expenses
- *Subsidy Layering is* basic underwriting
- Required for all projects using HOME funds with other governmental assistance
- Make sure HOME investment is not too much or too little – two sides of the coin

Homeownership SL 92.254(f)

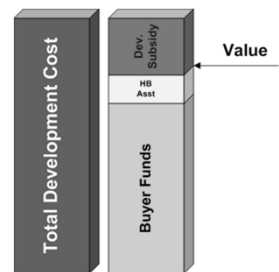
- PJ must follow written underwriting standards that evaluate the homebuyer regarding:
 - Housing debt and overall debt
 - Monthly expenses of the family
 - Assets available to acquire housing
 - Financial resources available to sustain housing
- Goal is appropriate amount of HOME assistance for each homebuyer
- Can't provide flat amount of assistance to all

Ex. Homebuyer Underwriting Standards

- Front end ratio capped 35%
- Back end ratio capped at 42%
- Liquid assets not committed to purchase capped at \$5,000
- Purchase price at or below 95% value
- Minimum cash contribution
- Fixed rate, 30 year mortgage

Homebuyer Assistance Amount

- Need to determine assistance amount is reasonable
 - Vary assistance by price and income levels
 - Apply minimum front ratios



Conversion of unsold homebuyer units (92.254(a)(3))

- Unsold HOME units must be converted to HOME rental units for the rental affordability period, or HOME funds must be repaid
- Units can become lease-purchase only if:
 - PJ has an established lease-purchase program, **AND**
 - Agreement with homebuyer executed before deadline

Sustainable Multifamily Housing

- §92.250(b): Underwriting & subsidy layering review required for ALL HOME-assisted projects. Must review each project to assess:
 - HOME funds required
 - Reasonable profit or return on owner investment
 - Financial viability for entire affordability period
 - Sources and uses
 - Market demand for project
- §92.251(b)(1): Capital Needs Assessment
 - Required when rehabbing projects with 26 or more total units (Effective January 24, 2015)

Simplified Operating Budget	
Gross Potential Rent	\$180,000.00
Rent Loss (7%)	-\$12,600.00
Other Income	\$1,800.00
Effective Gross Income (EGI)	\$169,200.00
Marketing	\$3,000.00
Payroll	\$45,000.00
Property Admin. & Mgmt.	\$10,152.00
Utilities	\$6,000.00
Security	\$4,500.00
Maintenance	\$9,750.00
Taxes	\$15,000.00
Insurance	\$6,000.00
Reserves for Replacement	\$12,000.00
Operating Costs	\$111,402.00
Net Operating Income (NOI=EGI- Operating Costs)	\$57,798.00
Debt. Service	-\$50,259.00
Cash Flow	\$7,539.00

Operating Budget and Pro Forma

- Determine Year 1 **Debt Service Coverage Ratio (DSCR)**

– $DSCR = \text{Net Operating Income} / \text{Total Debt Service}$

Net Operating Income (NOI=EGI-Costs)	\$57,798.00
Debt. Service	-\$50,259.00
Cash Flow	\$7,539.00

– $DSCR = \$57,798 / \$50,259 = 1.15$

- **DSCR should be:**

- 1.11 for Affordable housing
- 1.4-20 for Market housing

Review Pro Forma over Affordability Period

	Year 1	Year 2	Year 3	Year 4
Effective Gross Income (EGI) = 1% Inc.	\$169,200	\$170,892	\$172,601	\$174,327
Operating Costs - 3% Inc.	-\$111,402	-\$114,744	\$118,186	\$121,732
Net Operating Income	\$57,798	\$56,148	\$54,415	\$52,595
Debt. Service	-\$50,259	-\$50,259	-\$50,259	-\$50,259
Cash Flow	\$7,539	\$5,889	\$4,156	\$2,336
Debt. Service Coverage Ratio	1.15	1.12	1.08	1.05
Cash Flow as a % of Op. Costs & DS	4.66%	3.57%	2.47%	1.36%

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	Year 4	Year 5	Year 6	Year 7
Effective Gross Income (EGI) = 1% Inc.	\$174,327	\$176,070	\$177,831	\$179,609
Operating Costs - 3% Inc.	-\$121,732	-\$125,384	-\$129,145	-\$133,020
Net Operating Income	\$52,595	\$50,686	\$48,685	\$46,589
Debt. Service	-\$50,259	-\$50,259	-\$50,259	-\$50,259
Cash Flow	\$2,336	\$427	-\$1,574	-\$3,670
Debt. Service Coverage Ratio	1.05	1.01	0.97	0.93
Cash Flow as a % of Op. Costs & DS	1.36%	0.24%	-0.88%	-2.00%

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Summary: Underwriting and Subsidy Layering guidance...

- Make sure the project can be completed by the deadline for the funding sources
- PJ funds may need to go at the end to ensure compliance.
- Make sure to get firm commitments from all funding sources to make sure it can be completed.
- Consider the strictest requirement for each funding source to ensure overall compliance.
- Make sure to look at what is being paid by the other funding source to avoid double billing

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More guidance...

- Hold projects to clear timelines outlined in the agreement.
- Don't advance funds.
- Don't overpay at inspections, hold a percentage of each payment if necessary .
- Have a system in place to track progress and accomplishments.
- Don't be afraid to withhold payment or charge penalties.

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The HOME Consortium

- Allows urban or rural communities that are not entitled to join by agreement to meet population threshold and receive HOME funds
- Must get local and state approval
- Requires coordination and agreement of all jurisdictions
- Can determine amount of HOME using tools

HOME Consortium- resources

- **24 CFR 92.101**
- <https://www.hudexchange.info/home/topics/consortia/#fy-2017-home-consortia>
- <https://www.hudexchange.info/resource/3041/notice-cpd-13-002-procedures-for-designation-of-consortia/>
- <https://www.hudexchange.info/resources/documents/Establishing-And-Managing-a-Successful-HOME-Consortium.pdf>

HOME Consortia in Florida

Brevard County	2016-2018
Broward County	2015-2017
Escambia County	2015-2017
Marion County	2016-2018
Osceola County	2015-2017
Pasco County	2015-2017
Pinellas County	2015-2017
Sarasota	2017-2019
St. Lucie County	2016-2018

Starting a HOME Consortium

- Conduct a needs assessment for the formation of a HOME Consortium
- Need 200,000 pop combined
- Determine the willingness of local governments to participate in the re-constituted Consortium
- Determine the most appropriate Lead Agency and provide guidance to their administration staff in the steps to formation and implementation of a HOME Consortium
- Prepare Plan and submit to HUD

Technical Assistance is Available

Available Daily: 1 (800) 677-4548

Options for Further Assistance Include:

Phone and Email consultation
Site Visits

Register at www.flhousing.org

Workshops
Webinars



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