

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: <http://www.data.census.gov>.

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.

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>

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

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

Applications containing multiple buildings and only some buildings are located in a QCT/DDA, submit separate development budgets for those buildings located in a QCT/DDA and those that are not in a QCT/DDA.

Preservation Developments must have an RFR of \$1,000 per unit included in the capital budget.

For Applications proposing a condominium structure and/or both residential and commercial space, whether owned by the limited partnership or separately through a condominium ownership structure, sufficient information must be provided for the Agency to evaluate the impact of the condominium structure and/or commercial space on the development including, but not limited to the following:

- Narrative explaining the anticipated use of the condominium structure and/or commercial space, including an exact square footage (i.e., used by the tenants, open to the general public, true commercial space, etc.).
- An explanation of the ownership structure (i.e. owned by the limited partnership or separate ownership through a condominium structure), including the anticipated sales price or lease payment associated with the condominium structure and/or commercial space.
- An explanation of the work included in the development budget for the condominium structure and/or commercial space, and also the work that will be the responsibility of the commercial tenant or condominium unit owner to complete.
- Detailed, itemized, cost breakdowns of the hard costs associated with the residential space, the commercial space, and the combined costs. The breakdown should follow the Agency's Development Cost Estimate format found in the Architect's Submission Guide.

- Detailed, itemized cost breakdown of the remaining development budget 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), showing those associated with the residential space and commercial space, along with the cost allocation method (i.e., percentage based on square footage, percentage based on hard construction costs, etc.)
- An explanation of how ongoing shared operating and maintenance expenses will be determined (real estate taxes, insurance, exterior building and site maintenance).
- If the condominium structure and/or commercial space has a condominium structure and costs are paid outside of the LIHTC budget, provide a sources and uses statement. Please Note: The costs of commercial space not owned by the limited partnership cannot be included in total project cost.
- For condominium structure and/or commercial space that is part of the building, evidence of the funding sources for the total cost of the commercial space is required for financial feasibility.

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.)

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.

Tab 2 Appendix: The following items **MUST be TABBED** in this order behind the core application.

- A. Operating Budget Narrative – A **line by line** narrative explaining each amount
- B. Income Averaging Documentation
- C. Capital Budget Narrative – A **line by line** narrative explaining each amount
- D. Breakdowns of the following costs (if applicable)
 - a. Site Work
 - b. Offsite work
 - c. Demolition (including selective demolition)
 - d. Legal fees (including Professional Fees, Acquisition, Financing & Syndication)
 - e. Environmental Remediation
 - f. Civil Engineering
 - g. Utility Tap in, Hook-up and Municipal Fees
 - h. Furnishing and Rent-up
 - i. Any budget line labeled “other”
 - j. All developments including new construction and rehabilitation **must** provide separate construction budgets for both, utilizing Section 2.12 Development Construction Cost Estimate form from the Architect’s Submission Guide found on our website www.phfa.org.
- E. A letter from the Tax Accountant’s evidencing basis eligibility of costs for offsite, environmental audit and remediation, survey, soils/structure report etc.
- F. Evidence of QCT/DDA for each property.
- G. Tax Information
- H. Insurance Quotes – both during construction and permanent.
- I. Construction Draw Schedule which supports Construction Loan Interest and Bridge Loan Interest included in the capital budget, during and post-construction
- J. Commercial Space narrative, budget and breakdowns
- K. Applicable Fraction Calculation. Include both the **Gross** Square Footage calculation and the unit calculation.
- L. Community Service Facility Narrative and backup documentation. (if applicable)
- M. **Financial Statements – 2 years of audited financial statements for the financially responsible Applicant(s). If the Applicant does not have audited financial statements, the Agency will accept unaudited financial statements produced under Acceptable Accounting Principles. If awarded a reservation of Tax Credits, the Applicant must submit one year of audited financial statements prior to closing.**
- N. **Organization Chart of the Structure of the Development Team – Applicant must be the Parent Company. Applicant and General Partner must match. General Partner must match the Audited Financial Statements.**
- O. Other Information

OPERATING BUDGET INSTRUCTIONS

Per-line instructions for completing the Operating Budget and budget narrative are below. The controllable operating expenses and taxes must be pre-approved by the Agency and the must be included in the operating budget.

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.

If the Applicant (or any related entity or material participant) is involved or has been involved in an Agency funded development (including Tax Credit properties) that is: delinquent in payments to the Agency, has materially defaulted on any of its obligations including, meeting required submissions and deadlines, or has misrepresented any material information on a previous application, the Agency may reject the Application.

For underwriting purposes, the Agency will continue to trend income at 2% annually and expenses at 3% annually for the 2024 funding round. **The Development's cash flow must remain positive through the first 10 years.**

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.

At application, for preservation developments or any occupied housing development, an increase in rents greater than 7% from the rents listed in the "current rentals" chart in the core application is not permitted.

At application, with the exception of preservation developments, Market Rents should be shown no less than 10% below the Market Rents reflected in the Market Study.

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. (The Agency will not recognize income from Late fees, pet fees, return check fees etc.)
4. **Total Rental Income** - Add lines 1, 2, and 3.
5. **Residential Vacancies** - A 5% vacancy rate will be used on all projects.
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. **Laundry 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. **Note – Water and Sewer utilities must be project paid and cannot be billed to the tenants.**
23. **Total Property Paid Utilities** - Total of lines 18 through 22.
24. **Janitor/Maintenance Supplies** - Cost of all janitorial, maintenance and cleaning supplies.

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- 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.

<u>Unit Size</u>	<u>Number of Rooms</u>	<u>Unit Size</u>	<u>Number of Rooms</u>
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 38	Payroll Taxes Line 40	Workers Comp. Line 41	Employee Benefits Line 42
36	Office						
37	Manager						
39	Janitor/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 **(55+ and 62+)**, \$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. **Asset Management Fee/Investor Service Fee** - Annual fee charged by equity investor, if applicable. If the investor is charging an asset management fee/investor service fee and the fee is included in the operating budget, **the investor letter must state that the fee is to be paid yearly as a project operating expense with defined terms.** If the fee and terms are not listed in the letter and included in the operating budget, it may not be paid from project operations.
51. **Broadband Service** – Cost to provide Broadband to the building
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.

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- 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 from cash flow (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.