Tab 2 - Multifamily Housing Core Underwriting Application

An Application is required to be completed for all Agency Multifamily programs. Be sure to complete all sections, answer all questions, and provide all requested supporting documentation.

If you do not know the Census Tract and/or Block information for your proposed site, this information may be obtained from census maps accessible on the internet at: American Fact Finder.

The GPS coordinates may be obtained from Bing Maps. From the website, type in the address and the coordinates will be shown. http://www.bing.com

Enter the address (including the +4 zip code) of the site and continue following the directions to obtain census tract, block, group, legislative districts, voting district, school district and municipality.

Developments which include both residential and commercial space must separate the estimated costs. All construction and soft costs (i.e. architectural, legal, engineering, survey, soils report, structural report, environmental audit, environmental remediation, energy testing, property appraisal, utility tap-in, hook-up, municipal fees) associated with both the commercial and residential areas must be included in Total Development Costs in the Development Budget. A narrative of the anticipated use of the commercial space, including the exact square footage, must also be provided so that the Agency can evaluate the impact of the commercial space on the development.

Applications must also provide a breakdown of any off-site improvements, site work, demolition costs, tap-in or municipal fees and/or any single budget line that includes multiple costs that are part of the Development Budget.

For applications involving rehabilitation and new construction buildings, the construction costs must be broken down to show separately the costs of new construction and rehabilitation.

Please note that if the development contains multiple buildings and only some buildings are located in a QCT/DDA, submit separate budgets for those buildings located in a QCT/DDA and those that are not in a QCT/DDA.

Those Applications seeking PennHOMES funds must target at least 50% of the units to tenants at or below 50% AMI (using the FMRs). The Income and Utility Projections schedule must reflect this. (This is not a change but a clarification of policy that is consistent with the Agency's current Regulatory Agreement minimum requirements as well as historic Agency requirements for the PennHOMES program.)

Per-line instructions for completing the Operating Budget and budget narrative are included herein. The Agency no longer provides per-unit controllable operating expense ranges by DCED region. (Controllable operating expenses only include administrative expenses, excluding management fees, operating expenses, and payroll.) The controllable operating expenses budgeted should be within the range of the proposed management agent based on its previous experience with the Agency. For more information contact the Housing Management Division at 717-780-3819.

For Developments which are currently occupied, the current rental chart included in the core application must be completed. Each unit must be listed separately or grouped by current and proposed rental amount paid by tenant. Averaged rents will not be accepted.

OPERATING BUDGET INSTRUCTIONS

The following descriptions are included to facilitate the preparation of the Operating Budget. For developments seeking Agency resources, they represent the key items the applicant must consider when preparing the Operating Budget. A narrative should be provided indicating the basis for the following numbers: gross rental income, commercial rental income, other rental income, service income, all payroll categories, real estate taxes, misc. taxes and insurance, supportive services, investor service fee, and any other categories that may require an explanation.

The per-unit controllable operating expenses must fall within the average range for the proposed management agent to meet the requirements for a feasible application. Please refer to the Agency's website for a discussion on controllable expenses.

For underwriting purposes, the Agency will continue to trend income at 2% annually and expenses at 3% annually for the 2016 funding round.

1. **Gross Rental Income** - Annual gross potential income based on the monthly rents and unit configuration. The Gross Rental Income should be calculated from the Unit Configuration & Rental Income Projections schedule in the Application, using Column A, Tenant Paid Rent, and Column C, Rental Assistance Payment.

   The operating budget of preservation applications should be underwritten with the current approved rents, not higher rents that have been submitted to HUD but have not yet been approved. (The application must be feasible at the time of submission at the lower rents.) If HUD approves higher rents during the underwriting period the Agency will include them in its underwriting.

   If an applicant must receive HUD approval of a proposed rent increase, the proposed rents may only be recognized in underwriting if a Rent Comparability Study has been completed and is included in the Application. Along with this, the lenders and equity provider must include in the letters of intent the statement that they have reviewed the proposed rents and operating expenses utilized in preparing the operating budget. If this statement is not included in the letters, the Agency may underwrite the application utilizing the current rents and operating expense levels obtained from its data base. If a rent increase is pending with HUD or RD and the letter of intent doesn't include the required language, the current rents may be utilized during underwriting.

2. **Commercial Income** - Specify square footage and annual rent per square foot for each commercial space (stores or offices). Submit copies of leases or letters of intent to lease under Tab 18. It is recommended that commercial income not constitute more than 10% of the effective gross income. An exception would apply if the proposed owner guarantees the income for the tax credit compliance period via cash or a letter of credit.

3. **Other Rental Income** - Other substantial rental revenue, including rental subsidies, parking and garages.

4. **Total Rental Income** - Add lines 1, 2, and 3.

5. **Residential Vacancies** - A minimum of one unit vacant per month is required if less than 20 units. A minimum of 5% is required for 20 units or more.

6. **Commercial Vacancy** - A minimum of 10% is required.

7. **Total Vacancies** - Add lines 5 and 6.

8. **Net Rental Income** - Subtract line 7 from line 4.

9. **Service Income** – Laundry income specifying owned or leased machines. If leased, reflect only the net income to the property. For underwriting purposes, service income may not exceed $60 per unit per year and the budget should not include vending income. The Agency may require justification for any amount listed in this category.

10. **Effective Gross Income** - Add lines 8 and 9.

11. **Advertising & Renting** - Expenses for the ongoing rental of the units. Include advertising, marketing and referral fees.

12. **Office & Telephone**- Office expenses for an on-site office only. In addition, include costs for telephone, answering service, and pager rental.

13. **Management Fee** - Indicate the fee factor, or fee per unit, the Management Agent will accept as total compensation for services, and apply the factor to line 10. This is subject to Agency approval. The management fee factor should not be less than 5% nor exceed 10%. The fee factor budgeted should be the percentage expected to be maintained for at least the first three years of operations.

14. **Legal** - Budget only the legal fees and costs directly related to property operations. Partnership and syndication expenses are not property operating expenses.

15. **Audit** - Fees to prepare the annual audited financial statements.

16. **Miscellaneous Administrative Expense** - Anticipated costs of home visits, credit reports and miscellaneous overhead expenses.

17. **Total Administrative Expense** - Total lines 11 through 16.

18-22. **Utilities** - Utility costs by the respective line items for all annual utilities paid by the property. Include common areas and an allowance for tenant paid utilities, which may be required for vacant apartments. Include on each line item the anticipated consumption and unit cost.

23. **Total Property Paid Utilities** - Total of lines 18 through 22.

24. **Janitor/Maintenance Supplies** - Cost of all janitorial, maintenance and cleaning supplies.

25. **Operating/Maintenance Contracts** – Includes contracts for repairs, janitorial/cleaning, exterminating, and systems equipment.

26. **Rubbish Removal** - Cost of scheduled trash removal. Indicate whether the municipality or an outside contractor will provide the services.

27. **Security Payroll/Contract** – Includes cost of security service and security equipment. Also includes the cost of on-site personnel, indicating hours of coverage and hourly wage.

28. **Repairs Materials** - Supplies, tools, etc. for repairs to the building and equipment.

29. **Elevator Maintenance** - Estimated cost of a full preventative maintenance contract, which is required by the Agency.

30. **HVAC Maintenance** - The cost for heating and air conditioning maintenance. Indicate if contracted services will be utilized.

31. **Grounds Maintenance/Snow Removal** - Landscape maintenance, snow removal and minor repairs to the parking area. Also include contracted services if they will be utilized.

32. **Painting and Decorating** - For properties financed by the Agency, $20 per room per year is required.

Unit Size	Number of Rooms	Unit Size	Number of Rooms
SRO	1.5	3 Bdrm	5.5
EFF	2.5	4 Bdrm	6.5
1 Bdrm	3.5	5 Bdrm	7.5
2 Bdrm	4.5		

33. **Vehicle Operation & Repairs**: The cost of operating and repairing the property's motor vehicles and maintenance equipment, including motor vehicle insurance.

34. **Miscellaneous Operating & Maintenance** - Include any expenses that are not specifically budgeted on lines 29 through 38.

35. **Total Operating and Maintenance Expense** - Total lines 24 through 34.

36.–42. **Property Payroll** - Budget the payroll costs by the respective line items for all property personnel. Include hours/week and hourly rate for each person. See payroll breakdown below:

Line No.	Description	No. of hours per week	Salary	Employee Apt. **Line 39**	Payroll Taxes **Line 41**	Workers Comp. **Line 42**	Employee Benefits **Line 43**
37	Office						
38	Manager						
39	Janitor						
40	Maintenance						

43. **Total Payroll Expense** - Total lines 36 through 42.

44. **Real Estate Taxes:** Provide a detailed calculation of taxes at full assessment after rehabilitation or construction. Include estimated assessment and millage. This represents the amount the Agency will bill and escrow during the first year of operations that will be used to pay the real estate tax bills due in year two.

    For properties seeking Agency financing, a letter from the tax assessor may be required. Submit all current year tax invoices. Include any applicable tax abatement information for the property.

45. **Property & Liability Insurance** - A written quote which includes the cost of hazard, general liability and other applicable premiums is required for properties of 12 units or more. This represents the amount the Agency will bill and escrow during the first year of operations to be used to pay the insurance bill due in year two.

46. **Miscellaneous Taxes & Insurance Licenses/Permits** - Additional property taxes, such as business privilege taxes, which are not included on line 44. Also include occupancy permit fees and additional insurance not included on line 45.

47. **Total Taxes and Insurance** - Total lines 44 through 46.

48. **Total Supportive Services** – Cost for an ongoing supportive services program, including staffing and contracted services, if included in the proposal.

49. **Total Replacement Reserve** - The replacement reserve should be calculated using $375 per unit, per year for elderly, $500 per unit, per year for general or family, and $200 per unit, per year for single room occupancy proposals. The Agency may also make additional adjustments, as deemed necessary, during underwriting.

50. **Investor Service Fee** - Annual fee charged by equity investor, if applicable. The equity investor letter must state that the fee is to be paid yearly as a project operating expense. If the fee is not listed in the letter, it may not be paid from project operations. In addition, the fee <u>must</u> be budgeted to be paid from operations, and cannot be capitalized upfront in the development budget.

51-52. **Other**- Other operating expenses not addressed above.

53. **Total Operating Disbursements** - Total lines 17, 23, 35, 43, 47, 48, 49, 50, 51 and 52.

54. **Net Operating Income (NOI)** - Subtract line 53 from line 10.

55. **Primary Debt Service** - The mortgage that the property can support is determined by using a debt service coverage ratio of 115% based upon line 54.

56. **Service Fee** - Refer to Program Guidelines.

57. **Credit Enhancement** - Refer to Program Guidelines.

58. **Other Service Fee** – Reflects other allowable service fees, including HUD Risk Sharing Fee.

59. **Total Primary Debt Service** - Add lines 55, 56, 57 and 58.

60. **Initial Cash Flow** - Subtract line 59 from line 54.

61. **Primary Debt Service Coverage** - Divide line 54 by line 59. Refer to Program Guidelines for specific debt service requirements under the program(s) for which you are applying.

62. **PennHOMES Debt Service** - If cash flow (line 60) allows, calculate repayment of this debt. Refer to Program Guidelines.

63-64. **Other** – Debt Service (other than PennHOMES), if applicable.

65. **Total Secondary Debt Service** - Total lines 62 through 64.

66. **Secondary Cash Flow** - Subtract line 65 from line 60.