SCCHA PBV Underwriting

Underwriting Guidelines

v. 5-19-2020

Purpose

These guidelines are intended to insure that SCCHA's Project-Based Voucher funds are used to support the greatest number of households by right-sizing the number of PBVs while providing sponsors with rents that protect the financial feasibility of projects. SCCHA will carefully underwrite PBV applicants and make commitments to projects that are financially feasible and will be ready in the near term to provide housing to address the county's ongoing affordability crisis.

As a Moving to Work (MTW) public housing authority, SCCHA is subject to federal regulations governing the PBV program, as modified by its Administrative Plan and MTW Agreement as approved by HUD. These guidelines are intended to comply with HUD's programmatic requirements. SCCHA recognizes that most projects seeking PBV funds will have various sources of capital financing for affordable housing projects, such as low-income housing tax credits, tax-exempt debt, and state and local soft financing, each of which carries its own set of underwriting standards, and these guidelines are intended to meet those funding programs' standards to the extent they are not in conflict with HUD requirements.

The SCCHA underwriting guidelines will be incorporated into future RFPs and NOFAs for PBV allocation and will provide a standard of comparison for competing voucher requests.

Category	Underwriting Requirements & Guidelines
Applicant & Project Statistics	
Project Cap: Project Based Voucher Request	HUD regulations allow Housing Authorities to subsidize the greater of 25 units or no more than 25% of units in a project with PBV (Notice PIH 2017-21 (HA)). The following types of units are excluded from being counted in the greater of 25 unit or 25% project cap: 1) Units exclusively serving elderly families and 2) Units housing households eligible for supportive services available to all families receivng PBV assistance in the project. To be eligible for the service exception, a project must make supportive services available to the excepted unit. The family does not have to accept and receive the supportive service for the exception to apply to the unit. Supportive services include, but are not limited to the following: childcare, transportation, education, job training and employment counseling, substance abuse/ alcohol abuse treatment or counseling, household skill training, and homeownership counseling. The services must be designed to help families achieve self-sufficiency or live in the community as independently as possible. The Housing Authority may award PBVs to 100% of the units in a project in these excepted categories. Additionally, all units in projects that are in a census tract with a poverty rate of 20% or less are subject to a higher (40%) cap. HUD requires that additional requirements for monitoring and oversight be instituted for projects when more than 40% of the units are assisted under the PBV HAP contract. For units to qualify for the exclusion to the greater of 25 unit or 25% project cap under the criteria of Units housing households eligible for supportive services, supportive services must be approved by the SCCHA. (24 CFR Section 983.56). Please note that Housing Opportunity Through Modernization Act of 2016 (HOTMA) eliminated the exception for families with a household member with disabilities.
Development Budget	
SLR Requirements	All applicable SLR requirements, which differ by project type and sources of financing, will be binding on projects.
Total Development Costs	Written justification required if >130% of TCAC adjusted basis limits (of unadjusted 9% limits for non-TCAC projects)
Hard Costs	No guideline set
General Contractor Burden	Combined GC fees may not exceed 14% of hard costs: 2% overhead, 6% profit, 6% general conditions

Category	Underwriting Requirements & Guidelines
Hard Cost Contingencies	Contingencies included in budget must correspond to a project's stage of anticipated development at time of PBV award: 5% plan check contingency for projects not yet permitted; 5% bid contingency for projects without a final contractor GMP; 5% (new const)/10% (rehab) contingency on total construction contract. Unique project characteristics may mean that a higher hard cost contingency is prudent to ensure project feasibility. A justification must be provided for any excedence of these standards.
Architectural Fees	No guideline set
Other Soft Costs	No guideline set
Soft Cost Contingency	10% of soft costs excluding Dev Fee, construction loan interest
Operating Reserve (Capitalized)	3 months operating expenses and debt service, capitalized, or up to 6 mos if required by other funders.
Replacement Reserve (Capitalized)	Rehab projects only: $300/unit or based on PNA if available
Transition Reserve (Subsidy)	A transition reserve required by a lender or investor is permitted by the SCCHA.
Capitalized Operating Subsidy Reserve	Allowed only for PSH units that are *not* requesting PBVs. May not exceed 20-year operating losses (including deferred developer fee and permissible reserves deposits) attributable to eligible units.
Capitalized LP Partnership Management Fee	Partnership Management Fees payable to the LP (not GP) in an amount consistent with SCCHA underwriting guidelines may be capitalized if cash flow projections do not project full payment of earned amount over 15 years.
Developer Fee	TCAC maximum. For non-TCAC projects, $30K/unit for the first 20 units; $20K/unit for units 21-40; $15K/unit for units 41 and above. By negotiation for projects with market-rate or commercial components.
Developer Fee Payment Schedule	No guideline set
Tax Credit Factor	No guideline set. Sponsors must provide written justification of pricing assumptions. Projects with investor LOI shall use LOI pricing.
Operating Budget	
Vacancy Loss	5%; except 10% for SRO and Special Needs
Operating Costs	Based on project characteristics including Project Type, proportion of Special Needs and Supportive Housing Units, Project Size, whether the Project has an elevator, and whether the Project has 24-hour security. Minimum ranges from $5,200-$9,300/unit/yr. Maximum ranges from $7,200-$11,300/unit yr.
Services Costs in Operating Budget	Not to exceed $1,132/unit/yr at projects with qualified services oversight staff and an outcomes reporting system; otherwise $269/unit/yr. Yr. 1 benchmark to increase 2.5%/yr after 2020. For PSH units, only general, non-clinical services costs may appear in operating budgets; supportive services costs for PSH units will be funded separately by OSH.
Accounting/Audit Fees	No guideline set
Property Management Fee	Not to exceed $60/unit/mo

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Cash Flow	
Financial Feasibiliity	Positive for 20 years
Debt Service Coverage Ratio (Yr. 1)	Between 1.10 and 1.15
Debt Service Coverage Ratio (Later Years)	Between 1.10 and 1.45
Local Monitoring Fees	Must include fees required by proposed lenders
Income/Expense Trending	2.5% for income; 3.5% for expenses
Replacement Reserves (Annual Deposits)	$300/unit (rehab); lesser of 0.6% of hard costs or $250/unit (new const); or based on PNA if available
Operating Reserves (Annual Deposits)	Must replenish from cash flow if balance falls below initial requirement
Allowable Cash Flow	Cash flow (in excess of allowable operating and replacement reserves and deferred developer fee) may not exceed 10% of total operating expenses.
Asset & Partnership Management Fees	Max $25,000 to GP; $7,500 to LP; 3% annual increase. If deferred, can be repaid only from sponsor share of residual receipts. Paid below the line.
Deferred Developer Fee	May not accrue interest
Use of Residual Receipts	50% to Sponsor; 50% to soft lenders. If the project is supported by the County Office of Supportive Housing (OSH) and includes multiple additional soft lenders, the split shall be altered to 25% to Sponsor; 75% pro-rata to soft lenders per OSH requirements. At projects with HUD capital financing, the Sponsor share of residual receipts may be further limited by other HUD restrictions on owner distributions.
Other Fees to Sponsor	Not permitted. Marketing, rent-up, compliance, guarantees, etc., paid from developer fee