About CSH

The Corporation for Supportive Housing (CSH) is a national nonprofit organization and Community Development Financial Institution that helps communities create permanent housing with services to prevent and end homelessness. Founded in 1991, CSH advances its mission by providing advocacy, expertise, leadership, and financial resources to make it easier to create and operate supportive housing. CSH seeks to help create an expanded supply of supportive housing for people, including single adults, families with children, and young adults, who have extremely low-incomes, who have disabling conditions, and/or face other significant challenges that place them at on-going risk of homelessness. For information regarding CSH’s current office locations, please see www.csh.org/contactus.

Acknowledgements

This Guidebook was prepared by the Corporation for Supportive Housing with input from the National Coalition for Homeless Veterans. Special thanks to Leon Winston and Swords to Plowshares in San Francisco, California for their willingness to showcase their project within this Guidebook. The photo used on the cover of this Guidebook is of Swords to Plowshares’ Veterans Academy at the Presidio, which is described in Appendix A (see page 81.)

Inquiries

If you are interested in learning more, please see www.csh.org for additional on-line resources and materials, including information regarding the communities in which we currently work. If you have questions or comments regarding this publication, please contact the CSH’s National Resource Center at info@csh.org. This publication is available to download for free at www.csh.org/publications.

Permissions Requests

We encourage nonprofit organizations and government agencies to freely reproduce and share the information from CSH publications. The organizations must cite CSH as the source and include a statement that the full document is posted on our website, www.csh.org. Permissions requests from other types of organizations will be considered on a case-by-case basis; please forward these requests to info@csh.org.

Information provided in this publication is suggestive only and is not legal advice. Readers should consult their government program representative and legal counsel for specific issues of concern and to receive proper legal opinion regarding any course of action.
# Guidebook for Developing Permanent Supportive Housing for Homeless Veterans

## Table of Contents

<table>
<thead>
<tr>
<th>Chapter</th>
<th>Title</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Introduction</td>
<td>3</td>
</tr>
<tr>
<td>2</td>
<td>Strategies for Creating Supportive Housing</td>
<td>5</td>
</tr>
<tr>
<td>2.1</td>
<td>What is Supportive Housing?</td>
<td></td>
</tr>
<tr>
<td>2.2</td>
<td>Five Elements of Successful Supportive Housing Projects</td>
<td></td>
</tr>
<tr>
<td>2.3</td>
<td>Selecting a Strategy</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Phases of the Development Process</td>
<td>10</td>
</tr>
<tr>
<td>4</td>
<td>Roles within the Development Process</td>
<td>12</td>
</tr>
<tr>
<td>4.1</td>
<td>To Partner or Not to Partner ...?</td>
<td></td>
</tr>
<tr>
<td>4.2</td>
<td>Description of Key Roles</td>
<td></td>
</tr>
<tr>
<td>4.3</td>
<td>Selecting the Appropriate Role(s)</td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>Assembling the Development Team</td>
<td>17</td>
</tr>
<tr>
<td>5.1</td>
<td>Working with a Development Consultant</td>
<td></td>
</tr>
<tr>
<td>5.2</td>
<td>Working with a Housing Development Organization</td>
<td></td>
</tr>
<tr>
<td>5.3</td>
<td>Members of the Development Team</td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>Supportive Housing Budgets</td>
<td>21</td>
</tr>
<tr>
<td>6.1</td>
<td>The Project Proforma</td>
<td></td>
</tr>
<tr>
<td>6.2</td>
<td>Financing for All Phases of the Development Process</td>
<td></td>
</tr>
<tr>
<td>6.3</td>
<td>Seeking the Appropriate Financing</td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>Types of Financing for Development and Operations</td>
<td>30</td>
</tr>
<tr>
<td>7.1</td>
<td>Debt to Pay for Development Costs</td>
<td></td>
</tr>
<tr>
<td>7.2</td>
<td>Equity and Grants to Pay for Development Costs</td>
<td></td>
</tr>
<tr>
<td>7.3</td>
<td>Rental and Operating Subsidies to Pay for Operating Costs</td>
<td></td>
</tr>
<tr>
<td>8</td>
<td>Overview of Veterans Specific Funding Sources</td>
<td>33</td>
</tr>
<tr>
<td>8.1</td>
<td>HUD-VA Supportive Housing (VASH) Program</td>
<td></td>
</tr>
<tr>
<td>8.2</td>
<td>VA’s Supportive Housing Program</td>
<td></td>
</tr>
<tr>
<td>8.3</td>
<td>VA Veterans Health Administration Homeless Veteran Service Coordinators</td>
<td></td>
</tr>
<tr>
<td>8.4</td>
<td>VA Veteran Benefits Administration Homeless Veteran Coordinators</td>
<td></td>
</tr>
<tr>
<td>8.5</td>
<td>Programs for Homeless Veterans</td>
<td></td>
</tr>
<tr>
<td>8.6</td>
<td>Vocational Rehabilitation and Employment Program</td>
<td></td>
</tr>
<tr>
<td>9</td>
<td>Preparing a Supportive Housing Development Budget</td>
<td>38</td>
</tr>
<tr>
<td>9.1</td>
<td>Considerations for Development Budgets</td>
<td></td>
</tr>
<tr>
<td>9.2</td>
<td>Guidance Regarding Development Costs</td>
<td></td>
</tr>
</tbody>
</table>
# TABLE OF CONTENTS (continued)

Chapter 10: Understanding Low-Income Housing Tax Credits  
Introduction to Low-Income Housing Tax Credits  
How to Identify Potential Equity Investors  
How to Evaluate Syndication Options  
Page 53

Chapter 11: Preparing the Operating Budget  
Filling the Operating Gap  
Considerations for Operating Budgets  
Guidance Regarding Operating Costs  
Page 65

Chapter 12: Preparing the Supportive Services Budget  
Considerations for Supportive Services Budgets  
Expenses and Revenue in Supportive Services Budgets  
Page 76

Chapter 13: Next Steps: Preparing for Operations  
Tenant Selection and Lease-up  
Asset Management  
Page 79

Appendix A: Case Study of Veterans Academy at the Presidio  
Page 81

Appendix B: Glossary of Affordable Housing Finance and Development Terms  
Page 88
CHAPTER 1: INTRODUCTION

The Veterans Administration 2007 CHALENG Report estimates that nearly 154,000 veterans are homeless on any given night, and more than half a million experience homelessness over the course of a year. It is also estimated that veterans account for nearly one-third of all homeless men in America, although they comprise only 13% of the adult males in the general population. Veterans are twice as likely as other people to be chronically homeless. Nearly half suffer from mental illness, and nearly 70% struggle with alcohol and drugs.

There is an entire continuum of housing options available depending on the needs of the clients. Short term housing options such as emergency shelter or transitional housing may be very appropriate for what they were intended to serve, short term emergency housing needs. However for those with the most complex set of service needs and significant challenges in establishing housing stability, permanent supportive housing may be the most appropriate housing intervention. Supportive housing works well for individuals and families who are not only homeless, but who also have very low incomes and serious, persistent issues that may include substance use, mental illness, and HIV/AIDS.

Without a stable place to live and a support system to help them address their underlying problems, most homeless veterans bounce from one emergency system to the next--from the streets to shelters to public and VA hospitals to psychiatric institutions and detox centers and back to the streets--endlessly. The extremely high cost of this cycle of homelessness, in human and economic terms, can be seen in the lives of many veterans.

The ever-increasing momentum of government, corporate and philanthropic investment in supportive housing has been bolstered by research documenting its effectiveness. To date, these studies have documented:

- **Positive impacts on health:** Decreases of more than 50% in tenants' emergency room visits and hospital inpatient days; decreases in tenants' use of emergency detoxification services by more than 80%; and increases in the use of preventative health care services.

- **Positive impacts on employment:** Increases of 50% in earned income and 40% in the rate of participant employment when employment services are provided in supportive housing, and a significant decrease in dependence on entitlements – a $1,448 decrease per tenant each year.

- **Positive impacts on treatment of mental illness:** At least a third of those people living in streets and shelters have a severe and persistent mental illness. Supportive housing has proven to be a popular and effective approach for many mentally ill people, as it affords both independence and as-needed support.

- **Positive impacts on reducing or ending substance use:** Once people with histories of substance abuse achieve sobriety, their living situation is often a factor in their ability to stay clean and sober. A one year follow-up study of 201 graduates of the Eden Programs chemical dependency treatment programs in Minneapolis found that 56.6% of those living independently remained sober; 56.5% of
those living in a halfway house remained sober; 57.1% of those living in an unsupported SRO remained sober; while 90% of those living in supportive housing remained sober.

This *Guidebook for Developing Permanent Supportive Housing for Homeless Veterans* is geared towards community-based homeless veteran service providers new to housing, and will introduce and explore the various supportive housing development options available for homeless veterans. New construction, rehabilitation of existing housing, master leasing of units, and scattered-site supportive housing are all viable options to be discussed and evaluated. Readers will be given the tools needed to initiate the development process, identify available capital, operating and services funding for supportive housing, and assess their organization's capacity to develop and/or operate supportive housing.
CHAPTER 2: STRATEGIES FOR CREATING SUPPORTIVE HOUSING

What is Supportive Housing?

Supportive housing is a successful, cost-effective combination of affordable housing with services that helps people live more stable, productive lives. The effectiveness of supportive housing in ending homelessness has depended upon a willingness to take risks and experiment with new models, approaches, and strategies. CSH’s approach and strategies also continue to evolve as we learn more about what practices are proving most effective.

From CSH’s perspective, a supportive housing unit is defined by the following elements:

- The unit is available to, and intended for, a person or family whose head of household is homeless, or at-risk of homelessness, and has multiple barriers to employment and housing stability, which might include mental illness, chemical dependency, and/or other disabling or chronic health conditions;
- The tenant household ideally pays no more than 30% household income towards rent and utilities, and never pays more than 50% of income toward such housing expenses;
- The tenant household has a lease (or similar form of occupancy agreement) with no limits on length of tenancy, as long as the terms and conditions of the lease or agreement are met;
- The unit’s operations are managed through an effective partnership among representatives of the project owner and/or sponsor, the property management agent, the supportive services providers, the relevant public agencies, and the tenants;
- All members of the tenant household have easy, facilitated access to a flexible and comprehensive array of supportive services designed to assist the tenants to achieve and sustain housing stability.
- Service providers proactively seek to engage tenants in on-site and community-based supportive services, but participation in such supportive services is not a condition of ongoing tenancy.
- Service and property management strategies include effective, coordinated approaches for addressing issues resulting from substance use, relapse, and mental health crises, with a focus on fostering housing stability.

Five Elements of Successful Supportive Housing Projects

A community’s ability and willingness to create supportive housing will vary dramatically from location to location and be based on a range of factors including the preferences of the target population, capacity within your own organization, the type of housing stock available, and the norms and history of a local community’s real estate market. Despite these variables there are certain elements that make up all successful supportive housing projects.

1. **The People:** The starting point for successful supportive housing projects for formerly homeless veterans is a clear and thorough analysis of the characteristics and needs of your future tenants. Who will live in the project? What are their particular needs for space, neighborhood amenities and services?

---

1 This definition reflects CSH’s perspective that service participation should not be a condition of tenancy in supportive housing, and that harm reduction and housing first strategies have been shown to be effective approaches. CSH recognizes, however, that a variety of housing options are needed to end homelessness. Therefore, we continue to engage in, and learn from, constructive dialogues on these and other issues with our provider and advocacy partners in the housing, supportive services, and disability rights communities, and with all those engaged in efforts to end homelessness.
2. **The Place:** The project location and building (whether rehabilitation or new construction or accessing existing housing units) must support the needs of formerly homeless veterans. The location should offer proximity to essential shopping (e.g. food and drug stores), human services, transportation, employment opportunities and other key needs.

The building itself should provide an appropriate physical facility for the residents. Unit size and amenities should be suited to the types of households expected to occupy them. Household considerations include size, composition and special needs. If any on-site services are contemplated, the building must also offer non-residential space to adequately house them.

While there are communities that continue to oppose development of supportive housing and affordable housing in general, the success of many projects will depend on a thorough assessment of local attitudes, implementation of a strategy for engaging residents and addressing their legitimate concerns and organizing supporters to ensure that the project will gain the support of elected officials and relevant government agencies.

3. **Support Services:** The program of supportive services should match the needs of the formerly homeless veterans who will live in the project. Services may cover a wide range of areas depending on the nature of the tenants’ needs including food preparation and service, intensive assistance with activities of the daily living, counseling, case management, employment training and placement, and medical services. It is also critical for the support services component to make cost-effective use of off-site services and referral relationships, especially with veteran specific providers.

4. **Money:** The project must be financially viable both in the short and long term. There must be adequate sources of capital financing available to cover all necessary development costs. If development financing involves debt, there must be adequate net operating income to pay debt service in future years. Project operations must be underwritten to ensure that income projections accurately reflect the availability of subsidies and the ability of un-subsidized tenants to pay rents consistent with local market conditions. Similarly, expenses must be projected to include all of the costs associated with operating and maintaining the building over time. Finally, there must be adequate funding for appropriate support services in accordance with the service program.

5. **Organization:** The entire project must be supported by the organizational capacity necessary to plan, develop, manage and provide services to the project. The project must have the long-term commitment of the organization’s executive staff and Board of Directors. All of the necessary roles must be filled by individuals and entities with appropriate skills and track records in those areas. One organization may play multiple roles or work in collaboration with others having complementary strengths.

**Selecting a Strategy**

Below are some questions you must ask yourself as an organization when choosing your strategy for creating supportive housing opportunities:

- What segment of the homeless veteran population do we plan to house? What building and program design characteristics are the best fit for them?
- How do we prioritize homeless veteran re-integration versus increased opportunities for community building?
- How much financial risk can our organization take?
- What up-front financial resources does our organization possess or have access to?
- What experience does our organization already have in housing and service delivery?
- What staff capacity do we have to work on creating new housing and services?
New Construction or Acquisition / Rehabilitation

New construction or rehabbing sub-standard housing are the only strategies that actually increase the housing stock and, specifically, increase the stock of housing that is permanently controlled by mission-driven nonprofit organizations and not subject to the same market pressures that tend to push housing costs beyond the reach of those served by supportive housing.

- Each creates a new permanent asset to the community;
- Each involves acquisition and construction and the full compliment of development activities; each of these development strategies has its own set of advantages and challenges, however all three will include locating and applying for capital funding sources.
- Each of these types of development can take 2-3 years (or more) to develop.
- Each involves making a commitment to locate and obtain commitments for on-going funding sources and providers for operating expenses and service costs.

You may decide to newly construct your housing project or you may decide to rehabilitate an existing property. Your approach will be dictated by the types of properties that are typically available and affordable in your community. Your development consultant, architect and/or realtor will be able to help you review your options. Also, check with local funding sources; some may restrict the use of funds to rehabilitation.

Rehabilitation projects are often more challenging. The extent of rehabilitation obviously depends on the condition and adaptability of the building(s) available. Moderate rehabilitation may be all that is required if the building needs limited rehabilitation and is already sufficiently configured to meet the size/number of units you need. However, building condition is difficult to determine prior to construction.

You often cannot determine until after construction has started the full extent of the required rehabilitation. At a minimum, it is especially important to have an architect and/or contractor on the development team who has experience in this particular type of redevelopment.

Rehabilitation projects often need additional front-end planning which may include a more detailed analysis of the capacity and feasibility of the building's major systems (roofs, windows, furnaces, water heaters, etc.). This planning exercise and documentation will guide asset and property management decisions in the future.

If the building requires extensive adaptation and/or replacement of systems (e.g., heating/ventilating, roof and windows) you will need to prepare for substantial or gut rehabilitation. Acquisition and rehabilitation of existing buildings may be the only option available to you, but this will not necessarily be the least expensive development approach. Also, if the building you are acquiring is occupied, even partially, you will have to deal with tenant relocation. If you choose to acquire a building that will require relocation of existing tenants, it will be important to develop relocation criteria for existing tenants and if possible identify resources to assist in this process. Here are some additional questions your organization should consider if relocation is required in acquiring the project site.

- Who are the current tenants?
- What options are available to them? (cash payment, rent subsidies, alternate housing, private market, temporary vs. permanent housing, etc.)
- Is there money within the project development budget to assist current tenants in the relocation process?
- Does your organization have an existing housing portfolio that you could relocate tenants to or will current tenants be moving into the private market?
- How many people will be displaced and who are they (families, people with mental health issues, etc.)?
• Will tenants be temporarily or permanently relocated?
• What will happen to those relocated in the short and long-term? (Will they get Section 8 vouchers? etc.)
• How far will tenants be moved from their current location? What will be the likely impact on their access to services and their sense of community and support?
• How many of the current tenants are eligible for relocation assistance? What are the options for those ineligible for assistance?

**Alternative Strategies**

Faced with the challenges posed by housing development, some organizations may opt to expand housing opportunities for the people they serve through other strategies, also described in the table below, including:

- **Master-leasing:** Master-leasing is a model under which a supportive housing provider leases several units within a development, a floor within a building, or an entire building/development, from an owner at market rates in order to provide supportive housing opportunities. The supportive housing provider then subleases the units to eligible tenants. This strategy has become increasingly popular as a way to secure units more quickly; however, for the housing opportunities created to be affordable to the target population, there will likely need to be a rental or operating subsidy involved to subsidize the rent charged to tenants.

- **Set-asides:** Set asides are groups of units within an affordable housing development that are reserved for and restricted to homeless people with disabilities. Oftentimes nonprofit developers will agree to such set-asides, as they may gain a competitive advantage in seeking funding by having such units in their project. Also, it may be that a City or County will require a developer to establish a set-aside to meet certain approval requirements or to mitigate negative impacts of a development. The manner in which the units are leased to the tenants and the services are delivered is negotiated between the supportive service provider and the developer/owner. The tenants typically lease their units directly from the developer/owner. Depending upon the affordability levels of the set-aside units, there may need to be a rental or operating subsidy involved to subsidize the rent charged to tenants.

- **Scattered-sites (purchase and/or rental):** Some supportive housing providers create housing opportunities by purchasing or renting individual houses and condos at market rates “scattered” throughout the community. Such efforts typically do not involve substantial rehabilitation work and some providers prefer a scattered site strategy as a means of helping to foster community integration for the tenants they are housing. For the housing opportunities created to be affordable to the target population, there will likely need to be a rental or operating subsidy involved to subsidize the rent charged to tenants.

**Pros and Cons of Leasing Strategies**

Most of the alternative models described above (other than scattered-site purchase) involve the leasing of housing units. Some of the advantages and disadvantages of leasing include:

**Advantages:**
- Faster than projects involving construction or rehabilitation
- Leasing units requires less technical expertise than development
- Leasing units requires less up-front funding and staff resources than development
- Some landlords of leased units will provide or contract for property management services, relieving the program sponsor of these responsibilities

**Disadvantages:**
- Less control over quality of the operations and maintenance of the building
• Less control over term of affordability
• Building may not have appropriate program/community space and unit configuration may not be optimal
• The cost of leases may necessitate finding a tenant-based rental subsidy (such as Section 8 or Shelter Plus Care)
• Harder to build effective relationship with landlord and property manager
• In hot real estate markets, it may be difficult to find landlords willing to lease units

**Other considerations:**
• When embarking on a master lease program, you should spell out the service provider participation in the tenant selection process.

**Pros and Cons of Scattered-Site Strategies**
Most commonly, the use of the alternative strategies described above create scattered-site housing opportunities. Scattered-site approaches present various advantages and disadvantages:

**Advantages:**
• Easier to acquire already renovated properties
• Integrates supportive housing tenants into the community, as opposed to having them clustered in a single project
• Program sponsor usually does not need to engage property management services
• May result in less community opposition than single site new developments

**Disadvantages:**
• No economies of scale in financing, management or service delivery
• More complicated to secure and close financing or leases
• Service provider must maintain good relationships with multiple landlords and property managers to ensure tenant access to units
• Limited opportunities for provision of on-site supportive services
• Engaging tenants may be harder since opportunities for informal interaction are limited
• Difficult to organize “community building activities” and peer support networks
• Greater potential for isolation (relapses may go undetected longer)
• Neighborhood conditions, such as drug activity, more likely to jeopardize tenants
• Difficult to incorporate employment opportunities to build a culture of work

**Other considerations:**
• Tenants still may require significant case management support
• Need health-care and psychiatric consultants who will make home visits
• Important for service team if the same property manager is used for all sites/locations (if possible)

Building new housing or rehabilitating an existing property gives your organization greater control over aspects such as housing unit configuration, layout of and types of common areas, rent levels and lease terms. Developing housing requires considerable up-front financial investment, can expose the sponsor to financial risk and, requires much more time and attention on the part of your organization and its governing board. For organizations new to supportive housing, securing subsidized rental apartments in the open market or securing long-term set asides of units within privately owned buildings may make more sense.
CHAPTER 3:
PHASES OF THE DEVELOPMENT PROCESS

Developers of supportive housing must be prepared for the five phases of the development process and must recognize that development tasks are interdependent, iterative and timing is critical, multiple players are involved, and effective coordination is critical during each phase.

- The **Concept Phase** is crucial in developing a clear idea of the population you plan to serve, the development team that you will have in place throughout the project and in what type of organizational structure you will provide the housing and services to the target population.

- The **Feasibility Phase** is important for the fact that the parameters of the project will become apparent. Constraints such as zoning and location will present themselves during this phase. During this period is also when your development team will gather cost estimates, market data, and identify potential funding sources for the ongoing development of the project.

- The **Dealmaking Phase** is when the project starts to become more “concrete.” Negotiating financial commitments, developing contract documents, and selecting contractors occur. In addition, your organization will need to focus during this phase in drafting both the property management and service delivery plans.

The fourth and fifth stages of the development process are when the “vision” becomes a reality.

- The **Construction Phase** may be the most exciting of the five stages but it also is the most expensive and most risky. Unless you are doing the construction management for your own project your organization will be less involved on a day-to-day basis during the Construction Phase. Therefore, it is important to maintain close communication with your architect, who should be meeting regularly with the construction team, as well as those financing the project. The things that should be focused upon during this phase is making sure there are clear contract documents laying out roles and responsibilities of all involved as well as establishing construction protocols.

- The final phase of development is **Operations**. This includes lease-up and intake. This phase is last but in most projects the background documents and planning for this phase begin prior to the beginning of construction. It is important that especially if operating subsidies have been secured through government sources (such as the Section 8 Housing Choice Voucher Program) to ensure that your organization can have the development leased up and begin collecting these subsidies as soon as possible.

During the concept and feasibility phases, many assumptions are made about the cost of the building construction, who will be served, what sources of funding will be obtained, operating costs once the building is operational, among other issues. As you progress through the development process, many of these assumptions will become facts and a feasible development plan will be realized. Once the construction stage begins, the ownership structure and development team, design, funding and service plan must all function smoothly together. Once the project is operational, the details of implementing property management and service delivery continue to fluctuate, based upon practical experience and tenant input.

The table on the next page details the five phases of development and the questions to consider during each step in the process.
The Five Phases of the Supportive Housing Development Process

<table>
<thead>
<tr>
<th>ONE: Concept</th>
<th>The project concept begins with the people that will live in the housing. It is important to develop a detailed profile and history that provides a comprehensive picture of the service needs, physical needs and financial situation of the target tenants. Based on that profile you can begin to answer questions like:</th>
</tr>
</thead>
<tbody>
<tr>
<td>GO?</td>
<td>Where is it best located?</td>
</tr>
<tr>
<td>NO GO?</td>
<td>What features must the building have to accommodate the service plan?</td>
</tr>
<tr>
<td>TWO: Feasibility</td>
<td>How much will it cost to build? How much will it cost to operate?</td>
</tr>
<tr>
<td>GO?</td>
<td>Can we do it? Reassess organizational situation, capacity and current objectives.</td>
</tr>
<tr>
<td>NO GO?</td>
<td>Three: Dealmaking</td>
</tr>
<tr>
<td>GO?</td>
<td>More detailed construction cost estimates</td>
</tr>
<tr>
<td>NO GO?</td>
<td>Detailed operating and development budgets.</td>
</tr>
<tr>
<td>THRENE: Dealmaking</td>
<td>Solidify market data</td>
</tr>
<tr>
<td>GO?</td>
<td>Identify financing sources and constraints</td>
</tr>
<tr>
<td>COMMITMENT POINT – No turning back!</td>
<td>Finalize the development team</td>
</tr>
<tr>
<td>FOUR: Construction</td>
<td>Apply for financing</td>
</tr>
<tr>
<td>FIVE: Operations</td>
<td>Construction is the most expensive and riskiest part of the process. It is also where you have limited control and the least involvement day to day. Up front risk management strategies are critical.</td>
</tr>
<tr>
<td></td>
<td>This is where all of the decisions that you made during the development process are tested. It’s important to begin thinking about operational aspects of the project up front; they should be considered with the project concept and come into play in feasibility analysis. Depending on the type of project, targeted market, length of the construction period, operational tasks should often begin even before construction (e.g. hiring management staff, marketing, tenant selection, etc.)</td>
</tr>
</tbody>
</table>
CHAPTER 4:
ROLES WITHIN THE DEVELOPMENT PROCESS

If your organization decides to commit to building new supportive housing or to acquire and rehabilitate an existing building to house homeless veterans, you need to consider whether you want to wear the many hats of a single owner/operator or if you would instead like to partner with other organizations to take on some of the responsibility.

To Partner or Not to Partner…?

Your organization needs to consider the various development roles when determining whether or not to partner. There is no single formula to ensure an excellent project; it is important to note, however, that many organizations choose to partner with another experienced organization, especially if it is their first permanent supportive housing project.

Choosing the right partner in any business venture is critical to its ultimate success. Meeting the financial responsibilities of the business depend on both parties working together towards shared and mutually beneficial goals. The development of permanent supportive housing is no different. Your organization may choose to serve as the developer, owner, property manager, and service provider of the project, but in many cases there are organizations within your specific community that have expertise in one or more of these areas and partnering can oftentimes be a better decision for long-term sustainability.

Description of Key Roles

The successful development and operation of supportive housing requires the integration of diverse skills and activities - and there are several major roles that nonprofit organizations can play in the development of supportive housing. These roles can be described as follows:

- **Owner:** The owner has the ultimate long-term legal responsibility and control.
- **Developer:** The developer plays the lead role in bringing a project all the way from “idea” to “ready for occupancy.”
- **Property Manager:** The property manager is responsible for day-to-day operations of the project once it is completed, and is essential to the financial and physical viability of the project over time.
- **Service Provider:** The service provider leads the delivery of support services to residents – in effect, their work turns affordable housing into supportive housing.

All four of these roles are critical to the success of a supportive housing project - and all four roles are very different. In some cases a single organization may play all of these roles; more frequently, however, supportive housing projects require partnerships with one or more nonprofit organizations and, in some cases, for-profit corporations. Working together, the partners fulfill all of the necessary roles.

Supportive housing development is a complex, unpredictable, and risky endeavor. An organization needs to make a careful, informed choice regarding the role(s) it will play in the ownership, development and operation of a new supportive housing project. Regardless of whether it is their first or fifteenth project, all organizations should formally examine the role(s) they expect to perform within the project - even the most sophisticated organizations periodically benchmark their development activities against their mission and reevaluate how they are deploying their resources.
Selecting the Appropriate Role(s)

There are key issues that an organization must consider when identifying and selecting the development and operating roles for which it will assume responsibility, including important issues and questions an organization should address prior to initiating new development activities.

The Role of the Owner

The owner assumes a tremendous amount of responsibility for the long-term success of the development efforts and for the successful operation of the supportive housing project. As the owner, an organization can expect:

- To have the principle long-term interest in seeing the project completed.
- To drive the planning and development process. Even if another entity is serving as the developer for the project, or a development consultant is acting as project manager, the owner must be fully engaged in the development process to ensure that its long-term interests are being addressed.
- To dedicate in-house staff capacity to oversee the project, even if partnering with a developer. The staffing patterns and levels required will depend upon the extent of the organization’s involvement in the development process, but even when the organization is playing a relatively limited role, the need to dedicate at least one staff member working at least one-quarter to one-half time can be expected – it will not be possible for staff to perform the responsibilities simply in their spare time.

An organization’s capacity to act as the owner of a property is related to its current status as well as to its past experience. Important considerations include:

- An organization that is not currently incorporated may need to consider joint venturing with an organization that shares its mission and interests and that is formally organized to own and manage real estate.
- An organization that is incorporated but does not own property may not have the expertise available within its staff to own and manage real estate, and may need to consider joint venturing with an organization that shares its mission and interests, and that is willing to own and manage the property either jointly (under a co-ownership structure) or on its behalf.
- An organization that currently owns property that is in need of rehabilitation, but that has found it difficult to maintain the property due to lack of expertise or funding, may want to reconsider adding additional real estate responsibilities. Potential funders may want to see existing real estate stabilized before supporting the development of new projects and, again, it may be necessary to consider partnering with another entity to own and manage the project.
- Finally, an organization that currently owns and operates supportive housing projects successfully should consider whether owning and managing additional properties could jeopardize the existing properties’ long-term stability, require additional staff, or impact the organization’s financial health. Again, a joint venture with a compatible partner may be an option to ensure the continued health and stability of the organization.

The Role of the Developer

The Developer is responsible for bringing the development activities to completion, taking the supportive housing project from “idea” to “ready for occupancy.” There are a variety of options for an organization to ensure that all of these responsibilities are fulfilled, including:

- Being responsible for all project development tasks and the overall management of the project in-house;
- Hiring a development consultant to manage the project based upon the organization’s input; or
• Partnering with a nonprofit developer or, in some cases, a for-profit developer, to take the lead role in developing the project, based upon the organization’s input.

In determining which approach to utilize for filling the developer role, key considerations include:

• An organization that has not had recent or extensive experience in developing rental housing, or whose current organizational mission limits the dedication of resources to direct supportive service activities, may wish to consider working with others to develop the housing project.

• An organization that does have the capacity to develop housing will also need to review the considerations associated with ownership noted above, to determine if owning the project after its development is an appropriate role for the organization.

The Role of the Property Manager
The management of the property is vital to the ongoing success of the project once it is completed. Managing a property is a complex endeavor that requires skill, experience, and familiarity with legal issues and funder requirements. It is critical that the property be managed in compliance with all local, state and federal laws that govern fair housing and the landlord-tenant relationship. Further, it is critical that the maintenance of the project will ensure its long-term viability and protect the investments that have been required to create the housing.

In determining how to ensure the professional performance of the property management responsibilities, important considerations include:

• An organization that has not had recent or extensive experience in managing rental housing, or whose current organizational mission limits the dedication of resources to direct service activities, may wish to consider contracting with an organization experienced in providing property management services within affordable housing developments, especially supportive housing developments serving persons with disabilities or other special needs populations.

• An organization whose primary housing operations experience is with emergency shelters or transitional housing may wish to consider whether the organization’s staff is prepared for the requirements of providing permanent rental housing, which operates under very different terms and conditions than either shelters or transitional housing.

• An organization that is also planning on being a primary provider of supportive services within the supportive housing development may wish to consider whether performing both the service delivery and the property management functions in-house may produce too much internal conflict for the organization. Such conflict may be easier to manage if the property management services were provided under a contract with an external agency.

The Role of the Service Provider
The provision of supportive services is an essential component of any supportive housing project. A single service provider may provide the majority of the services, but in most cases there will be more than one service provider to address the varied needs of the residents. A lead service provider is typically needed to ensure the ongoing and effective functioning of the services program, especially if a variety of partner organizations will be involved in the delivery of services to tenants. The lead service organization should serve as the lynchpin for coordinating the delivery of services provided by other organizations, evaluating the outcomes of those services, and ensuring that tenants are receiving the services necessary to achieve and maintain housing stability. Experience in providing coordinated service programs in collaboration with other organizations, and experience in case management or service coordination within housing environments, will be critical to success in this role.
In determining how to ensure the professional and effective performance of the service provider responsibilities, important considerations include:

- An organization that has been primarily involved in either ownership, development or the operation of affordable housing development may need to consider partnering with an external provider that is more experienced in the delivery of supportive services to the target population.
- An organization that has delivered services primarily outside of housing settings may wish to consider partnering with (or receiving training from) an organization that has greater experience with the integration of supportive services with housing operations.
- An organization that has delivered services primarily within emergency shelter or transitional housing environments may wish to consider partnering with (or receiving training from) an organization that has greater experience with the provision of services within permanent supportive housing environments.

While all four of these roles are different, each is critical to the overall success of the development. In some cases a single organization may play all of these roles. More frequently, supportive housing involves partnerships between one or more nonprofit organizations and, in some cases, for-profit developers.

The Roles in the Development and Operation of Supportive Housing table (next page) also describes the potential roles and responsibilities that organizations can play in the development and operation of a project.

Another critical step is to secure organizational support for your project. This process may also prove helpful in determining your organization’s role(s) as it highlights the level of short- and long-term risk your Board of Directors is willing to assume.

Because of the level of risk, responsibilities, and expense of developing housing, it is critical to secure your board’s support before proceeding. Some of the issues you will want your board to consider are:

- The financial liability of development (e.g., sponsor guarantees, cost overruns);
- The legal liability of developing and operating housing;
- Managing the relationships with the immediate neighborhood or broader public;
- Amount of staff time required, which can be substantial among key staff (Executive Director); and
- Costs that may not be recovered, such as site search and feasibility costs for a project that does not proceed.

To inform the board fully, you may want to project the predevelopment costs, such as professional fees, and out-of-pocket expenses for which your organization will be responsible. Be sure to fully account for the cost of staff time needed to complete the project. Other costs to consider:

- The development consultant’s fee;
- The architect’s fee (depending on status of project when abandoned);
- Land costs (options, appraisal, title research, holding costs, maybe even purchase price);
- Legal fees associated with structuring contracts, etc.; and repayment of predevelopment loan interest.

Note: The CSH documents, Assessing Readiness for Supportive Housing Development Activities and Assessing Fit: Does Developing Supportive Housing Fit With Your Strategic Plan, Mission and Organizational Structure? can help your organization through this process. Both are included within the Assessing Capacity section of CSH’s Toolkit for Developing and Operating Supportive Housing, available at www.csh.org/toolkit2development.
<table>
<thead>
<tr>
<th>Description:</th>
<th>Owner</th>
<th>Developer</th>
<th>Property Manager</th>
<th>Service Provider</th>
</tr>
</thead>
<tbody>
<tr>
<td>Legally responsible for the property; represents the long-term interests of the project and its residents.</td>
<td>Responsible for delivery of a complete, functional project built to specifications and complying with all codes and regulations. Provides and manages the services necessary to acquire and construct or rehabilitate the project.</td>
<td>Responsible for Providing real estate management services for the completed project.</td>
<td>Responsible for designing and implementing the support services plan and coordinating planning with potential service partners and collaborators.</td>
<td></td>
</tr>
</tbody>
</table>
| **Short-term focus:** | • Conduct organizational assessment and identify capacity gaps  
• Select developer and team leader  
• Select other potential partners/collaborators  
• Select property manager and service provider  
• Manage relationships with key stakeholders including government and the community.  
• Oversee all legal matters and approve all contractual agreements | • Oversee selection and hiring of all development team members  
• Lead the development team  
• Monitor performance of development team members  
• Manage the project; oversee all predevelopment phase tasks and monitor construction. | • Provide input on projected operating budget; and project design considerations including equipment and materials based on costs of maintenance and operations  
• Develop relationship with service provider(s); develop joint operating protocols  
• Manage rent-up, marketing, outreach, and tenant selection | • Design support services plan  
• Develop projected services budget and assist in securing financing for service delivery  
• Identify other service provider(s) and establish coordination strategy  
• Provide input on project design  
• Engage property manager in development of joint operating protocols, house rules, etc.  
• Participate in tenant screening and rent-up process |
| **Long-term focus:** | • Oversee implementation of management and service plans  
• Monitor performance of property manager and service provider; mediate disagreements  
• Monitor project finances; oversee compliance  
• Manage long-term facility planning including repairs and replacement, insurance and liability, and changing tenant/service mix  
• Monitor tenant satisfaction; adjudicate grievances | • Minimal post-construction tasks, that includes cost certifications, final approvals for certificate of occupancy and any required licenses, assisting with contractor’s warranty compliance | • Manage the real estate operation, including collecting rent, filling vacancies, evicting residents, making repairs, hiring/firing staff, and preparing necessary reports  
• Monitor resident satisfaction and concerns  
• Assist in addressing tenant grievances | • Implement support services plan, service coordination and evaluation  
• Monitor quality of services to all individual tenants  
• Secure ongoing financing for services and report to funders  
• Participate in resident organizing and community building activities  
• Participate in tenant screening and rent-up process on ongoing basis |
CHAPTER 5: ASSEMBLING THE DEVELOPMENT TEAM

Throughout the housing development process, most organizations will need to add various experts to the team of professionals to assist on the project. Compensation for these services and responsibilities can be structured in a number of ways. There is no one specific fee structure utilized within the development community. If your organization has entered into an agreement with a development partner, all or a portion of a development fee may be negotiated which ranges up to 15% of the total development cost of the project. Compensation for a development consultant is typically based on a negotiated scope of services and ranges in cost from a few thousand dollars for minimal advice to as much as $100,000 or more depending on the scale and the complexity of the project.

Many service providers that sponsor supportive housing consider acting as developers. However, some organizations find that the demands of developing real estate move them away from their mission, not closer to it. If housing development is not already a central part of your mission and the organization does not have staff experienced in development, it is suggested that you contract with an individual or organization for assistance with your development. Depending on how you negotiate your scope of services you may maintain some control over the development process without the burden of developing the expertise in-house.

Working with a Development Consultant

The development consultant is a professional who can guide you through the responsibilities outlined above. He/she may also act as your day-to-day project manager on the development project if you do not have a staff person to fulfill this role. While the scope of the consultant's services can vary, generally the consultant begins by helping conceptualize the development project and continues to oversee the development process until the beginning of construction. In some cases, the development consultant may continue his/her involvement to assist in completing the necessary documentation and negotiations for permanent financing through lease-up activities.

Working with a Housing Development Organization

You may instead decide to engage a development organization to manage the development process in return for some or all of a developer’s fee and/or part or whole ownership of the project. Possibilities include:

- **Community Development Corporations (CDCs):** CDCs are private, nonprofit development organizations that are engaged in housing development and economic development activities in local communities, often in a single neighborhood. In addition to owning affordable housing, some CDCs also provide development services for outside organizations.

    CDCs can make good partners since they can relate to your pursuit of a mission and may enjoy a high level of community support. Moreover, their strengths complement those of social service organizations well; they are often experienced in development and property management but lack supportive service expertise. We recommend this option if a qualified and compatible CDC is active in your target neighborhood.
Community Housing Development Organizations (CHDOs): In addition to community development corporations, a variety of other nonprofit organizations known as community housing development organizations (CHDOs) develop, own and manage affordable housing for low-income tenants. Your local HUD office or City Planning Department should be able to tell you whether an approved CHDO exists in your area.

For-Profit Real Estate Developers: For-profit developers often are skilled in managing the development process, know the local planning and zoning approval systems, have access to a variety of properties, and are able to attract financial investors. However, a for-profit developer may not be familiar with supportive housing or share your service mission. For-profit developers may lack specific knowledge about subsidized financing programs for special needs populations, like supportive housing. If you choose to work with a for-profit developer, make sure that the developer is committed to the principles of supportive housing and understands your requirements.

Local Housing Authorities: Housing authorities are public corporations affiliated with a city or county government that receive federal funding to perform housing and community development activities. A housing authority is often referred to as an HRA (housing and redevelopment authority) or a PHA (public housing authority). Housing authorities sometimes offer development services in return for a fee or part ownership of a development. They may also be interested in serving in this role if they have underutilized properties that can be converted into supportive housing for families. It’s important to note that PHAs often have access to public funding for operating subsidies.

Members of the Development Team

Regardless of whether your organization chooses to partner with an outside entity as the developer or if you choose to take on this role yourself, the development team as a whole is made up of several key roles. In addition to the roles described above (owner, developer, property manager, and service provider), each development should include one of the following:

The Project Manager: The first step when starting the housing development process is to determine whether the Project Manager role will be performed by an in-house staff person, by a hired housing development consultant, or by staff of a nonprofit or for-profit development partner or contractor. When making this decision, it is important to consider the Project Manager’s set of responsibilities, which will typically include: assembling the development team of experts who will design, build, finance and manage the project; identifying and obtaining control of a suitable site for the housing; working with the development team, particularly the architect, to design the physical space; obtaining appropriate financing for the development from private lenders and public agencies; obtaining all design review and planning approvals from local agencies; maintaining compliance with all funders during the predevelopment and construction process; implementing and monitoring the construction process with the construction team; selecting and hiring property management services; and monitoring the property management agent as it implements initial lease-up to tenants.

The Lead Service Provider: This is the organization designated as the lead provider or coordinator of supportive services. In some cases this is the Developer, in other cases a Co-Developer or an agency that is contracted to provide the supportive services. The Service Provider is responsible for development of the annual service plan and may be the grantee of
supportive service funds for the project. The Service Provider may subcontract or partner with other service agencies for the provision of specialized services (for example, for employment services or daily living skills training). The Service Provider should assure that case management services are available to all residents of the development, not just to those with identified special needs, both to eliminate any stigma associated with accessing services and to contribute to the overall stability of the project.

- **The Asset Manager:** The Asset Manager’s primary responsibilities begin once the property is occupied. The Asset Manager acts as a financial manager for the completed development, overseeing the property management activities to ensure that the tenant occupancy levels remain high and the project performs well financially. The Asset Manager also reports information about the development to funders, in compliance with regulations associated with housing funding programs. In many instances, the Property Manager assumes the role of Asset Manager in addition to their other duties.

- **The Attorney:** An Attorney must be available to provide legal services associated with the real estate (including the acquisition of property), project financing, and organizational issues (i.e., creating a new corporation to own and manage the real estate). The Attorney should work closely with the development team to negotiate the acquisition of the site, prepare related documents, review all contracts associated with the project or development team, assure compliance with all requirements of funders and other stakeholders, and protect the lead organization from any errors or omissions, and keep the agency out of any legal trouble. The Attorney should also handle any closings on property or financing. It is important that the Attorney have experience with similar housing development activities, and ideally should be familiar with the project’s primary sources of funding. Some sources, such as the Low-Income Housing Tax Credits (LIHTC) program, require very specialized legal advice that can be best provided by an Attorney who is experienced with the legal issues involved.

- **The Architect:** The Architect works with the development team to determine the feasibility of specific sites, create preliminary and final drawings of the project, develop construction specifications, assist with preliminary cost estimates, work with the Developer to secure local site and design approvals, and monitor construction.

- **The General Contractor:** The General Contractor is responsible for the actual construction or rehabilitation of the housing. Most housing Developers hire an outside firm through a competitive process after the Architect completes the plans and specifications for the development. Sometimes a Contractor is selected early in the predevelopment process and is a member of the development team from the beginning. The General Contractor is responsible for processing the necessary insurance coverage and building permits, contracting with subcontractors, managing the construction, and ensuring wages and labor standards are met for all construction workers. The General Contractor should have experience in the type of development planned and understand funder requirements and procedures. Some funders may have special requirements for general contractor selection.

- **The Accountant:** The project Accountant typically provides cost certifications – such as those required for the LIHTC program – and other accounting work as required by the different funding sources in the project. You may already have an Accountant, either on staff or under contract for your agency finances, but the project Accountant is usually an independent professional consultant or firm. When selecting the accounting consultant or firm that will take
on this role, make sure that they are familiar with the various requirements of both for-profit and nonprofit accounting practices, as well as the unique requirements of the housing financing, particularly the LIHTC program, if the project will be utilizing that funding source.

- **Tenant Representative:** At some point during the predevelopment planning of your project, you may wish to include a Representative of the tenants you plan to house. It is essential to hear the concerns and needs of prospective tenants throughout the development process. The Representative can be included as a part of the design team and may bring an important perspective on key decisions to the group.

There will likely be many other development team members with different levels of involvement with the project, including: staff of funders and lenders, an environmental consultant, a relocation consultant, financial consultants, a marketing consultant, a community relations specialist, and surveyor, among others.

*Note:* CSH’s *Toolkit for Developing and Operating Supportive Housing* includes documents that provide tips and considerations for selecting many of the members of the development team described above. See the tools under *Building the Development Team* within the *Development and Finance* section of the Toolkit, available at [www.csh.org/toolkit2/development](http://www.csh.org/toolkit2/development).
CHAPTER 6: SUPPORTIVE HOUSING BUDGETS

Note: CSH is providing this information to assist interested organizations with developing a general understanding of the supportive housing development process. CSH is not rendering legal, accounting or other project-specific advice. For expert assistance, please contact a qualified professional.

There are three separate, but inter-related, budgets that are critical for planning supportive housing development projects:

- **The Development Budget** is the tool used to estimate the total capital requirements of the project. It provides a detailed analysis of all of the development costs – both hard costs (construction) and soft costs (all other project costs) – that will be incurred to complete the project.

- **The Operating Budget** projects the operating costs for operating the housing - day-to-day costs, such as maintenance activities and property management staff. Supportive services costs are not usually included within the Operating Budget. Tenant rents are a source of income to pay for operating costs, but because supportive housing tenants can afford only modest rents, in general, supportive housing requires rental subsidies to fund the difference between tenant rents and the cost of operating and maintaining the housing.

- **The Supportive Services Budget** projects the costs for providing the supportive services that will be made available to tenants, and is critically important to ensuring that adequate services will be available to assist tenants with retaining housing stability.

The Project Proforma

Key financial questions for the development of any supportive housing project include:

- **Development Costs**: How much will it cost to build the project?
- **Rental Income**: How much rent will the project generate?
- **Operating Costs**: How much will it cost to operate the project, year in, year out, over a period of time?
- **Services Costs**: How much will it cost to ensure tenants have access to essential services?

Oftentimes, the financial analysis of a housing development project begins with an examination of the development costs, the first costs that the developer will incur. For supportive housing development, however, it often makes sense to first consider the operating financial feasibility first, including clearly identifying the prospective tenants and the rent levels they can afford. The question: “Who will be served in this project?” should be answered early in the development process and the answer should align with both organizational mission and community need. Analyzing operating feasibility first will also help predict whether the project can afford to pay debt service on any loans that might be considered as sources to pay for development costs.

The tool used to analyze and present the overall financial feasibility of a housing development project is a “project pro forma.” Documenting the projections for the costs to build a project and to operate it over time, a project proforma is both:
• A financial plan for Operating a project
• A financial plan for Developing a project

The project pro forma will document the answers to two fundamental questions about a project’s
Operating Feasibility:
• How much rental income will be generated?
• What expenses will need to be paid to operate the building, including reserves for future
repairs or projected deficits?

The project pro forma will document the answers to two fundamental questions about a project’s
Development Feasibility:
• How much money will it cost to develop the project?
• What sources of money will be used to pay the development costs?

Organizations without significant development experience or with little in-house capacity should
consider engaging the services of a financial consultant or development consultant to “run the
numbers” for the project pro forma and to help create a plan for a financially feasible project. All
organizations engaging in supportive housing development should have an understanding of the
basic components of a project pro forma, which include:
• The rent roll;
• The operating budget and cash flow analysis; and
• The development budget or “sources and uses” budget

The Rent Roll
Sometimes referred to as Tenant Mix and Rental Income, Unit and Affordability Mix, or several
other names, the key components of the Rent Roll are:
• The Number of Units
• The Breakdown of Units by Number of Bedrooms/Size
• The Breakdown of Units by Affordability - documenting the income groups (usually shown
as a percentage of Area Median Income [AMI]), to which the units will be affordable or
restricted
• The Rents for Units – both gross, and after any utility allowance (utility allowance calculations
are available through local public housing authorities)
• The Income from Dedicated Operating Subsidies – such as Shelter Plus Care or Project-
Based Section 8 subsidies dedicated to the project
• The Vacancy Allowance – the percentage of units expected to be vacant at any given time

The Rent Roll will project how much annual income the supportive housing development can be
expected to generate from rental income and any operating subsidies. A slightly simplified rent roll
for a mixed income development (with sample utility allowances) might look like the following table
on page 24.
<table>
<thead>
<tr>
<th># of Units</th>
<th>BR Size</th>
<th>% AMI</th>
<th>Gross Rent per unit /month</th>
<th>Subsidy Payments per unit /month</th>
<th>Utility Allow.</th>
<th>Net Rent per unit /month</th>
<th>Total Rent /Year</th>
<th>Vacancy Allow.</th>
<th>Net Rent /Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>20</td>
<td>1</td>
<td>30%</td>
<td>$345</td>
<td>$405</td>
<td>$50</td>
<td>$700</td>
<td>$168,000</td>
<td>10%</td>
<td>$151,200</td>
</tr>
<tr>
<td>10</td>
<td>1</td>
<td>40%</td>
<td>$460</td>
<td>$290</td>
<td>$50</td>
<td>$700</td>
<td>$84,000</td>
<td>10%</td>
<td>$75,600</td>
</tr>
<tr>
<td>30</td>
<td>2</td>
<td>60%</td>
<td>$880</td>
<td>$0</td>
<td>$75</td>
<td>$805</td>
<td>$289,800</td>
<td>5%</td>
<td>$275,310</td>
</tr>
<tr>
<td>60</td>
<td></td>
<td></td>
<td>$1,688</td>
<td></td>
<td>$2,380</td>
<td>$456,300</td>
<td></td>
<td></td>
<td>$502,110</td>
</tr>
</tbody>
</table>

Setting rent levels is a key element in creating the project pro forma, and must address the following considerations:

- Rents will need to match the regulatory requirements of the capital and operating funding program(s) being utilized in the project;
- The rents being charged need to be affordable for the people who will be living in the project. Setting unrealistic expectations regarding what a tenant with a limited income and a disability (or disabilities) can pay can result in a project going under due to lack of adequate occupancy and rental income; and
- The rental income generated needs to be an adequate amount to cover the cost of operating the project.

Calculating Rent Levels
The most common scenarios under which rents must be calculated to provide affordability in accordance with funder requirements include:

- **Calculating Rents for Fixed Rent Programs:** Fixed rent programs establish a maximum rent for each unit size at each affordability level. Such programs include tax credits and tax-exempt bonds.

  Program Max Monthly Gross Rent (20%AMI 1BR unit) $310
  Less: Utility Allowance per Month - $50
  Maximum Net Tenant Rental Payment $260

  *Example assumes a one-bedroom unit in Contra Costa County, California*

- **Calculating Rents for Income-Based Programs:** Income-based programs require tenant rents be based on a percentage of each tenant household’s actual income. In practice, property management staff calculates actual rents on a tenant-by-tenant basis. For the purpose of operating rental income projections, a conservative estimate of what the average tenant has in income should be used. Income-based programs, such as the federal Supportive Housing Program (SHP), typically set the rent plus utilities at approximately 30% of household income.
Estimated monthly tenant income (SSI) $700
Program affordability standard x .30
Est. Maximum Gross Rent $210
Less: Utility Allowance per Month - $50
Maximum Net Tenant Rental Payment $160

- **Calculating Rents with Fair Market Rent-based Programs:** When using rental subsidy programs that base their payment standard on Fair Market Rents (FMRs), the rents included in the pro forma for those units with this subsidy reflect the FMR levels. FMRs are published annually by HUD at [http://www.huduser.org/datasets/fmr.html](http://www.huduser.org/datasets/fmr.html). Rent levels are published according to location and unit size (number of bedrooms). The tenant typically only pays 30% of his/her income or a similar calculation as his/her share of the rent, with the rental subsidy source paying the difference between that amount and the FMR. (Note: In October 2005, HUD published its [*Final Rule on Project Based Vouchers*](http://www.huduser.org/datasets/fmr.html), which establishes regulations under which project based rent levels are determined, including limitations for subsidy rent levels in units financed with low-income housing tax credits.)

Section 8 and Shelter Plus Care are examples of FMR-based rental subsidies. When using these programs for a project, it is often best to obtain “project based” assistance which means that the rental subsidy (or voucher) stays with the project. However, these subsidies may only be guaranteed to a project for a short term - a Section 8 contract can usually be granted for ten years (subject to annual allocations), and a Shelter Plus Care contract normally only extends out for five years. In both cases, these sources of funding can be renewed beyond the term of the original contracts, subject to availability of funding.

**The Operating Budget and Cash Flow Analysis**

The Operating Budget documents the costs to operate the project for one year. This includes costs such as the property manager’s salary, a property management fee, utilities for common areas, landscaping, maintenance, and other related costs. Deposits to reserves should also be included as an operating cost. Supportive services costs are not usually included within the Operating Budget. Projecting the costs of operating the housing development is a critical task, and should be based on comparables from other projects, or if possible, actual costs to come up with the most realistic budget possible.

The Cash Flow Analysis is a multiple year analysis (usually either 15 or 30 years) that projects the rental income and how much money is left each year after the costs of property operations, any debt service costs, and reserves. An important assumption in a cash flow analysis is the percentage by which rental income and operating costs will increase each year. This financial concept is called “trending.” Funders of supportive housing projects typically assume that costs are increasing at a greater percentage than income each year. A fairly standard rate of increase for rents is 2% per year and 4% per year for operating costs. The 2% difference between these two rates is called the “spread.” Depending on the location of the project, funders will have different requirements for the spread between the percentage increases for rents and operating costs, and the spread requirements can be as low as 1%.

**Projecting Cash Flow**

The math needed for developing a cash flow projection for one year is:
1) Total annual rental income (aka “Gross Potential Income”)
2) LESS Vacancy Loss (usually 5% or 10% - check with your funders)
3) EQUALS Effective Gross Income (aka EGI)
4) LESS Operating Costs + Reserves (based on your operating budget)
5) EQUALS Net Operating Income (aka “NOI”)
6) LESS Mortgage Payment (if any)
7) EQUALS Cash Available
8) LESS Partnership Management Fees and/or Asset Management Fees
9) EQUALS Cash Flow for Residual Receipts Debt, and/or for your agency

To develop the multi-year analysis, the trending factors identified are applied to the Gross Potential Income and the Operating Costs for each year that the analysis covers.

Taken all together, this analysis will project whether there is (and will be in the future) enough rental income to meet the costs of operating the project. This analysis will also help determine whether there will be adequate cash flow after meeting operating costs that could be used for any costs associated with financing that may be used to pay for the development costs.

The Development Budget: Sources and Uses
A project’s Development Budget documents all of the costs involved in developing the project, including buying the land/building, new construction or rehabilitation activities, finance charges, professional services and agency costs (which can be included as the developer’s fee). A development budget is often broken down into three phases:

- Predevelopment/Acquisition – the activities that occur before construction starts;
- Construction – the construction or rehabilitation of the property;
- Permanent – upon completion of construction when all of the funding that will remain in the project is in place.

Total Development Costs
Projecting all of these costs will produce the project’s “Total Development Cost” or TDC. Equally important is identifying adequate sources to cover the project’s TDC - together, these two components are often referred to as the Sources and Uses budget. The Sources and Uses budget will document how much the project will cost to develop, and how those costs will be financed - and the sources must always equal the total development costs for a project to be feasible. It is also very important to be sure that the sources identified can actually be used for the costs for which they are expected to pay. Further, some funding sources will only be available for certain of the phases of the development process identified above - when identifying sources of funding, it is essential to be sure that there are adequate resources available during each of these phases.

The sources of development funding should be identified as early as possible in the development process. There are different types of sources (debt, grants and equity) that can be used for the different phases of a project’s development. Some types of funding are more commonly used at certain stages of a project, and for particular uses. For example, short-term loans from non-profit intermediaries are commonly used for predevelopment expenses, while long-term loans from conventional banks or government agencies are used to pay for construction and other development costs and remain invested in the project as permanent financing. Equity and grant
funding do not require repayment, whereas debt requires that the funding be repaid at some point in time, in accordance with a repayment schedule and with interest.

Typically, projects are funded with a combination of local, State and Federal resources. While there are localities and States that provide considerable funding for supportive housing projects, the Low-Income Housing Tax Credit Program is one of the biggest funders of affordable and supportive housing. Projects using tax credits are typically larger-sized projects (20 units or more in most locations, even larger projects in many places.). The tax credit program, which is authorized under the Internal Revenue Code, is complicated and most tax credit financed projects are developed by experienced developers. Using tax credits adds additional compliance regulations and requirements that will impact how the project’s other sources of funding are structured as well.

Nine percent tax credits have traditionally been the most widely used form of tax credits as they yield a substantial amount of equity funding. However, it is also possible to use 4% tax credits in supportive housing development, typically used in conjunction with tax exempt bonds, which act like low interest debt in a project. This structure is somewhat complex and requires the involvement of attorneys and financial advisors.

Note: CSH’s Toolkit for Developing and Operating Supportive Housing contains many other documents that may be useful for understanding supportive housing financing issues. Please see the tools under Assembling the Financing in the Development and Finance section of the Toolkit, at www.csh.org/toolkit2development. For more information regarding 4% tax credits, please see CSH’s publication Financing Supportive Housing with Tax-Exempt Bonds and 4% Low-Income Housing Tax Credits available for download at www.csh.org/publications.

Financing for All Phases of the Development Process

The various phases of the development process each require different types of financing. While some funders may provide grants and loans on an ongoing basis, others with competitive processes may provide funding only once or twice per year. Therefore, you must outline the different types and sources of financing needed for your project well before you acquire a site or begin construction, and you must compare the time frames for each source of funding against your project timeline. It is important to involve your attorney in the review of funding options and their restrictions. Some types of financing can affect each other when used to finance the same project. For example, grants impact on tax credit amounts. Having legal and technical expertise early on can help avoid costly miscalculations and assumptions later, when they can’t be fixed.

Securing financing proceeds is involved throughout the development process, usually including the following:

- **Working Capital**: These funds are used during the early, speculative stage of development. They may be used to pay for costs such as operating and/or organizational expenses of the project sponsor. Working capital almost always comes from a grant or in-kind contribution, since most lenders will not support this early phase. CSH provides recoverable grants or forgivable loans for this phase.

- **Predevelopment Funds**: Once it is likely that the development will proceed, you will need predevelopment funds for activities that precede the actual construction or rehabilitation. Examples of these activities include payment to an owner in exchange for an option to buy a
site; initial work by an architect, development consultant, or attorney; due diligence activities such as environmental reports; and insurance and carrying costs. A number of housing funders offer predevelopment grants or loans. One common source is a grant or loan from an intermediary organization, a nonprofit organization that provides financial and technical assistance to developers of affordable housing. National intermediaries include CSH, the Local Initiatives Support Corporation (LISC), The Enterprise Foundation and community loan funds. Other potential sources of predevelopment funding include public agencies and community foundations. You may also secure a bridge loan, generally from public funding sources, which is a short-term loan that you will repay when you receive a construction loan later in the development process. (Note: Some public agencies that provide permanent financing have predevelopment loan products and make them available for projects that they anticipate funding permanently.) If predevelopment funds are not available, your organization will need to cover these costs from its own resources; again, traditional mortgagors such as banks will generally not lend funds at this risky stage.

- **Acquisition Financing:** If your agreement with a property owner requires you to purchase a building before construction or permanent financing is available, you will need to secure bridge financing for acquisition. This financing is sometimes combined with financing for predevelopment activities. Sources for these expenses are generally public funding entities and intermediaries. Again, this financing would be repaid when the construction or permanent financing is available.

- **Construction Financing:** You may pay for construction costs from your permanent financing, or you may receive shorter-term financing just for construction. Construction financing often comes from private mortgagors, such as banks. Typically, you would secure construction financing once permanent funders have committed their resources to the project. Whether through construction financing or permanent financing, all financing for construction must be available before you can begin any actual construction or rehabilitation work.

- **Permanent Financing:** The permanent financing for your project will likely consist of a series of long-term loans from different public and private sources and with different interest rates. These loans allow you to repay the costs of developing the housing over a number of years, as rent and other income becomes available. Permanent financing must be committed before you can start construction, but it is often not disbursed until construction is complete and the project has secured a certificate of occupancy from the local jurisdiction (city/county). Some forms of private financing (typically foundations) may agree to release their permanent financing at the time of construction. In some cases, permanent lenders or funders will require that all units be rented to tenants before they will release funds.

The table on the next page describes the various types of financing available and needed during different phases of a supportive housing development project: predevelopment, development, and operations.
### Types of Financing for Different Phases

<table>
<thead>
<tr>
<th></th>
<th>DEVELOPMENT PHASES</th>
<th>OPERATIONS PHASE</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Type:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Predevelopment</td>
<td>Grant</td>
<td>Subsidies (grants) to project or residents</td>
</tr>
<tr>
<td></td>
<td>Soft Loan – low interest, flexible about how, when, (if?) it gets repaid</td>
<td>Capitalized Reserves</td>
</tr>
<tr>
<td>Development</td>
<td>Grant</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Soft Loan – low interest, flexible about how/when it gets repaid</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Hard Loan</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Equity</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Construction Loans</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Permanent Loans</td>
<td></td>
</tr>
<tr>
<td><strong>Sources:</strong></td>
<td>Local Funds</td>
<td>HUD (most often this is funded with Federal sources)</td>
</tr>
<tr>
<td></td>
<td>Intermediaries</td>
<td>Local Funds</td>
</tr>
<tr>
<td></td>
<td>Foundations</td>
<td>State Funds</td>
</tr>
<tr>
<td></td>
<td>Agency's own resources</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Local Funds</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Intermediaries</td>
<td></td>
</tr>
<tr>
<td></td>
<td>HUD</td>
<td></td>
</tr>
<tr>
<td></td>
<td>State</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Tax Credits</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Banks</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Tax-Exempt Bonds</td>
<td></td>
</tr>
<tr>
<td><strong>Uses:</strong></td>
<td>Deposit on property</td>
<td>To cover the cost of operating the property if the rental income does not fully cover it (in some cases will cover debt service).</td>
</tr>
<tr>
<td></td>
<td>Architecture</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Legal</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Financial Consultant</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Appraisal</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Environmental Study</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Other due diligence activities</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Acquisition</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Rehabilitation</td>
<td></td>
</tr>
<tr>
<td></td>
<td>New Construction</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Indirect (Soft) Development Costs</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Furnishings, Fixtures and Equipment</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Capitalized Reserves</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Finance and Carrying Costs</td>
<td></td>
</tr>
<tr>
<td><strong>Amount (typical range):</strong></td>
<td>$10,000 - $300,000</td>
<td>Calculated on a per unit basis, as either:</td>
</tr>
<tr>
<td></td>
<td>$100,000 – millions!</td>
<td>• Fair Market Rent</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• An amount equal to the difference between 30% of the resident's income and the cost to operate the unit</td>
</tr>
</tbody>
</table>

### Seeking the Appropriate Financing

Once you have outlined the design and financial aspects of your project, you are ready to approach funders for commitments of financing. Most public agencies, foundations and intermediaries that provide grants and loans for housing development do so based on a competitive basis. You must submit an application for funding or proposal that includes information about the project's purpose, design and projected financing. After the funders' underwriters analyze the feasibility of your project, they will decide whether to fund it based on its viability, its accordance with the priorities of the agency or foundation, and the availability of funds.
Before you commit to purchasing or leasing a site, you will conduct a financial feasibility analysis. This will indicate whether the costs to develop and operate the housing can be funded sufficiently with proposed financing sources, and your proposed purchase price for the site is viable. The financial feasibility analysis will also lay the groundwork for a later step, packaging the capital financing. The feasibility analysis must be prepared carefully, since you and the project’s funders must be convinced that the development is financially feasible before you proceed with the development process. Therefore, the feasibility analysis should be conducted by a person with expertise in housing finance or by an experienced housing development consultant.

Investigation of Funding Sources
To know whether you will be able to support the costs of developing and operating the housing, you will need an idea of the sources of financing for your development, the amounts that you can realistically request from each source, and the terms of the various types of financing. Your development will likely combine grants and loans from a number of sources for different activities. The table on page 31 outlines various financing options, in a general sense, for supportive housing. It will also be important to speak with other developers, your local development agency, and your state housing agency to determine the specific sources of funding in your area. It is also important to note that it will be necessary to pursue various stages of financing all at the same time. Identifying and securing financing is not a sequential process.

The Underwriting Process
The Underwriting Process typically starts prior to the submittal of loan applications. Underwriting criteria for many public funders is known well in advance of application submission, and many public funders address these criteria during the application process, before the funding application is submitted. Once the applications are submitted, the underwriting criteria analysis begins.

Invariably, the lenders will raise questions and concerns, and you likely will make changes to your development budget and pro forma to address them. For example, they may feel that you have not budgeted enough money for the operating costs, or that the project should retain larger reserves of funds for ongoing costs. The underwriters may be concerned that you are projecting higher annual rent increases than supportive housing tenants will be able to pay. You may have left out important development costs from your budget, and the underwriters will point these out. In general, the lenders will be fairly conservative in reviewing your budgets, since they need to be certain that the project will operate successfully and thus generate sufficient funds to repay the loans.

If your project will be using the Low-Income Housing Tax Credit Program, you will go through a separate underwriting process conducted by the investors. These investors also will be very conservative in their evaluation of your budgets because they risk losing part of their return if the project fails within the first 15 years of operation. They will closely examine your assumptions for projecting income and expenses, and their standards may exceed those of the lenders. Again, since the tax credit process is highly technical, it is important to seek professional assistance from a development consultant or other expert in the field.
CHAPTER 7: TYPES OF FINANCING FOR DEVELOPMENT AND OPERATIONS

As illustrated in the preceding table, there are a variety of forms in which funding can be provided to a supportive housing project: loans, grants, equity and subsidies. The following tables provide a brief description of these diverse financing tools and their typical terms.

<table>
<thead>
<tr>
<th>DEBT TO PAY FOR DEVELOPMENT COSTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. FIXED PAYMENT LOANS (AKA “HARD” LOANS)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Type</th>
<th>Typical Terms</th>
<th>Sources</th>
</tr>
</thead>
<tbody>
<tr>
<td>Below Market Rate Interest Fully Amortized Loans</td>
<td>Loan payments are required on loan principal and interest, at low simple interest rate (1-3%) for long terms (30 - 55 years).</td>
<td>Government</td>
</tr>
<tr>
<td>Below Market Interest Rate Bridge Loans</td>
<td>Loan terms are generally flexible, may allow for interest only payments. Interest rates vary from 3% to 7.5%. Typically are for short terms (2-5 yrs.) and used for acquisition or predevelopment costs.</td>
<td>Government, Intermediary Lenders, some Bank Consortia</td>
</tr>
<tr>
<td>Conventional Fully Amortized Loans</td>
<td>Loan payments are required on principal and interest at interest rates that are slightly below market for long terms (30 years)</td>
<td>Banks, Bank Consortia</td>
</tr>
<tr>
<td>Construction Loans</td>
<td>Short term loan for the construction period. Loan payments are interest only during term; principal repaid at completion of construction (typically paid off, or “taken out” by a permanent lender or tax credit equity). Interest rates are typically at, or slightly below, market.</td>
<td>Banks, Bank Consortia, Government</td>
</tr>
</tbody>
</table>
## DEBT TO PAY FOR DEVELOPMENT COSTS (continued)

### 2. “SOFT” LOANS

<table>
<thead>
<tr>
<th>Type</th>
<th>Typical Terms</th>
<th>Sources</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deferred Payment Loan</td>
<td>Principal/Interest accrues and is deferred until a required date in the future, either a fixed date, or at resale. Interest rate is usually low (1-3%)</td>
<td>Government and Federal Home Loan Bank AHP Loans</td>
</tr>
<tr>
<td>Residual Receipts Loans</td>
<td>Principal/Interest payments are made annually as cash is available, from some % or all of residual receipts (cash flow after operating expenses and all hard debt service is paid)</td>
<td>Government</td>
</tr>
<tr>
<td>Deferred Developer Fees</td>
<td>Sponsor may defer taking a portion of its developer fee, and structure it as a loan to be repaid out of net cash flow.</td>
<td>Project sponsor</td>
</tr>
</tbody>
</table>

## EQUITY AND GRANTS TO PAY FOR DEVELOPMENT COSTS:

<table>
<thead>
<tr>
<th>Type</th>
<th>Typical Terms</th>
<th>Sources</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low-Income Housing Tax Credits</td>
<td>Corporate investment given to the project in exchange for an ownership interest (99.99%) &amp; delivery of tax benefits</td>
<td>Tax Credit Investors</td>
</tr>
<tr>
<td>General Partner Contribution</td>
<td>Sponsor contributes capital funds and “may” receive a return from net cash flow over a period of time (in accordance with terms of limited partnership agreement)</td>
<td>Project sponsor</td>
</tr>
<tr>
<td>Grants</td>
<td>Funding from sources that do not require repayment</td>
<td>Some Government sources such as CDBG; foundations; charitable contributions</td>
</tr>
<tr>
<td>Type</td>
<td>Typical Terms</td>
<td>Sources</td>
</tr>
<tr>
<td>-------------------</td>
<td>---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
<td>---------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Subsidy Contracts</td>
<td>Funds distributed on a periodic basis, for a predetermined time, in exchange for serving a particular income group or population to make up the difference between income and expenses</td>
<td>Typically government sources such as HUD (SHP, S+C, Tenant or Project-Based Section 8)*</td>
</tr>
<tr>
<td>Capitalized Reserves</td>
<td>A reserve fund can be capitalized as part of the development budget, to later subsidize rents over a period of time.</td>
<td>Tax Credits, State and local government funders, at their discretion.</td>
</tr>
</tbody>
</table>

* Project-Based Subsidies: Project-based subsidies are “attached” to units in a project. Project-based subsidies can be combined with a government program providing low cost capital in order to allow a building to house very low and extremely low income people. For instance, Section 202 and Section 811 supportive housing projects receive federal capital subsidies and a project-based rent subsidy. The contract requires HUD to pay the difference between the tenant’s contribution (30% of his/her income) and the agreed upon operating budget and, therefore, essentially guarantees the rent and allows extremely low income residents to live there. Other Examples: HUD McKinney Shelter + Care; HUD McKinney Section 8 Moderate Rehab SRO Program

* Tenant-Based Subsidies: Tenant-based subsidies are “attached” to the tenant – that is, if the tenant moves from a unit, the subsidy leaves the unit and travels with the tenant. Tenant-based Section 8 Existing Vouchers are the most widespread type of tenant-based subsidies. This federal rent subsidy program pays a part of the rent for very low-income (less than 50% of area median income) tenants, and is administered by local housing authorities. Tenant-based subsidies will not be considered a reliable enough source of income to be included in your rental income projections for your project. Other Examples: HUD McKinney Shelter + Care; Locally created programs funded through HOPWA, HOME, or local sources.

**Note:** CSH’s Toolkit for Developing and Operating Supportive Housing contains many other documents that are useful for understanding supportive housing financing issues. Please see the tools under Assembling the Financing in the Development and Finance section of the Toolkit, at [www.csh.org/toolkit2development](http://www.csh.org/toolkit2development). In addition, information about many specific financing programs is available through CSH’s Financing Supportive Housing Guide at [www.csh.org/financing](http://www.csh.org/financing).
CHAPTER 8: OVERVIEW OF VETERANS SPECIFIC FUNDING SOURCES

VA provides comprehensive medical, psychological and rehabilitation treatment for eligible homeless veterans and conducts homeless outreach such as community-based “stand downs” to help homeless veterans. Many VA benefits, including disability compensation, pension and education, can help at-risk veterans avoid homelessness. Other programs for homeless veterans include residential rehabilitation services at VA domiciliaries, therapeutic group homes, and contract residential care.

Note: Not all of the programs listed below are compatible for use in permanent supportive housing projects but are potential resources made available specifically for homeless veterans.

HUD-VA Supportive Housing (VASH) Program
This joint Supportive Housing Program with the Department of Housing and Urban Development provides permanent housing and ongoing treatment services to the harder-to-serve homeless mentally ill veterans and those suffering from substance abuse disorders. The VASH program, which was started in 1992, designated 1,780 vouchers worth $44.5 million for homeless chronically mentally ill veterans. The vouchers provided housing assistance modeled after the standard Section 8 Housing Choice Voucher Program and case management services through local VA Medical Centers (VAMC). During this time, 35 Public Housing Authorities (PHAs) participated. HUD estimates that 1,000 individuals remain housed based on these efforts. Rigorous evaluation of this program indicated that this approach significantly reduced days of homelessness for veterans plagued by serious mental illness and substance abuse disorders.

Due to data collected from the evaluation of the original program, along with work done by advocates for veterans and the homeless service and housing providers from across the country, the Fiscal Year 2008 Consolidated Appropriations Act allocated $75 million for HUD-VASH vouchers that will serve an estimated 10,000 veterans. HUD and VA have allocated these vouchers based on several factors, including the number of homeless veterans needing services and the VA case management resources available. A total of 132 local VA Medical Centers will be working in this effort and this will represent at least one site in each of the 50 states. HUD identified eligible Public Housing Authorities in areas with participating VAMCs and reached out to these sites to offer invitations to participate. Case Managers through the local VAMC will provide services to HUD-VASH participants in the program and will work closely with Public Housing Authorities in administering the vouchers and assisting participants in their housing search.

VA’s Supportive Housing Program
The program allows VA personnel to help homeless veterans secure long-term transitional or permanent housing. They also offer ongoing case management services to help the veterans remain in housing they can afford. VA staff work with private landlords, public housing authorities and nonprofit organizations to find housing arrangements. Veteran service organizations have been instrumental in helping VA establish these housing alternatives nationwide. VA staff at 20 supported housing program sites helped more than 1,500 homeless veterans find transitional or permanent housing in the community.
VA also provides grant and per diem funds to community agencies providing services to homeless veterans. The grant program pays up to 65 percent of the cost of construction, renovation, or acquisition of a building for use as a service center or transitional housing for homeless veterans, or for the purchase of vans for transporting homeless veterans. The per diem provides funding for operational costs. Call 1-877-332-0334 or visit [http://www.va.gov/homeless/](http://www.va.gov/homeless/).

**VA Veterans Health Administration Homeless Veteran Service Coordinators**

Every VA medical center has a Homeless Veteran Coordinator who can provide information about local services for homeless veterans offered by the Veterans Health Administration. Services include outreach, case management, referrals to benefits counselors, linkage to health care and housing assistance. For a list of Homeless Veteran Coordinator Offices by state, go here: [http://www1.va.gov/homeless/page.cfm?pg=21](http://www1.va.gov/homeless/page.cfm?pg=21).

**VA Veteran Benefits Administration Homeless Veteran Coordinators**

Every VA Regional Office (VARO) has an assigned Homeless Veteran Coordinator who can help expedite the VA benefits claims process for homeless veterans. To find the nearest Veterans Benefits Administration office, go to [http://www1.va.gov/directory/guide/division.asp?dnum=3](http://www1.va.gov/directory/guide/division.asp?dnum=3).

**Programs for Homeless Veterans**

*Adapted from VA Fact Sheet, September 2006*

**VA’s Health Care for Homeless Veterans Program (HCHV)**

Operates at 132 sites, where extensive outreach, physical and psychiatric health exams, treatment, referrals and ongoing case management are provided to homeless veterans with mental health problems, including substance abuse. This program makes assessments and referrals for more than 40,000 veterans annually.

**VA’s Domiciliary Care for Homeless Veterans (DCHV) Program**

Provides medical care and rehabilitation in a residential setting on VA medical center grounds to eligible ambulatory veterans disabled by medical or psychiatric disorders, injury or age and who do not need hospitalization or nursing home care. There are more than 1,800 beds available through the program at 34 sites. The program provides residential treatment to more than 5,000 homeless veterans each year. The domiciliaries conduct outreach and referral; admission screening and assessment; medical and psychiatric evaluation; treatment, vocational counseling and rehabilitation; and post-discharge community support.

**Veterans Benefits Assistance at VA Regional Offices**

Provided by designated staff members who serve as coordinators and points of contact for homeless veterans. Homeless coordinators at VA regional offices provide outreach services and help expedite the processing of homeless veterans’ claims. The Homeless Eligibility Clarification Act allows eligible veterans without a fixed address to receive VA benefits checks at VA regional offices. VA also has procedures to expedite the processing of homeless veterans’ benefits claims. Last year more than 34,000 homeless veterans received assistance and nearly 4,000 had their claims expedited by staff members.
Acquired Property Sales for Homeless Providers Program
Makes properties VA obtains through foreclosures on VA-insured mortgages available for sale to homeless providers at a discount of 20 to 50 percent. To date, more than 200 properties have been sold. These properties have been used to provide homeless people, including veterans, with over 400,000 sheltered nights in VA acquired property since the program began.

Readjustment Counseling Services Vet Centers
Provide outreach, psychological counseling, supportive social services and referrals to other VA and community programs. Every Vet Center has a homeless veteran coordinator assigned to make sure services for homeless veterans are tailored to local needs. Annually, the program’s 207 Vet Centers see approximately 130,000 veterans and provide more than one million visits to veterans and family members. More than 10,000 homeless veterans are served by the program each year.

Veterans Industry/Compensated Work-Therapy (CWT) and Compensated Work-Therapy / Transitional Residence (TR) Programs
Through its CWT and TR programs, VA offers structured work opportunities and supervised therapeutic housing for at-risk and homeless veterans with physical, psychiatric and substance abuse disorders. VA contracts with private industry and the public sector for work by these veterans, who learn new job skills, re-learn successful work habits and regain a sense of self-esteem and self-worth. Veterans are paid for their work and, in turn, make a payment toward maintenance and upkeep of the residence.

VA operates 66 homes with more than 520 beds in transitional residences. Nine sites with 18 houses serve homeless veterans exclusively. Two-thirds of all CWT and TR beds served homeless veterans. There are more than 140 CWT operations nationwide. Approximately 14,000 veterans participate in CWT programs annually.

Stand Downs
One-to three-day events that provide homeless veterans a variety of services and allow VA and community-based service providers to reach more homeless veterans. Stand downs give homeless veterans a temporary refuge where they can obtain food, shelter, clothing and a range of community and VA assistance. In many locations, stand downs provide health screenings, referral and access to long-term treatment, benefits counseling, ID cards and access to other programs to meet their immediate needs. Each year, VA participates in more than 100 stand downs coordinated by local entities. Surveys show that more than 20,000 veterans and family members attend these events annually with more than 13,000 volunteers.

VA Excess Property for Homeless Veterans Initiative
Provides federal excess personal property, such as clothing, footwear, sleeping bags, blankets and other items, to homeless veterans through VA domiciliaries and other outreach activities. This initiative has been responsible for the distribution of nearly $150 million in material and currently has more than $15 million in inventory. This initiative employs formerly homeless veterans to receive, warehouse and ship these goods to homeless programs across the country that assist veterans.

The Homeless Providers Grant and Per Diem Program
Provides grants and per diem payments to help public and nonprofit organizations establish and operate new supportive housing and service centers for homeless veterans. Grant funds may also be used to purchase vans to conduct outreach or provide transportation for homeless veterans. Since the program's inception in fiscal year 1994, VA has awarded more than 400 grants to faith and community-based service providers, state or local government agencies and Native American
tribal governments in all states and the District of Columbia. Up to 20,000 homeless veterans are expected to receive supported housing under this program annually in more than 10,000 beds.

**Suicide Prevention Hotline**
Veterans experiencing an emotional crisis or who need to talk to a trained mental health professional may call the National Suicide toll-free hotline number, 1-800-273-TALK (8255). The hotline is available 24 hours a day, seven days a week. Callers are immediately connected with a qualified and caring provider who can help.

**Veteran Health Registries**
Certain veterans can participate in a VA health registry and receive free medical examinations, including laboratory and other diagnostic tests deemed necessary by an examining clinician. VA maintains health registries to provide special health examinations and health related information. To participate, contact the nearest VA health care facility or visit [http://www.va.gov/environmentagents/](http://www.va.gov/environmentagents/).

**Gulf War Registry**
For veterans who served in the Gulf War and Operation Iraqi Freedom (OIF).

**Depleted Uranium Registries**
VA maintains two registries for veterans possibly exposed to depleted uranium. The first is for veterans who served in the Gulf War, including Operation Iraqi Freedom. The second is for veterans who served elsewhere, including Bosnia and Afghanistan.

**Agent Orange Registry**
For veterans possibly exposed to dioxin or other toxic substances in herbicides used during the Vietnam War, while serving in Korea in 1968 or 1969, or as a result of testing, transporting, or spraying herbicides for military purposes.

**Ionizing Radiation Registry**
For veterans possibly exposed to atomic radiation during the following activities: atmospheric detonation of a nuclear device; occupation of Hiroshima or Nagasaki from Aug. 6, 1945, through July 1, 1946; internment as a prisoner of war in Japan during World War II; serving in official military duties at the gaseous diffusion plants at Paducah, Ky.; Portsmouth, Ohio; or the K-25 area at Oak Ridge, Tenn., for at least 250 days before Feb. 1, 1992, or in Longshot, Milrow or Cannikin underground nuclear tests at Amchitka Island, Alaska, before Jan. 1, 1974; or treatment with nasopharyngeal (NP) radium during military service.

**Vocational Rehabilitation and Employment Program**
The Vocational Rehabilitation and Employment (VR&E) Program assists veterans who have service-connected disabilities with obtaining and maintaining suitable employment. Independent living services are also available for severely disabled veterans who are not currently ready to seek employment. Additional information is available on VA’s Web site at [http://www.vba.va.gov/bln/vre/](http://www.vba.va.gov/bln/vre/).

- **Eligibility:** A veteran must have a VA service-connected disability rated at least 20 percent with an employment handicap, or rated 10 percent with a serious employment handicap, and be discharged or released from military service under other than dishonorable conditions.
Service members pending medical separation from active duty may also apply if their disabilities are reasonably expected to be rated at least 20 percent following their discharge.

- **Entitlement:** A VA Counselor must decide if the individual has an employment handicap based upon the results of a comprehensive evaluation. After an entitlement decision is made, the individual and counselor will work together to develop a rehabilitation plan. The rehabilitation plan will specify the rehabilitation services to be provided.

- **Services:** Rehabilitation services provided to participants in the VR&E program are under one of five tracks. VA pays the cost of all approved training programs. Subsistence allowance may also be provided. The five tracks are:
  o Reemployment with Previous Employer: For individuals who are separating from active duty or in the National Guard or Reserves and are returning to work for their previous employer.
  o Rapid Access to Employment: For individuals who either wish to obtain employment soon after separation or who already have the necessary skills to be competitive in the job market in an appropriate occupation.
  o Self-Employment: For individuals who have limited access to traditional employment, need flexible work schedules, or who require more accommodation in the work environment due to their disabling conditions or other life circumstances.
  o Employment Through Long-Term Services: For individuals who need specialized training and/or education to obtain and maintain suitable employment.
  o Independent Living Services: For veterans who are not currently able to work and need rehabilitation services to live more independently.

- **Period of a Rehabilitation Program:** Generally, veterans must complete a program within 12 years from their separation from military service or within 12 years from the date VA notifies them that they have a compensable service-connected disability. Depending on the length of program needed, veterans may be provided up to 48 months of full-time services or their part-time equivalent. These limitations may be extended in certain circumstances.

- **Work-Study:** Veterans training at the three-quarter or full-time rate may participate in VA’s work-study program and provide VA outreach services, prepare/process VA paperwork, work at a VA medical facility, or perform other VA-approved activities. A portion of the work-study allowance equal to 40 percent of the total may be paid in advance.
CHAPTER 9: PREPARING A SUPPORTIVE HOUSING DEVELOPMENT BUDGET

Considerations for Development Budgets

The Development Budget is the tool used to predict the total capital requirements of the project. It provides a detailed analysis of all of the development costs – both hard costs (construction) and soft costs (all other project costs) – that will be incurred to complete the project. The generic components of the development budget are fairly constant from place to place around the country, but the terminology used to describe them sometimes varies. Even within the same locality different lenders, investors and government funders may use different terms to describe what they are talking about. There are several considerations in preparing a development budget, including:

- Development costs vary greatly from place to place and from time to time (particularly construction costs);
- Funding sources determine the underwriting standards -- the funding sources for the project will have their own requirements that establish the methodology for projecting certain costs;
- Every project is different; understand the details of the project, pay particular attention to acquisition costs, the allocation between residential and program space; unit configuration and size; construction methods, materials, amenities and site conditions; and
- Use actual costs or good comparables, when you can, since generic standards may not capture unique project features.

Two important questions to ask in preparing or evaluating a development budget are:

1. **Is the budget complete?** Does the budget include all of the costs that the developer/sponsor will incur to complete a fully operational project? This requires understanding the project in detail, including:
   - Who is being housed? Does the project budget include all of the costs to ensure that proper unit configurations and amenities are provided for?
   - The sources of financing and their requirements. For example, if your lenders want appraisals, a marketing study, environmental studies, a relocation plan, etc.; be sure these costs are included in the development budget.
   - If non-residential functions will be included, are these costs included in your budget? And how will these costs be funded?
   - The scale, site conditions and location may result in specific costs such as the need for elevators if over three stories, environmental clean-up if the site was formerly a gas station or dry cleaner, or security during construction if located in a crime-ridden neighborhood.
   - The role of the sponsor in the project will impact your budget, as you will want to capture all of the costs associated with managing the project, whether it is handled in-house or contracted out.

2. **Is the budget accurate and reliable?** As a project gets closer to construction, it becomes possible to refine cost projections and budgets. By the time a project has an identified site, preliminary funding commitments, and basic design, the development budget should be fairly refined. The key to a strong development budget is the use of reasonable and defensible underlying assumptions. The best numbers are actuals for that project (e.g. the architect’s fee is based on the actual contracted fee; a construction cost based on a contracted amount). If an
actual cost cannot, then a cost based on recent comparable projects is useful. In the early stages of project planning, a project will most likely need to use underwriting standards required by the funder(s) or standards widely-used in the locality.

**Guidance Regarding Development Costs**

The table that follows describes the typical items found in a supportive housing development budget and provides guidance in preparing budgets. Note that where relevant, guidance on underwriting for Low-Income Housing Tax Credits has been included – readers not already familiar with tax credit financing may wish to read the next section, *Understanding Low-Income Housing Tax Credits* first, and then return to this section.

<table>
<thead>
<tr>
<th>Development Cost</th>
<th>Cost Evaluation Approach</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Acquisition</strong></td>
<td>Publicly-owned property: The acquisition cost is often a nominal amount (can be as low as $1 to evidence a sale versus a grant), or a per unit cost (upon completion). Some agencies, such as HUD, can sell properties at below-market prices to nonprofit sponsors. This can be determined by checking the policy of the agency that controls the site disposition. Privately-owned property: Acquisition costs vary widely, and are generally negotiated prices based on market value appraisals. This cost should be backed-up by an offer letter from the owner, or better still, an option or contract of sale. Carrying costs for an interim ownership period (e.g., insurance, security and taxes) may be included here, but should be broken out separately.</td>
</tr>
<tr>
<td><strong>Tax Credits</strong></td>
<td>Note that if the 4% acquisition credit is being used, equity investors will only accept the value supported by a qualified appraisal. The appraisal should separate out the land and building values, as only the building value is depreciable and can be included in “basis.” “Basis” is the project costs that are subject to depreciation – like construction, appliances, and traditional soft costs (e.g., professional fees).</td>
</tr>
<tr>
<td><strong>Basic Construction</strong></td>
<td>Ideally, this estimate should be prepared by a general contractor based on recent comparable projects. Do not rely on an architect’s estimate, as it may be unreliable. An actual accepted bid is the most reliable cost to use here. The projected construction cost should be compared on a per unit and/or per square foot basis to recent projects that are similar in scope, scale and specifications and in the same locality. The price should be based on a guaranteed fixed price contract, with no “exclusions” or “allowances.” The construction cost should include contractor’s profit and overhead, and general conditions, but should not include a contingency, unless a funder disallows a separate contingency, in which case it can be wrapped into total costs.</td>
</tr>
</tbody>
</table>
construction cost. (See below). Verify that the contractor’s price reflects the insurance and performance guaranties (i.e. bonding or letter of credit) required by the financing sources. Make certain that you have determined whether Davis-Bacon Act prevailing wage rates apply, and that the estimate reflects this. Most federally-funded rehabilitation or new construction projects (e.g., CDBG, Section 8) that are eight units or more will fall under the Davis-Bacon Act. In these cases, the construction costs must reflect the current union wages, which generally makes the costs higher. Independent of Davis-Bacon, some states and/or cities may have their own prevailing wage requirements.

Tax Credits  
*Check the equity investor’s general contractor’s contract and insurance requirements to ensure that the cost reflects all of their requirements (e.g., letter of credit or performance bond, asbestos removal and penalties for delays).*

**Construction Contingency**  
Depending on the underwriting standards of the funding agency, a separate construction contingency may be allowed, or it may be folded into the guaranteed fixed price. Typically, this allowance is 5% for new construction, 10% to 15% for gut rehabs and up to 20% for moderate rehabilitation (since field conditions are less known than in new construction). Please note that CSH strongly discourages the use of moderate rehab, since it can have many more surprises than new construction or substantial rehab, and often does not provide for a 15-year useful life (something that may concern long-term lenders). This can be mitigated by obtaining a “Physical Needs Assessment” that may indicate only a moderate level of rehab is needed. If the project involves rehabilitation, and demolition has already been completed, a 5% contingency can generally be used since hidden conditions (such as dry rot, mold, and beam replacement) should have been exposed during demolition. Note that some agencies will use a “project contingency” that includes both hard cost and soft cost contingencies.

**Engineering/Test Borings**  
Test borings generally apply only to new construction, where deep holes are drilled to determine the subsurface conditions (e.g., the presence of shale or other unstable conditions) and the soil type in order to properly design the foundations and structural system. Civil engineers usually conduct these tests, and costs are usually in the $10,000 to $20,000 range. Some Architects will specify more test borings than is standard in order to get a more reliable picture of subsurface conditions (particularly when there is a reason to expect problems/issues). In this case, the budget should allow for a higher cost, since the price is largely a function of the number of borings drilled.
A structural engineer may be used in the case of rehabilitation where there are concerns about the structural integrity of the site. This evaluation and report can be charged to this budget line, and should not be more than about $2,000 for a typical site. (It may also be included in the scope of services that the structural engineer provides to the architect.)

**Architect's Fee/Consultant's Fee**

The Architect's Fee is almost always based on a percentage of basic construction cost (not including contingency), and can range from about 5% to 15% (though 5% to 8% is the typical standard for publicly-funded projects). The fee may be set by the underwriting standards of the funding agency, or may be negotiated between the sponsor and the project architect. Check with the funding agencies to determine their approach. In principal, the fee should be based on a sliding scale, where the larger the scale, the lower the percentage fee, and some agencies will provide charts with the scale thresholds and percentages.

The Architect will retain one or more consultants to provide specialized services in connection with the design and construction of the project. There will almost always be a structural engineer, and a mechanical/electrical engineer, but there may be others used as well. Make sure that all professional fees related to design and construction oversight are included on this line, or elsewhere in the budget.

The fee is sometimes broken into two phases – design and construction – and the Architect's contract will assign the fee to specific phases (e.g., schematic design, design development, construction documents, contract negotiations/bidding, and construction oversight).

**Tax Credits**

Check the equity investor's and lenders' requirements for Architects, including the Architect's certification and insurance requirements, to make sure that the fee reflects their requirements. It is especially important that the Architect's “errors and omissions” insurance levels meet the equity investor’s requirements.

**Construction Management Fee**

Some sponsors prefer to use a “construction manager” to monitor construction rather than the project architect. This cost is usually negotiated on a flat fee basis. Rates will vary widely from region to region, so best to check with local funding agencies to compare costs. If a construction manager is used in lieu of an Architect, the Architect's construction period fee should be adjusted accordingly. The exact scope of services should be reviewed to make sure that there is no overlap or duplication that results in
inefficiencies or additional cost to the project.

Note: The term "construction manager" has a specific meaning in the construction industry: A firm that carries out a construction project on behalf of an owner for a fee based on a percentage of the value of the contracts with all required subcontractors, who in turn contract directly with the owner. By comparison a "general contractor" hires all of the subcontractors and the owner in turn contracts with a single general contracting firm for all services. Very sophisticated owners for commercial projects generally use the construction management approach. (Most affordable housing projects use general contractors).

**Construction Period Insurance**

This line is for builder's risk and liability insurance for the owner during the construction period. Rates vary significantly based on such factors as: The location of the project (fire and crime rates), building type and condition, and the extent of rehabilitation. Since this is a particularly volatile cost, as industry rates and underwriting are always changing, it is recommended that the cost be based on an experienced broker's quote or estimate. Note that the general contractor should have their own insurance policy that is included in their contract, not funded from this budget line.

**Tax Credits**

Check the equity investor's insurance requirements for sponsor's insurance, and make sure that the quote includes all required types and levels of insurance.

**Construction Period Water/Sewer**

While there is typically no water or sewer use during construction, many municipalities will charge a flat fee anyhow. This is often determined by the size of the building's frontage ("frontage charge") and can generally be found at the municipal finance department, since this charge is usually included in the real estate tax bill. Other localities may have public works departments or water bureaus that are responsible for billing. Some municipalities will waive this charge during construction, so try to determine what their policy will be. Some localities do not have separate water/sewer charges, but include the costs in the real estate tax charges.

**Construction Loan Interest & Fees**

Private bank construction lenders, and some public lenders, will charge interest on their construction loan for the projected term of construction (typically 12 to 18 months). Ask the lender what their assumptions are on the interest rate, loan term, and loan draw-down schedule and whether an interest reserve is included in the calculation. Interest rates are typically the prime rate plus 1% to 2% (or 100 to 200 “basis points”).

A simple way to evaluate this cost is to assume level draw-downs,
and factor the annual interest rate by the loan amount times 50%, and prorate for the number of years in the construction term (annual interest rate x loan amount x .5 x years in construction term). This will give a ballpark interest cost, which will help gauge the amount that needs to be budgeted. An interest reserve may be separately budgeted, and is available to pay interest in the event of construction delays.

There may also be interest costs from bridge financing provided by CSH or other nonprofit lenders. These costs are generally includable in mortgages, and should be estimated for the development budget.

**Private Lender’s Fees**

*Private Lender’s Fees generally include:*

- Commitment Fee (often 1% to 2% of the mortgage amount, though sometimes negotiable);
- Application Fee, which is generally a good faith amount provided upon submitting the application to the bank – amounts vary greatly;
- Lender Architect/Engineer (to review plans and costs and monitor construction on the lender’s behalf), usually ranging $10,000 to $15,000, including construction site visits;
- Lender Legal (to review documents and represent the lender at closing, $5,000 to $25,000, depending on the complexity of the transaction, and whether there is a construction and permanent closing; projects with highly complex financing can entail lender legal fees that range upward from $50,000 – $80,000);
- Appraisal (see below – try to use same appraisal for bank purposes and any others requiring appraisal, since no one will want to pay for multiple appraisals);
- Environmental Report (see below -- try to use same Phase 1 report for bank purposes and any others requiring report, e.g., Enterprise).

When the private lender is also providing permanent financing, they may also charge some of the following fees:

- Mortgage Insurance Fee (usually only applies to permanent loan where loan is being sold on the secondary mortgage market, or being sold as bonds to investors);
- Permanent Conversion Fee, a fee for the cost of converting the loan from construction to permanent.

Check with the lender to determine whether these costs have been properly estimated. Lenders may be reluctant to estimate the legal fees, since this is the one area that is difficult to project. Some of these fees may be negotiable, and can be reduced or waived, particularly the commitment fee. Ensure that the lender
knows that the project provides Community Reinvestment Act (CRA) credit, and that this is considered in setting the fees.

**Public Lender Fees**

In some localities, public lenders may charge commitment fees, legal fee, review and processing fees and other charges that need to be included in the development budget. Sometimes these are charged only when the project is syndicated, and the costs are then charged against equity proceeds. These fees are quite variable, so check with the funding agencies to determine the applicable costs.

**Furniture and Equipment**

In supportive housing, units are often rented completely furnished. This line includes furnishings for the tenants' units (e.g., bed, dresser, chair, dining table and reading lamp), common areas (e.g., lounges/kitchen) and staff offices. It is typically budgeted between $1,500 and $2,500 per unit.

Look to recent comparably furnished projects to gauge these costs. Alternatively, you may want to have the project architect specify and price these items. Make sure that this cost is budgeted, as many funding agencies that have not financed supportive housing before are not accustomed to paying furnishings and equipment costs.

This budget line should be sufficient to include the cost of office equipment, office furnishings (for on-site staff), recreational equipment, outdoor furniture, dining room furniture (if congregate dining), and kitchen equipment (if common kitchen). Compare these costs to comparable projects or ask the project architect to evaluate.

Some of these items may be donated, but make sure that this is realistic and reliable before accepting this assumption. Also, in some localities, these costs are funded as start-up costs and included in operating or services contracts, and if this is the case, do not apply the costs to the development budget.

**Title and Recording Fees**

This refers to the cost of a title search (to make sure that there is clear unencumbered ownership), title insurance (to insure against future claims against the title, such as outstanding liens or mortgages) and mortgage recording tax (the cost to record the loan and deed with the municipality). It is best to verify these costs with the project attorney, who can estimate the cost or contact his/her title company for an estimate. Typical costs are around .6% of the project's mortgage amount, but vary based on local tax policy and rates. Verify that all relevant costs are included.
**Appraisal**

Real estate appraisals are needed if the lender requires one (all banks will, but many public agencies won’t, especially if the site is publicly-owned), or if the agency administering tax credits requires one. If an appraisal is not required by one of the funding sources, you may still want to order one for the purpose of negotiating private real estate transactions. The cost of full appraisals will vary depending on the complexity of the task, and generally range from $5,000 to $10,000. Private lenders should be able to provide reliable estimates on the local cost of an appraisal. Limited appraisals or letters of value, which conduct the same analysis as full appraisals, but limit their narrative description, may be acceptable to the lender and can usually be obtained for between $2,000 and $5,000. These types of valuations seem to be out of favor with appraisers and their professional association; however, they may be appropriate (and cost effective) when only used for negotiations with property owners.

The appraisal should meet all of the requirements of potential lenders, governmental agencies and tax credit agencies likely to be involved in the project.

**Tax Credits**

An appraisal is required if the project is claiming the “acquisition credit” of the Low-Income Housing Tax Credits Program. This will become the method for establishing the “building value” which is included in basis.

**Market Study**

Market studies are only necessary if the lender requires one or if the tax credit agency requires it in their application (most do). Public funders are increasingly requiring market studies since they will not necessarily assume a market for all projects, particularly those with little or no rental subsidy. Banks generally do not request formal market studies, unless the project is an untested model (which may be the case for supportive housing in some cities or neighborhoods). The cost of a professional market study is around $7,000 (see “How to Structure & Evaluate Market Studies” for further information).

**Tax Credits**

Equity investors are likely to request market studies for supportive housing projects in untested markets or when there are unsubsidized units included.

**Property Surveys**

Surveys are conducted by professional surveyors to establish the exact boundaries of the site (through terminal points and degrees of latitude and longitude). The “metes and bounds” description is the narrative form survey used for legal descriptions (e.g., deed document) and the survey map is provided for legal and architectural uses. The cost of the survey can be verified with the
project attorney, architect or directly with the surveyor. The architect may also help in soliciting proposals from surveyors. Typical costs range from $2,000 to $8,000 per site, though the cost depends on the scale of the property and the scope-of-services for the survey.

**Real Estate Taxes**

*Real Estate Taxes (during construction)*

Real estate taxes during construction should be assessed at the preconstruction levels (not the completed value). In some jurisdictions, where tax abatements are available, you may be able to get the taxes waived during construction. Or taxes may be charged for an initial period (e.g., six months) before the abatement filing takes effect. Check with the local department of finance or housing development agency to determine the amount of taxes and the policies for abatement or exemption programs. Consult the project attorney if there is any question regarding the project’s eligibility for tax abatement or exemption programs.

**Tax Credits**

Tax exemption programs, which are only available to nonprofit organizations, may not apply to tax credit projects since they are owned by for-profit partnerships.

**Environmental Study**

Virtually all projects will be required by their lenders to have “Phase 1” environmental reports prepared. This preliminary report examines public records and conducts limited on-site analysis to determine whether there is any indication of environmental concerns (e.g., prior use as a gas station or dry cleaner). The cost of this report typically ranges from $2,000 to $5,000 per building. Make sure to solicit at least three bids since the prices can vary widely.

If the Phase 1 report indicates serious concerns, a Phase 2 report will likely be required, which investigates conditions more fully (e.g., more extensive asbestos or soil testing, or identifying underground storage tanks). This report should not be budgeted unless the need for one is fairly certain (i.e., the sponsor knows up front that the prior use caused contamination). The cost of this report can range from $5,000 to $10,000, or even much higher if there is extensive sampling and analysis. In the event that a Phase 2 report indicates the need for addressing environmental conditions (e.g., removal of storage tanks), the additional remediation costs should be included in the construction budget under “site preparation cost.” If the project budget is already locked-in, then this would be considered a construction contingency cost. Investigation and remediation of environmental hazards is highly regulated and complex. It is essential that the sponsor retain experienced consultants that are acceptable to all parties involved.
**Tax Credits**

Most equity investors will require Phase 1 reports for all projects that it invests in. Check their specific requirements to make certain that the environmental consultant has abided by their guidelines. Investors must review the firm’s qualifications, if they are not already pre-qualified, and determine whether they are acceptable. The report is usually issued to investors as well as the sponsor/developer.

**Accounting/Post Construction Audit/ Cost Certification**

This generally applies to tax credit projects, where the development costs must be initially reviewed by an accountant (to confirm basis assumptions), and where all development costs must be audited and certified at the end of construction. These accounting services typically cost about $10,000 to $12,000. If the project is not being syndicated, the sponsor may have more limited accountant costs in the range of $5,000 to $8,000. Sponsors may include this accounting cost in their own agency’s operating budget rather than charging to the project, so it may not show up as a development cost. Check with local lenders or equity investors to determine what is considered a reasonable fee.

**Legal:**

**Transaction & Organizational**

This refers to the legal work for the real estate transaction (acquisition of property), project financing and organizational issues (e.g., creating a new corporation to own the property). These are the traditional legal services related to housing development and should cost between $10,000 and $30,000, depending on the complexity of the legal matters. Pro bono or reduced rate legal assistance may be available to the project and should be reflected in the budget if this is the case. A caveat on pro bono legal is that the attorneys may not be as responsive as paid legal assistance, and this should be considered if time is of the essence. This fee should be capped if possible, since the legal costs could easily exceed the projected cost if unanticipated legal issues are encountered. Local lenders will generally provide maximum fees for this item, and they should be consulted when preparing the budget.

**Syndication**

Legal services related to the syndication of the project under the Low-Income Housing Tax Credits Program are covered in this budget line. The scope-of-services can be gleaned from the equity investor’s closing checklist. The allowable cost for these services is typically between $15,000 and $50,000 for all legal services, including transaction and organizational. Again, fees should be capped, as the syndication closing can incur substantially more time than originally projected if issues are encountered. The equity investor or other nonprofit sponsors can advise you on typical fees in your locality.
Consulting Fees

Housing development consultants (or “developers” in some locales) are consultants that perform a variety of tasks depending upon the project, the financing and the Sponsor’s capacity and development team. Typical services include project planning, financial packaging and funding applications, and management of the development team. This cost varies widely depending upon the scope-of-services, complexity of project (e.g., number of funding sources, use of tax credits) and scale of project. Typical fees range from $30,000 to $50,000. Check with local lenders, especially city and state housing development agencies to determine expected costs.

Marketing and Leasing

This includes costs related to marketing and leasing the project to prospective tenants, including advertising in local newspapers, outreach to prospective tenants, staff costs for interviewing, screening and selecting tenants and the costs of leasing the units. There is no universal standard here, though tax credit projects generally allow $9,000 per project plus $300 per unit. This cost should be backed up by a budget from the sponsor detailing expected marketing/leasing expenses. Certain government funding sources mandate specific procedures for outreach and selection. Make sure that the Sponsor’s marketing plan addresses all funder requirements.

Operating Reserve

Not all of your funders are willing to capitalize operating reserves. On non-syndicated projects, an operating reserve is typically funded through the maintenance and operating budget rather than capitalized through the development budget. Three percent and five percent of the gross rental income with a target of 50% of annual gross rent is a typical standard. Make certain that an operating reserve is budgeted in the maintenance and operating budget if it is not capitalized in the development budget. Remember, it is not in the sponsor’s interest to allow the reserves to be set too low, as this is the operating cushion against shortfalls.

Tax Credits

The operating reserve is capitalized in the development budget on syndicated projects, since the investors want to know that the reserve will be available, and not subject to operating performance. The amount of the reserve is typically sized based on projections prepared by the equity investor. The Enterprise Community Investment (ECI) and the National Equity Fund (NEF) underwriting, which is quite conservative, generally assumes the following trending:
- Public assistance/Section 8 rents increase at 2% to 3% per year;
- Unsubsidized rents increase at 2% per year;
- Commercial rents increase at 2% per year;
- Expenses increase at 4% per year; and
- Section 8 (or S+C) expires at the end of their term, and rents change to publicly supported or market levels.

In some states/cities, the lenders and tax credit allocating agencies use a narrower 1% spread between income and expenses. Make sure that the investor’s underwriting assumptions for capitalized operating reserves is consistent with the allocating agency’s standards. Otherwise, the agency may disallow some of the operating reserve required by the investors.

The deficit resulting from this projection over 15 years (the investment period), less interest earned, is capitalized in the development budget. ECI requires a minimal reserve of $2,000 times the number of units or 6 months rent (i.e., 6 x the number of units x monthly subsidized rent). The amount of reserve varies widely among projects, depending on the availability and terms of rental subsidies and the project’s operating expenses. Rely on the equity investor’s projections for this budget item, since they include interest rate and pay-in schedule assumptions.

**Soft Cost Contingency**  A soft cost contingency covers unanticipated soft costs or higher than projected costs (e.g., construction period insurance -- one of the more volatile costs). All projects should have this budgeted, even if the funding source’s underwriting does not include it. Some funders are reluctant to allow this line in the budget, but will acquiesce if assured that their funding will be reduced by the amount of any unspent soft cost contingency funds. The amount of this contingency is a function of the stage of the project’s development and how confident you are that the projections are reliable. Try to include at least $10,000 to $20,000 for a typical project. The only case where this is not included as a budget item is when it is combined with the construction contingency as a project contingency.

**Developer’s Fee**  The developer’s fee compensates the nonprofit sponsor for the costs of developing the project (e.g., Executive Director’s time, project management and fiscal staff) and, in theory, the risk of sponsorship. These funds are unrestricted and can be used by the organization for project-related costs (e.g., owner upgrades) or for other organizational purposes, though they are also often used to cover unanticipated development costs along the way. Some funders do not recognize that nonprofit organizations are entitled to these fees and it may be a struggle to convince them of
their legitimacy. But convince them you must, as they are an important resource that can further stabilize the organization and the project.

**Tax Credits**

The fee is usually based on a per unit (completed) allowance, with unsyndicated projects generally at a minimum of $1,000 per unit, and upwards of $15,000 per unit in some locales (or 10% to 15% of total development costs).

Projects syndicated under the Low-Income Housing Tax Credits Program are allowed by law to receive a developer’s fee of up to 15% of total development costs less reserves and the developer’s fee (with some states capping the total project fee, e.g., California at $1.2 million). However, state credit agencies (and city credit agencies if this applies in your locality) generally have their own developer’s fee policy for nonprofit sponsors that sets maximum fees (per unit or as a percent of TDC). Check the state or city credit agency’s policy for guidance on budgeting this cost.

**Note:** Since the developer’s fee is “basis eligible,” some equity investors may accept a higher fee that includes a “social services reserve” as a way of increasing equity.

**Lease-Up Reserve**

This reserve funds losses due to vacancies during the rent-up period and delays in the phase-in of rental subsidies. This is a real cost, unless an operating contract covers these losses, and should be adequately budgeted. Typical reserve levels are based on 1.25 months net rental income.

In some cities, an additional amount should be added to cover the loss, which is expected to be incurred prior to receiving tenant-based Section 8 vouchers. The losses should be based on the difference between 30% of public assistance payments (or 100% of the shelter allowance if applicable) and Section 8 rents for the processing period. Check with experienced local nonprofit housing sponsors to determine the typical time it takes for Section 8 to come through (don’t assume retroactive payment).

**Other Transaction Costs Specific to Tax Credit Projects**

There are several development costs that only apply to projects that are being syndicated through the Low-Income Housing Tax Credits Program:

**Application Fee/Reservation/Compliance**

State credit agencies may charge an application fee for the tax credit allocation request. The agencies may also charge a fee for reserving credits for the project, usually based on a percent of the annual allocation amount. Since state credit agencies are responsible for monitoring compliance with the IRS standards (i.e., income qualification), they may also charge a fee for monitoring. This fee can be capitalized in the development
budget, or more typically, paid out as an annual operating cost. Check with the state credit agency to verify these costs, which are usually not significant.

**Partnership Publication**

This refers to the cost of publishing the announcement of the limited partnership formation (as required by securities laws) in the required publications (e.g., law journals). This is typically about $1,500 and can be verified by the project attorney, who generally takes responsibility for this publication requirement.

**Partnership Management Fee**

This fee compensates the General Partner (subsidiary of the non-profit sponsor) for the required reporting to the Limited Partners during the construction term. During operations, this fee is paid out of the operating budget. Equity investors generally allow $5,000 for this cost.

**Social Services Reserve**

This reserve is intended to cushion the project against the potential reduction or loss of social services funding over the 15-year partnership compliance term. There is no universal rule for sizing this reserve, and it is often set at the amount of “surplus” tax credit proceeds after other required costs are funded. Some local housing agencies have underwriting standards based on an amount per unit (e.g., New York City uses $5,000 per unit). This cost needs to be carefully considered based on the reliability of the services funding source, e.g., a three-year HUD McKinney contract may be less reliable than a contract with the state office of mental health. Also consider the fiscal environment and the amount of cushioning already in the services budget. Equity investors will probably not accept assurances from services funders that they are committed to services funding long-term, since they are almost always subject to annual appropriations. This reserve can also be established in a non-tax credit project.

**Tax Opinion**

An attorney qualified by the equity investor must render an opinion that the project meets the IRS code requirements under the Low-Income Housing Tax Credits Program. This opinion ranges in cost from about $8,000 to $12,000, depending on the complexity of the tax issues and whether the firm has provided a volume discount to the equity investors. This legal fee is rarely offered on a pro bono basis since most law firms insist on being compensated for the liability incurred in issuing a legal opinion.

**Interest on Bridge Loan**

If a predevelopment or construction loan is being provided by a bridge lender, make certain that the interest cost is budgeted, based on the applicable rate and term. Verify the interest rate with the lender, and project the term conservatively to account for delays.
**Other Permanent Financing Fees**

Certain programs that involve the sale of some or all of the project financing to a secondary market entity (e.g. Fannie Mae) or a pension fund may pass some of the associated costs through to the project. For example, a pension fund may charge administrative fees or require credit enhancement. Consult with the relevant financing sources to determine and evaluate these fees.

**Tax Abatement/Exemption Filing Fees**

This may apply if your locality has a tax abatement or exemption program that charges a filing fee. Check with the local housing or finance department to determine this fee.

**Tax Abatement Consultant**

Some local tax abatement programs are complex and require the use of a tax abatement consultant. This fee is variable and can be verified with the local housing agency or other nonprofit housing developers.

With the information you have gathered by using the information above, you should now be able to prepare a development budget. The budget should include the purchase price of the site; the **hard costs**, or direct costs of the physical development such as construction and site preparation; and **soft costs**, or indirect development costs such as professional fees, closing costs (costs associated with security title clearance and financing), insurance, the developer’s fee, and reserves (operating, lease-up and replacement).

As a next step, assign dollar amounts to each funding source that you plan to approach for financing. While you will not need to have commitments from these sources, you should know enough about their available funding to assign feasible amounts to each. Because the development budget compares these sources of funding to the development costs for which they will be used, it is sometimes known as a **sources and uses budget**. If the uses exceed the sources, then the project is not feasible and must be modified or discontinued.
CHAPTER 10:
UNDERSTANDING LOW INCOME HOUSING TAX CREDITS

Note: CSH is providing this information to assist interested organizations to develop a general understanding of the supportive housing development process. CSH is not rendering legal, accounting or other project-specific advice. For expert assistance, please contact a qualified professional.

Low-Income Housing Tax Credits are an important source of financing for the development of supportive housing projects. This memo is intended to provide a basic understanding of how tax credit equity is accessed and how to evaluate proposals from potential investors. However, this is a very technical and sometimes esoteric area of housing finance. Appropriate advice from qualified legal and financial professionals should be sought in connection with any tax credit transaction.

This guide covers several areas – how to identify potential equity investors, how to solicit proposals from them, and how to evaluate the proposals and select an investor. It does not assume any background in the field of tax credits, or for that matter, any housing finance background.

Introduction to Low-Income Housing Tax Credits

Low-Income Housing Tax Credits (referred to as tax credits hereinafter) are incentives for private individuals and corporations to invest in low-income housing. The Tax Reform Act of 1986 created this program, which provides a dollar-for-dollar credit against income taxes owed to the federal government, as opposed to tax deductions, which reduce taxable income. In exchange for these benefits, individuals and corporations invest in low-income housing, paying less than a dollar for a dollar’s worth of credit (thereby creating a return on their investment). The tax credit program uses tax policy, rather than federal expenditures, to induce investment in affordable housing. The federal cost is in the form of foregone revenues to the U.S. Treasury, rather than being applied to the federal budget.

Nonprofit housing developers have become quite sophisticated in accessing tax credits for their projects. Developers can then sell the credits to investors, and use the proceeds as equity in the project – often providing between 30%-50% of the total development costs. The tax credits are offered by state agencies, typically state housing finance agencies, which receive an allocation of credits from the federal government on a per-capita basis. In 2002, the tax credit was $1.75 per capita (per resident), and beginning in 2003, the per capita allowance increased at the rate of the Consumer Price Index. States distribute the tax credits through an annual application process that is guided by their “Qualified Allocation Plan” (or “QAP”), which can be obtained from the state tax credit agency. And by law, 10% of their annual allocation must be reserved for nonprofit applicants. States often have other set-asides that may include special needs housing.

Projects that receive tax credits must meet certain eligibility requirements that include:

- At least 20% of the units must be affordable to households with incomes below 50% of the area median income (AMI); or alternatively, 40% of the units must be affordable to households below 60% of the AMI;
- Rents can be no greater than 30% of the household income, based on the size of the housing unit (regardless of household size occupying the unit);
- For rehabilitation, the total cost must be at least $3,000 per tax credit unit, or 10% of the project’s unadjusted basis (see explanation of basis below);
- Must be rental housing – homeownership is not eligible;
- Financing source must be eligible (e.g., grants, most federal subsidies and tax-exempt bonds are not eligible sources); and
- Most rental housing types are eligible, however for all housing types other than SRO and transitional housing, there must be a lease for at least six months; SROs are eligible so long as the unit is rented on a month-by-month basis or longer. Transitional housing is eligible if the project assists homeless persons with finding permanent housing within two years, provides a kitchen and bath in each living unit and provides supportive services. Note that housing occupied exclusively by students, and dormitories, are not eligible for tax credits.

There are many more detailed requirements and exceptions for qualifying for tax credits, but those listed above are the basic ones. Do not rely on this list to determine eligibility, since it is not definitive. Instead, we recommend that you consult a tax credit guide or professional tax credit advisor.

The amount of equity that can be raised for a project is a function of how much “qualified basis” there is in the project. “Basis” is simply the project costs that are subject to depreciation – like construction, appliances and traditional soft costs (e.g., professional fees). Costs that are not depreciable, such as the land value or operating reserves, are not includable in basis. Also not included in basis are costs that are funded by ineligible sources such as grants and federal subsidies. The “qualified basis” is calculated by multiplying the total eligible basis by the percentage of tax credit units in the project (or their percentage of square footage if this is lower). The portion of tax credit units is known as the “applicable fraction.” For example, if the “total eligible basis” is $1,000,000, and the “applicable fraction” is 80% (80 out of 100 units are tax credit units), then the “qualified basis” would be $800,000.

The outcome of the above calculation (qualified basis) is then multiplied by the appropriate tax credit rate. This rate is either 4% or 9%, depending on the financing source and structure. Most supportive housing projects will use the 9% credits. The exact tax credit rates fluctuate, and are published monthly by the federal government. An additional 30% “basis boost” is also offered in neighborhoods that are considered high cost (see HUD list of qualified census tracts).

The qualified basis multiplied by the tax credit rate equals the amount of annual tax credits for which the project is eligible to apply. Depending on the amount that investors are willing to pay for a tax credit dollar, you can translate the annual amount into a net equity number that the project would likely receive.

- Total Eligible Basis x Applicable Fraction = Qualified Basis
- Qualified Basis x Tax Credit Rate = Annual Tax Credits
- Annual Tax Credits x 10 (years) = Total Value of Tax Credits
- Total Value of Tax Credits x Investment Per Tax Credit Dollar = Net Equity Investment

Tax credits have a restriction that the project remains as very low-income housing (i.e., meeting the original income qualifications) for 15 years. Projects must conduct annual income certifications to ensure compliance with these requirements. The IRS may audit the project for compliance, and if it is found to be out of compliance, there could be a recapture of benefits from the investors.
Projects can be structured so that the nonprofit sponsor can purchase the project at the end of the compliance period, and continue to operate it as affordable housing long-term. This is the standard structure of the Enterprise Community Investment (ECI) and the National Equity Fund (“NEF”) deals, where the sponsor is given an option to buy at a cost of remaining debt plus exit taxes.

The structure for tax credit investments for nonprofit developers is typically the formation of a limited partnership. This partnership includes the investors or “Limited Partners,” whose liability is limited to the extent of their investment, and a “General Partner,” usually a for-profit subsidiary of the nonprofit sponsor. The General Partner has full responsibility for the management of the project, and assumes the liability as well. Ownership of the project is generally divided where the Limited Partners have 99.9% interest and the General Partner has .01% interest. In this way, the tax benefits flow to the Limited Partners, who can use the credits.

### How to Identify Potential Equity Investors

The term “equity investor” is being used in this guide to refer to both a “syndicator” and a “private placement.” A syndicator is an entity, which raises funds, often on an annual basis, from investments by various corporations or individuals. Tax credits are most advantageous to corporations, since the benefits to individuals are limited by passive loss rules. The syndicator creates an equity fund that invests in a number of tax credit projects by buying the tax benefits (the tax credits, the annual losses, and the amortization and depreciation) in exchange for the equity. A syndicator can either invest in a number of projects through “blind pools” or it can invest in specific projects. In blind pools, the various corporations and individuals that invest in the syndicator's fund do not know which specific projects the fund itself is investing in, and defers to the syndicator to underwrite and complete due diligence for them. The equity fund spreads its investments over a number of projects that meet their underwriting standards.

“Private placement” refers to the practice of a corporation investing directly in a particular tax credit project, rather than through an equity pool. In this way, the institution places the investment in its own portfolio, and receives all of the tax benefits. Increasingly, banks have made private placements, since these qualify for Community Reinvestment Act (CRA) credit, and can raise their profile in the project. Moreover, the tax credit investment offers a competitive return, and is seen as a case of “doing well by doing good.”

### Syndicators

There are a host of syndicators that raise equity for tax credit projects, including those established by nonprofit national intermediaries, state and city-level funds, private for-profit entities and even online equity pools. There are dozens of private syndicators that raise investments from corporations and individuals, and place their equity in both for-profit and nonprofit low-income housing projects. Each fund has its own set of legal documents and its own underwriting standards, which can make it difficult to select a compatible firm. Nonprofit sponsors of supportive housing would be well advised to only select syndicators that have an established reputation for working with nonprofits in the location of the project. Informal networking with colleagues in the nonprofit housing development field is perhaps the best way to identify these entities. Be wary of syndicators that solicit your organization through mailings to tax credit applicants or conference attendees, unless these are “known quantities.”
Private Placements
Private placements are usually made by corporations that manage their own investment portfolios, and want control over where and how their investments are made. These direct investments in tax credit projects should not be overlooked, since they can generate more net equity as they may not have to pay the syndicator’s fee if they underwrite the project in-house. Among the more active corporations making direct private placements is Fannie Mae, which also invests in equity pools. Sponsors of supportive housing projects may want to contact leading banks in their communities to see whether they purchase tax credits. As noted earlier, banks are becoming major players in tax credit investment, as these qualify for CRA credit.

Soliciting Proposals from Equity Investors
There are a number of situations where nonprofit sponsors will seek equity from only one investor, and will not solicit competitive proposals. Many nonprofit sponsors will work exclusively with a particular syndicator because they have an ongoing relationship that they value. In other cases, the sponsor is required to use the equity fund that is part of a publicly funded program (e.g., The New York Equity Fund/HPD program in New York City). Also, the absolute highest equity raise (investment dollars per tax credit dollar) is not always essential, since the highest raise may simply reduce the public funding or tax credit allocation, and not directly benefit the project. This is true where an average raise is sufficient for project feasibility, and a higher raise would generate equity in excess of the amount of sources needed.

However, when sponsors need to maximize the equity investment for the project, or when they have no historic relationship with a syndicator, it makes sense to seek several competitive proposals or bids. The competitive dynamic should be able to yield higher equity investments and/or better terms than “sole source” investments. Of course, the sponsor will want to let the equity investor know that they are not the only party being considered, in order to create a competitive atmosphere.

It is best to limit the list to several pre-qualified equity investors, with which the sponsor would be comfortable working. Sponsors should contact each of the potential investors to find out what information they require in order to evaluate a tax credit project.

Information to Provide to Equity Investors
There is no standard format for a “request for proposals” from equity investors, however, the type of information typically included would be:

- **General Project Description:** A general project description should be prepared that addresses: Construction type, number of units, total square footage, total cost, financing structure, location, access to amenities, status/timeframe, use of tax credits, supportive services provided, target population, and sponsor/service provider’s track record.

- **Status of Financing:** Potential equity investors want to know that the project has secured or is likely to obtain financing commitments for the balance of project funding required. This should include both construction and permanent financing sources, a description of the status of the commitment, contact names/phone numbers, and any commitments or term sheets issued.

- **Appraisal and Market Study:** Projects using the acquisition credit must provide an appraisal to substantiate the value, though this may be deferred until the due diligence phase if it is not available. Market studies may also be required for tax credit projects that include unsubsidized
rents (to ensure that the market is present and that absorption rates are acceptable). Market studies that were submitted with the tax credit application may be acceptable. For more in-depth information on market studies, see “How to Structure and Evaluate Market Studies.”

- **Conceptual Architectural Drawings and Zoning Analysis**: Architectural plans should be included, and must be at least at the conceptual or schematic stage. Evidence of any required design review approval should also be included if available. Closely related, a zoning analysis that shows the project complies with applicable zoning, and can be built “as-of-right” (or that a variance has been secured) should be part of the submission.

- **Development Budget**: A “sources and uses” budget that shows all projected development costs and sources of construction/permanent financing should be included. Since tax credit equity is a source, the required amount should be indicated as a source (supported by the tax credit analysis).

- **Tax Credit Analysis**: This provides a rationale for the amount of investor equity included in the development budget, including basis assumptions and raise requirements. These assumptions will all be reviewed by potential investors, who may underwrite differently than the sponsor (e.g., may not arrive at the same qualified basis).

- **Operating Pro Forma and 15-Year Cash Flow Projections**: Sponsors should submit rental income (and commercial or other income if applicable) assumptions, as well as maintenance and operating expense assumptions. A 15-year cash flow projection should also be provided, including all income/expense trending assumptions and demands on operating reserves.

- **Sources of Rental Subsidies and Status**: Most supportive housing projects will include some form of rental subsidies (e.g., Section 8, Shelter Plus Care, HOPWA), and the specifics of these subsidies should be described, including: type of subsidy (e.g., project-based, tenant-based), the term of the subsidy, source of subsidy (e.g., HUD McKinney, local housing authority), amount of the subsidy (total and monthly levels), and the current status of the subsidies. If already awarded, evidence should be provided.

- **Information on the Sponsor, Architect, Attorney, Accountant, Consultant, Property Manager and Contractor**: While the potential equity investor is evaluating the merits of the project, it is also underwriting the capacity and qualifications of the development team to undertake the development and to operate it successfully during the 15-year compliance period. Résumés and comparable projects should be submitted for the sponsor and development team members. The sponsor should also submit its most recent audited financing statement. If the project will be using an outside property manager, their credentials should also be included. The general contractor is often not identified at this stage; however, if it has been selected, their qualifications must be part of the RFP. Otherwise, this will be part of the due diligence requirements from the investors.

- **Evidence of Site Control**: Sponsors should provide evidence that they have control over the project site, preferably in the form of outright ownership, a contract of sale or option to buy. If the form of site control is only a letter of interest or intent from the owner, this will be considered far less reliable by potential equity investors, and they may not be interested until firm site control is secured. If the site has not yet been acquired, information on projected closing dates and how the purchase will be financed should be submitted.
• **Project Timeline**: The projected timeline for the tax credit project is of interest to the investors, since they need to know how it fits into their own fund timing (and different funds may have different return requirements and terms).

• **Evidence of Tax Credit Allocation**: The potential investor will want to review evidence that the sponsor has received a tax credit allocation. This may not be available at the time that the RFP is submitted, however, it will certainly be part of the investor’s due diligence requirements. If the project has already received a tax credit award, it makes the project more attractive since it is more reliable than one with a pending application for credits.

**Due Diligence Requirements**

In addition to the items described above, the equity investor will have a list of “due diligence” items that must be submitted and reviewed before the investment can be approved. Other items may be conditions of the commitment, and need to be satisfied by equity closing (e.g., contractor’s letter of credit or approval of construction drawings). Typically due diligence requirements include such items as:

- Insurance for Sponsor, Architect and Contractor
- Evidence of Letter of Credit or performance bond
- Acceptable General Contractor credentials
- Final architectural plans/specifications
- Building Permit
- Evidence of equity, if applicable

**Information to Request from Equity Investors**

The information outlined above is what a typical potential equity investor will need in order to evaluate your project and prepare a proposal. The request for proposals should also cite the information that you will need from investors to evaluate their proposals. It is important to state this in the RFP so that you have sufficient information to compare the proposals side-by-side. The proposals from potential investors should, at a minimal, include the information below:

- **Net Equity Amount**: The net equity to be invested (not the gross), including a pay-in schedule. This should be net of all fees paid to the syndicators.

- **Bridge Loan Requirements**: What are the assumptions for bridge loans against the equity, if needed? Is the investor providing the bridge loan, or is the sponsor or third party expected to finance a bridge? If the investor is providing bridge financing, the interest amount should be broken-out.

- **GP Capital Requirements and Terms**: The amount of the General Partner capital requirements, and the terms.

- **Guarantees / Adjusters**: What guarantees is the investor requiring of the sponsor, and what are the caps on amounts or time limits of the guarantees? The policy on adjusting the equity in the event that the credit allocation changes should be stated.

- **Distribution of Cash Flow**: The distribution of any excess cash flow should be detailed, as well as the methodology for an “incentive management fee,” if proposed.
• **Sale Terms**: The terms for a sale to the sponsor should be described, including the specific methodology for determining the sales price, and whether the sponsor has a right to purchase at the end of the 15-year compliance period.

• **Reserve Requirements**: Different investors have different operating reserve requirements, and these should be included in their proposals.

• **Sample Legal Documents**: While not all investors will be willing to release their sample legal documents at this stage, sponsors may wish to involve their Attorneys in the evaluation by having them review these documents.

• **Investor Qualifications**: Include firm résumés, including a list of tax credit equity investments, nonprofit projects that the firm has invested in (with contact information), and the names and résumés of the principals.

### How to Evaluate Syndication Options

Syndication bids must be analyzed on both a net equity basis as well as on a more qualitative basis. While sponsors are often very interested in the “bottom line” (i.e. which bid offers the most equity), there are other issues, including guarantees, sales terms and reserve requirements, which should be considered carefully as well, as they will determine the risk level to the nonprofit sponsor.

**Net Equity Comparison: Making an “Apples-to-Apples” Comparison**

The first step in evaluating syndication options is to compare the equity offered by each investor on an “apples-to-apples” basis. To do so, two main questions must be addressed:

1) What is the net equity to the project (i.e. have the investor fees, costs and reserves been backed out of the quoted equity number)?

2) What is the pay-in structure/timing of the equity payment?

• **Investor Fees, Costs & Reserves**: In evaluating syndication options it is important to compare the net equity of the options. Net equity (as opposed to gross equity) is the amount of proceeds available to the project after all of the investor’s fees, costs and reserves have been subtracted out. NEF takes out these fees, costs and reserves from its quoted equity number, but some other investors provide quotes which include these costs and then charge them to the project development budget. To compare bids on an “apples-to-apples” basis, each bid letter must be read through carefully to determine if such costs are included in the quoted equity number. If it is unclear whether these costs have been subtracted, contact the firm for more detail.

• **Timing of Equity Payment**: Once all bids are net of additional costs, they may still not be comparable if the investors are assuming different pay-in structures for the project. Some investors provide all of the equity up-front, so no bridge loan is needed; some investors base pay-ins on when the funds are needed; and some investors make equity pay-ins tied to certain benchmarks. ESI, for example, often uses a 3-pay structure (i.e. one-third at partnership closing, one-third at construction start and one-third at construction completion or qualified occupancy) based on when the sponsor needs the funds. Therefore, bids need to be “present valued” to a common pay-in structure. “Present value” places all pay-ins into current dollars. The sponsor will usually know approximately when the project will need equity funds in which
case the bids should be present valued to the sponsor’s indicated pay-in structure. Otherwise, a pay-in structure must be assumed and all bids should be present valued to it.

**Comparison of Other Critical Deal Points**
Critical deal points can be divided into the following seven main categories:

| **Bridge Loan Requirements:** | Some investors provide bridge loans; some investors arrange third party bridge loans; and some investors require the sponsor to arrange its own bridge loan financing. ECI and NEF generally provide bridge loan financing and their bids will be net of the interest on this bridge loan. Many investors, however, do not provide bridge loans, putting the additional burden of securing bridge loan financing on the sponsor. Furthermore, the cost of this bridge loan financing can vary, and this can substantially reduce the net equity that is available to the project. |
| **GP Capital Requirements and Terms:** | The sponsor is often asked to make either a capital contribution or a loan to the project, perhaps from its developer’s fee, to close a capital funding gap (i.e. when available permanent financing is less than total development costs). If the investor requires that the deficit be made up for by a capital contribution, then the sponsor will not be paid back. However, if the investor will allow the deficit to be made up for by a sponsor loan (or “deferred developer’s fee”), then the sponsor will be able to recoup its investment in the project. In fact, if it is structured as a deferred developer’s fee, it must be paid back from cash flow within 10-12 years. It is important to note what the terms of this loan are, such as the maturity date and the interest rate. |
| **Guarantees / Adjusters:** | Tax benefit guarantees and tax credit adjusters are mechanisms for investors to recoup benefits that are not delivered or are delivered later than originally anticipated. This could occur if the tax credit allocation is lower than expected, or if the total eligible basis projections are not met. Until all equity is paid into a project, it is quite likely that guarantees and adjusters will be invoked. After all equity is paid into a project, it is more difficult to collect on guarantees or adjusters. Typically, syndicators use guarantees while private placements use a combination of guarantees and adjusters. A guarantee will stipulate that if certain requirements or targets are not met, a portion of the equity must be paid back if all of the equity is already paid in. Collecting on guarantees involves legal action and it... |
can be very difficult to get money back once it is invested in the project. Since institutions that do private placements typically do not pay in equity to the project until later on, they use adjusters, a mathematical formula which changes or adjusts the equity that the investor will pay to the project if certain requirements or targets are not met. Adjustments to the equity pay-in are often seen and can substantially decrease the equity amount that the sponsor expected to receive.

Every investor will require that the GP be liable for certain things, including tax benefit shortfalls, unanticipated operating deficits and development cost overruns. It is important to note whether these guarantees or adjusters are limited to a maximum cap and time period. If the investor does not limit the liability of the sponsor on these overruns or shortfalls, in a worst-case scenario, the sponsor’s financial condition could be compromised for life. Therefore, such offers should be considered carefully.

The chances of such tax benefit shortfalls or cost overruns happening will vary from project to project as well as from investor to investor, as each investor has different assumptions in their underwriting.

<table>
<thead>
<tr>
<th>Distribution of Cash Flow:</th>
<th>Once all operating expenses, required debt service and reserve requirements have been paid, investors will require that excess cash flow be distributed in a certain way.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Servicing Fees / Excess Cash Flow</td>
<td>The investor may not require any annual payment or may require anywhere from an annual servicing fee to all excess cash flow beyond debt service and reserve requirements. Although it is difficult to estimate the cost of these fees since it is hard to estimate a project’s excess cash flow, these disbursements can be significant and should be viewed as cash flow that could have been used by the project or GP.</td>
</tr>
<tr>
<td>Partnership Management / Incentive Fees</td>
<td>Investors may allow certain payments to be made to the sponsor for successfully managing the project. These payments typically take the form of a partnership management fee or incentive management fee. A partnership management fee is a payment to the GP, usually of a pre-set amount. On top of the partnership management fee, some investors will allow the sponsor to collect an incentive management fee if the project achieves certain reserve level requirements.</td>
</tr>
</tbody>
</table>
### Sale Terms:

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Right of First Refusal</strong></td>
<td>Some investors will offer the GP the right of first refusal on the sale of the property. It is important to note if the investor does offer the GP the right of first refusal, as this effectively gives the GP the first right to purchase the property in year 16. As many nonprofit sponsors intend to continue operating the projects beyond the 15-year partnership term, having the right of first refusal is very important.</td>
</tr>
<tr>
<td><strong>Sales Price</strong></td>
<td>Investors will generally use one of two methods to calculate the sales price of the property. ECI's and NEF's standard sales price is outstanding debt plus exit taxes to the investors. Other investors require that the property be sold for the greater of outstanding debt plus taxes or market value at time of sale. At what price the GP can purchase the property must be compared as a more costly sales price could use up funds that may otherwise have been used to benefit the project or sponsor.</td>
</tr>
<tr>
<td><strong>Distribution of Sale Profit Proceeds</strong></td>
<td>If the sponsor chooses not to purchase the property and it is sold to a third party, the profits are divided between the investor and GP after outstanding debt and taxes are paid. However, how the remaining proceeds are distributed can vary from investor to investor. Many investors require that their original investment be repaid before any proceeds go to the GP while other investors, including ECI, make no such requirement. Typically, proceeds from the sale of the property are split between the GP and investor either 50%/50% or 1%/99%.</td>
</tr>
<tr>
<td><strong>Reserves:</strong></td>
<td>Reserve requirements can vary greatly from investor to investor and are a tricky thing to compare. While a smaller up-front operating reserve requirement means more funds for development costs and while smaller annual payments to reserves can mean more excess cash is available to the GP, it must not be assumed that &quot;smaller is always better.&quot; It is imperative that projects have adequate reserves in place, and a conservative approach to sizing reserves can be a benefit to the sponsor and the project's long-term viability. In addition, unspent operating reserves can also be a source for acquiring the project at the end of the compliance period. The three main reserves, which should be focused on, are the operating reserve, the lease-up reserve and the replacement reserve.</td>
</tr>
</tbody>
</table>
### Operating Reserve
To assess if the operating reserve sizing is reasonable, the underlying assumptions, including rent trending, operating expenses trending and unit vacancies, should be studied. Each investor will use different assumptions so it is important to make sure the assumptions are reasonable. Another thing to look for with respect to the operating reserve is how and when it is required to be funded. Will it be funded by equity pay-ins or will bridge financing need to be found to fund it?

### Lease up Reserve
The lease up reserve is often sized according to how quickly the sponsor believes it can rent up units. Make sure that the number of months specified for lease-up is reasonable, as some investors may be too aggressive in order to reduce reserve requirements.

### Replacement Reserve
Annual contributions to a replacement reserve are usually required by all investors, but in varying amounts. Again, these should be compared and some conclusions drawn as to a reasonable annual contribution. An annual replacement reserve contribution is usually 2% to 3% of gross rental income or $150-$250 per unit per year. Typically, replacement reserve contributions will be higher for rehabs than for new construction. Having annual contributions that are too high will divert cash flow from the project and/or GP; having annual contributions that are too low could result in inadequate funds to repair or repaint units as needed and could hurt the project’s long-term viability.

Once you have completed the review of the proposals from potential equity investors, you should contact them to address any terms or assumptions that are unclear or have been left out. With this comparable information in hand, you can enter it into a matrix chart to evaluate the proposals side-by-side, remembering to adjust pay-ins to present value dollars (remember apples-to-apples). You may also want to assign weights to different criteria. For example, if you absolutely need the highest net equity, then this may receive the highest weight. However, if the tax credit “raise” beyond some minimum threshold is simply going to reduce your subsidized loan amount, you may prefer to place more weight on the profile of the investor (e.g., nonprofit intermediary vs. for-profit investor). Ultimately, the sponsor organization’s board of directors will need to determine the appropriate criteria for evaluating the competing offers.

Once you have completed the negotiations and have agreed to the final business terms of the investment, you should ask the investor for a commitment letter that spells out all of the specific substantive terms. Make sure that the tax credit attorney reviews this letter before executing it, since there may be language that needs to be further negotiated.
**Risks to Sponsors Posed by Financing**

Accepting loans and investments for your project exposes your organization to a number of risks. It is essential that you retain an experienced real estate attorney to explain these risks to you and your board of directors.

Loans can generally be divided into two types, each carrying a different level of risk. Recourse loans allow the lender to foreclose on the project real estate, your organization's assets, or both if your organization defaults on its loan by violating any of the mortgage terms. Non-recourse loans do not allow this direct seizure of property. Recourse loans may place the project and even the organization's financial or capital assets at risk. Therefore, you must consider the implications of accepting such a loan closely. Lenders may also require that the sponsor set aside funds to guarantee the loan. This would prevent your organization from using the funds until the guarantee expires. Accepting Low-Income Housing Tax Credit also exposes your organization to risk.

Tax credit investors will require that the sponsor make guarantees against losses to the investors if the project does not proceed as planned. Some examples include: if construction is delayed, the sponsor does not comply with income restrictions when renting to tenants, or if rents initially do not meet operating costs. Sometimes these guarantees are limited to the amount of the sponsor's developer's fee, but in other cases the liability is unlimited.
CHAPTER 11: PREPARING THE OPERATING BUDGET

Note: CSH is providing this information to assist interested organizations to develop a general understanding of the supportive housing development process. CSH is not rendering legal, accounting or other project-specific advice. For expert assistance, please contact a qualified professional.

For-profit developers of market rate housing can usually borrow a great deal of their funding for projects from banks - the rental income they will generate from market rate rents is enough to pay for both property operations and debt service or payments for the loans. Supportive housing projects house people with extremely low incomes. Therefore, owners have a limited ability to pay any debt service on top of the housing operating costs. Perhaps the most significant challenge of providing housing with rents affordable to extremely low-income people is that the amount of rent that an extremely low-income household can afford to pay is often below the cost of operating the unit in which they live (e.g., the cost of utilities, property management, maintenance and other operating expenses), creating an operating shortfall or gap.

Filling the Operating Gap

In order to fill this gap, supportive housing developers must often rely upon the following strategies:

- **Accessing operating subsidies provided through the McKinney-Vento / Continuum of Care programs**: These programs include the Shelter Plus Care (S+C) program, or the Supportive Housing Program, and the Section 8 Moderate Rehabilitation SRO Program. Readers who would like more information regarding these programs should consult the CSH document, *Overview of the Continuum of Care Grant Programs and Planning Processes*, which can be downloaded at www.csh.org/financing.

- **Accessing Section 8 / Housing Choice Voucher subsidies**: Established in 1974, the Section 8 / Housing Choice Voucher program is the single largest source of rental assistance in the country. The program is designed to bridge the gap between the cost of operating and maintaining housing units and what low-income individuals and families can afford to pay in rent. The Section 8 / Housing Choice Voucher Program is administered at the local level by Local Housing Authorities (LHAs), also known as Public Housing Authorities (PHAs), who receive Section 8 funding through an Annual Contributions Contract from HUD. Subsidies are available as Tenant-based Vouchers or Project-based, and some PHAs are increasingly willing to convert tenant-based to project-based assistance. In 2001, the HUD/VA Appropriations Bill established new regulations governing the conversion of tenant-based vouchers into project-based Section 8 assistance. These regulations were approved in full in 2005. This new legislation gives Housing Authorities the ability to use up to 20% of their tenant-based vouchers for project-based assistance.

- **Capitalizing Rental Subsidy Reserves**: Capitalizing rental subsidy reserves involves establishing a reserve funded by sources like the investment proceeds from Low-Income Housing Tax Credit program, housing trust fund contributions, and other sources, which are not legally restricted from contributing to long-term reserves. These funds are typically “owned” by the project, managed by a legal agreement specifying the funding and disbursement of the reserves, including the required review and approvals by some or all of the project funders.
Considerations for Operating Budgets

The Operating Budget is the tool used to analyze the expenses of a project during operations. It provides a listing of ongoing project expenses. The Operating Budget is critical to establishing the feasibility of the project. If accurately projected revenues (revenue projections are not covered in this document) are not sufficient to cover operating costs, real estate taxes, and debt service over time, the project cannot be deemed feasible.

The generic components of the Operating Budget are fairly constant from place to place around the county, but the terminology used to describe them sometimes varies. Even within the same locality, different lenders, investors and government funders may use different terms to describe what they are talking about. Issues that need to be considered in preparing an Operating Budget include:

- Costs can vary significantly from place to place and at different times;
- Cost projections that use actuals or good comparables are always best;
- Funders may require that certain underwriting standards be used;
- Operating and replacement reserves may be capitalized in the Development Budget or funded through the Operating Budget;
- Project specifics will determine costs (e.g. a project with elevators will use more electricity than one that does not);
- Vacancy factors should closely track the target population and local market conditions; low income housing projects can, and do, suffer market failure; and
- Debt service levels may have an impact on the ability of the project to support operating costs.

The three most critical aspects of evaluating the Operating Budget are:

1. **Is it complete?** Does the budget include all of the costs that the Owner/Property Manager will incur to properly maintain and manage a successful project? Recognizing that labels and categories vary from place to place, you will need to understand the project well and ask questions about the construction and management to clarify the extent to which the budget is complete.

2. **Is it accurate?** Evaluating the Operating Budget early in the development process can be difficult. As you get closer to construction, you gain more detailed knowledge about the project and can refine operating cost projections and budgets. The basic question is: what are the underlying assumptions in establishing operating costs, and are they reasonable? The best assumptions to use are the actual costs for comparable projects. In addition, try to use local accepting underwriting standards for operating expenses. Other questions to consider in evaluating the accuracy of an Operating Budget are: what is the target population? What are the local market conditions? What is the local environment in terms of climate and utility costs? How will the type of construction affect operating costs? What role will the Owner play in operations? Is there a property management plan? And has the proposed Property Manager been involved in developing the operating projections?

3. **Is it realistic over time?** Unlike the Development Budget, which deals with the one-time costs of building the project, the Operating Budget deals with the continuing costs of operating the project over time. Therefore, multi-year projections should be carefully scrutinized to ensure
that escalation factors are prudent given the nature of the project and expected economic conditions. For example, the impact of real estate abatements or exemptions that may decrease or expire over time should also be considered. The multi-year analysis should also make realistic assumptions about rental assistance, especially regarding the impact of renewals (or lack thereof) and tenant mobility. Also, have you trended the expense assumptions to cover the expected increases over the years of operation? Most projections assume that operating expenses will increase at between 2% and 5% per year.

Guidance Regarding Operating Costs

The table below describes the typical items found in a supportive housing operating budget and provides guidance to determine the underlying assumptions and results. (Unless otherwise noted, all costs are quoted on an annual basis.) The order and grouping of these costs is typical of what is found in an actual maintenance and operating budget for supportive housing.

<table>
<thead>
<tr>
<th>Operating Expense</th>
<th>Cost Evaluation Approach</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>GENERAL &amp; ADMINISTRATIVE</strong></td>
<td>Note that the costs described below are solely for the real estate operating costs, and do not include services and program costs that are typically found in supportive housing.</td>
</tr>
<tr>
<td>Management Fee</td>
<td>This fee is intended to cover the cost of property management services, whether provided in-house or by a private firm. The allowable fee is usually set by the lenders’ underwriting standards, and typically ranges from 6% to 8% of net rental income. In some locales, the fee is established based on a flat per unit per month rate, typically between $35 and $40. For small-scale projects, the higher percentage fee should be used, because of the inefficiencies of operating these projects. Note that the fee will not necessarily cover the real cost of in-house management, especially if your organization has a small portfolio and/or particularly complex management responsibilities (e.g., administering Section 8 or Low-Income Housing Tax Credit compliance). If this is the case, check to see if your management fee matches what it will cost you. If it’s tight, make sure that you have adequate agency operating support to cover the full cost of property management. If the property management is being contracted out to a private firm, however, make certain that they have relevant experience with low-income and supportive housing projects. It is also important to confirm that the Property Manager has been involved in the design of the project and is committed to working closely with service providers to develop integrated management and service delivery protocols.</td>
</tr>
</tbody>
</table>
| Tax Credits | When using an outside management firm, send a copy of the equity investor’s Property Management Agreement and Addendum (if one exists) to the agent before their fee proposal is submitted to your organization. This is because equity investors will sometimes mandate specific fee agreement and
contractual requirements. Ideally the firm should have experience in managing tax credit projects, since the reporting requirements are more complex than most traditional affordable housing projects.

**Office Supplies & Expense**

The cost of “other-than-personnel-services” ("OTPS"), office supplies, for example, related to on-site activities are usually part of the supportive services operating budget, and thus not included in the M&O budget. In limited cases, this cost cannot be supported by other sources, and if the lender allows, it can be included here. The cost is entirely driven by the staffing plan, and should be prepared as a budget detailing each cost.

**Legal & Accounting**

Legal expenses largely refer to the cost of carrying-out evictions ("dispossesses"). They can be estimated on a per unit basis, about $80 per unit, or on a per-project cost, usually about $2,000. This cost is difficult to project since it is not known how many tenants will be evicted each year until operating experience is gained. This could easily become a higher-than-projected cost if eviction rates are higher than anticipated, especially in the first year of operation. In this event, the additional cost would come from savings on other line items or from the operating reserve.

For accounting services, which include end of year tax filings and audit, projects generally allow about $2,000 to $5,000 annually.

**Tax Credits**

In the case of tax credits, there should be an increased allowance for accounting, since the reporting requirements to the Investors and tax filings are more extensive than projects that are not syndicated. Generally allow $10,000 to $12,000 for accounting in these cases.

**Annual Partnership Management Fee**

This fee only applies to projects syndicated under the Low-Income Housing Tax Credit Program. The fee is intended to compensate the General Partner (subsidiary of the sponsor) for the additional required reporting to the limited partners (largely financial in nature). The fee is set by equity investor’s underwriting and is usually between $5,000 and $15,000, as determined by the complexity and scale of the project. This fee may be included as an operating cost, or may be paid to the extent of cash flow, after all other operating expenses are covered. Whether this is a “must pay” expense or funded from excess cash flow is negotiable with the Investors and is sometimes dictated by other funders’ requirements.

**PAYROLL & RELATED**

Since supportive housing projects have limited rental revenue, they usually cannot support much in the way of program or services staffing costs without additional outside funding (e.g., HUD Supportive Housing Program).

**Administrative Payroll**

Some supportive housing projects will include limited administrative payroll costs in the operating budget, while others will fund it out of the supportive services budget. This cost may include such staff as: the Resident Manager, Administrative Assistant, Receptionist and Bookkeeper. The payroll cost is a function of the staffing plan, and should be detailed in as budget back up. If
this cost is included, check with lenders to make sure it is allowable, and also compare with services budget to make sure that there are no redundant costs. The amount of the payroll cost is highly variable.

**Maintenance Payroll**

Maintenance staff costs typically include Superintendents, Janitors, Handypersons and occasionally, Housekeepers, and are generally charged directly to the operating budget. The number of maintenance staff is a function of the project’s scale and maintenance demands (e.g., housing for persons with AIDS requires a higher maintenance standard to protect tenants with weakened immune systems). One standard for supportive housing calls for a full-time Superintendent, and in addition, one Janitor for every 40 units after the initial 40 units, up to 120 units; then one Janitor for every additional 80 units. This standard also adds one Handyperson for the first 100 units and an additional Handyperson for every 70 units thereafter. The overall goal of this maintenance standard is to maintain a ratio of 1:35 of Janitor/Handyperson to units.

The Superintendent’s salary should be based on local standards, but make sure it is not set too low as it will be difficult to hire a qualified person. Typical salaries are $15,000 to $20,000, including fringe and an on-site 2-bedroom apartment. If an apartment is not provided, the Section 8 Fair Market Rent for a 2-bedroom unit should be added to the base salary. Janitors’ salaries typically range from $12,000 to $15,000, and Handypersons salaries can range from $15,000 to $18,000. Review the maintenance payroll budget with the Property Manager to make certain that the salaries are properly set and consistent with local practices and the market. In high cost areas, the salaries noted above could easily be double.

**Security Payroll**

Security costs are sometimes included in supportive housing project operating budgets, though full coverage is difficult to accommodate. The security configuration and related costs are quite variable among projects, and are affected by such factors as: building scale, level of vulnerability of tenants, tenant involvement in building security, sponsor’s philosophy, daytime staffing pattern, and the rate and nature of crime in the neighborhood. Most projects have at least evening and weekend coverage, and a front desk clerk typically handles security. Full security coverage -- 24-hour, 7 day -- requires approximately five full-time shifts (including allowances for vacation and sick time). Evening and weekend coverage -- about four full-time shifts -- may be sufficient for smaller projects or those with a strong staff presence during business hours.

Security costs are usually calculated on an hourly rate basis, which will vary significantly by location. These rates can range between $8 and $12 per hour, and may be lower if tenants are working under a stipend program. Full security coverage at $8 per hour translates into a total of $83,200 per year, plus fringe benefits. Check with other nonprofit housing operators to verify local costs.
In some localities, security costs may be funded by a supportive services contract or tenant employment program. As noted earlier, it is generally difficult to support a significant share of the security costs in the M&O budget, so other sources should be identified to supplement them.

**Benefits, Payroll Taxes & Insurance**

In most cases, you will want to factor in the cost to provide health and retirement benefits as well as payroll taxes and worker’s compensation insurance for your property management staff.

**UTILITIES**

**General**

Utility costs can vary widely among projects based on such factors as: efficiency of heating systems, energy ratings of insulation and windows, type of construction (new vs. rehabilitation), local climate, local utility rates, conservation practices of tenants and Property Managers, and air conditioning and ventilation systems. **Important:** Costs given in this section should be used with particular caution; utility rates vary a great deal from region to region. The best information will be from the actual, recent operating expenses of comparable projects in your area.

**Heating**

Heating costs for systems that are master metered and paid out of the project operating budget are generally projected on a per room or per square foot basis, and are typically part of the local lenders underwriting standards. If your project will be individually metered, see below. Annual heating costs for typical substantial rehabilitation projects in the Northeast are estimated at $175 per room (for #2 oil or gas) or $.90 per square foot (gross square footage). These costs can be estimated by an engineer (ask the project architect to request a projection from their engineer). While local utility companies can provide rough estimates, it is better to go through the engineer who is familiar with the building’s systems and design. You can also consult with other property managers or nonprofit developers to see what the actual costs are for comparable projects.

**Master Metering**

Some supportive housing projects have master-metered gas and electric (versus individual metering for each unit). Because usage is not metered individually for each tenant, these costs are estimated and then included in the rent. The Property Manager then pays the actual cost based on usage for the entire project. It is especially important that the costs are estimated accurately; if the cost is underestimated, the Owner, not the tenant, will end up paying the difference. These costs are then included in the rent and paid by the Owner. Gas and electric costs are usually calculated on a per unit basis, and are typically about $230 per unit for a studio apartment, and include common area costs. Check with other nonprofit supportive housing providers operating comparable projects (similar population, design and appliances) to determine typical usage and costs. Note that if the project has unusual systems (e.g., central air conditioning) the estimate should account...
Individually Metered

In some cases electricity as well as gas for heating may be individually metered (each tenant pays for actual usage) while cooking gas is still master-metered (and included in rent). Again, check with comparable projects to verify this cost. Typical costs for master metered cooking gas are $10 to $12 per unit per month, or about $140 per unit annually. It is important to note that if the tenants will be paying for their own heating costs, this will impact their contribution towards their rent payment as it would be a part of their rent.

Common Area Utilities

Common area gas and electric is budgeted separately when tenants are responsible for their own utilities. This utility cost covers such areas as: public area lighting, on-site offices, elevators, activity rooms, commercial kitchens, congregate dining and laundry rooms. Typical charges are $37 per room for a “walk-up” building and $42 per room for an elevator building. Check with comparable projects to verify this cost.

Energy costs vary considerably across the country, and in areas experiencing energy shortages, rates are likely to climb considerably. The uncertainty surrounding gas and electric rates is a compelling reason to budget operating reserves conservatively. These rates, along with insurance costs, are probably the most unpredictable operating costs in the current environment.

Water & Sewer

Charges for municipal water and sewer services are based on either a lump sum “frontage charge” or on actual usage (as measured with individual water meters per building). Frontage charges are based on the width of the building, and are usually a poor indicator of actual usage, but easier to project reliably. If this system is used in your locality, verify the charge with the appropriate agency (often the department of finance or taxation). Be sure that the current rate is being used and that any anticipated increases are included in the projection. If the building will be individually metered, check with other comparable projects for usage and factor by the expected rate. Note that some localities are changing over from frontage systems to individual metering and that historical costs are not reliable. Frontage charges often underestimate the actual usage and individual metering can be a significantly higher cost. Family projects generally use significantly more water than projects housing individuals.

Telephone

Telephone costs for general administration and supportive services are generally included as an OTPS cost in the project’s operating contract. However, if the cost is to be included in the M&O budget, check comparable projects. Comparable projects should have similar staffing plans, since staff levels largely drive this cost. Tenants are generally responsible for their own telephone costs.
This cost is for supplies used in routine cleaning and maintenance and the cost of regular extermination services. It is partly a function of apartment turnover, ease of maintenance (e.g., the presence of resilient floor covering vs. carpet), the use of outside vs. in-house extermination services, and the amount of common area space. Costs can range from $70 to $200 per unit, depending on these factors. Best to check with comparable projects of similar construction and that are managed similarly, or get actual vendor quotes, to verify these costs. In some localities, the underwriting will list “Exterminating” separately from “Supplies.”

**Repairs**

This includes the non-personnel costs of repairs done by maintenance staff and the cost of repairs performed by outside vendors or under services contracts (other than elevator). These costs are affected by the intensity of use by tenants, the durability of the buildings systems and surfaces and the level of ongoing maintenance. Typical costs range from $200 to $250 per unit, and should be verified with comparable projects. Note that if the project does not involve substantial rehabilitation or new construction, this allowance should be adjusted upward (perhaps up to $300 or so per unit).

**Trash Removal**

This cost should only be included in budgets where municipal service is not available, and trash removal is performed privately or by the municipality for a charge. Consult the locality’s department of public works to determine the policy. Note that some projects in commercial areas (e.g., downtown SRO’s) may not have municipal service available. Verify private rates with garbage collection firms and/or other nonprofit providers.

**Snow Removal/Grounds Upkeep (Landscaping)**

This cost is usually included in the maintenance staff and supplies budget lines. However, if the project requires snowplowing service or special grounds upkeep beyond the scope of on-site maintenance staff, the cost should be included here. These costs are more likely to be incurred in suburban or rural settings where there are more extensive grounds to maintain. Verify the cost with contractors and/or other nonprofit providers.

**Painting & Decorating**

This should cover the cost of painting the apartments and common areas on regular intervals, usually about every three years. Projects that anticipate a higher than average rate of turnover among tenants (in particular, transitional housing) should budget a higher amount, since the apartment units are generally re-painted upon turnover. Typical costs for painting are $35 to $40 per unit plus an allowance for common area of $100 to $150 per year per floor. On a 3-year cycle, this translates into $105 to $120 per unit for re-painting. Consult other non-profit providers for recent costs for re-painting.

**Elevator Maintenance**

If the project will have an elevator(s), the budget should include an elevator
maintenance contract separate from the other maintenance costs. This is a very specialized service and is usually retained through an elevator maintenance firm on a contract basis. Typical costs here are $4,200 per elevator cab, though this can vary considerably among localities. Make sure that the projected cost is based on a real quote from a qualified firm or on a comparable project. Note that if a rehabilitation project does not involve major overhaul or replacement of existing elevator equipment, the cost can be significantly higher than the $4,200 per cab.

**Replacement Reserve**

This reserve is used to fund the cost of replacing furniture, appliances, carpeting and other building fixtures that have a limited useful life. Projects that expect an unusually high rate of tenant turnover should budget an additional allowance. Typical reserves are based on 2% to 3% of gross rental income, a percentage of the cost of construction, or approximately $150 to $250 per unit per year. For new construction or substantial rehabilitation, the reserve should build-up in the early years of operation (7 to 10 years), and be available to fund costs that begin occurring in the 10 to 15 year range. All projects must include a budgeted replacement reserve. These costs cannot realistically be funded from cash flow. Lenders will likely have their own underwriting standards for calculating the reserve, and tax credit investors may have standards for these reserves as well that must be adhered to.

**MARKETING & LEASING**

**Advertising/ Credit Investigations/ Leasing Fees**

The cost of marketing and leasing is usually not applicable to supportive housing since referrals are typically made through social services agencies or through outreach/intake staff (funded through operating contracts). Advertising costs are generally not incurred. The cost of leasing the unit should be included in the scope-of-services of the Property Manager. These costs are more often found in rental or homeownership housing for families.

**TAXES & INSURANCE**

**Real Estate Taxes**

Many supportive housing projects will be able to receive real estate tax abatements or exemptions, depending on your locality’s policies. Do not assume that the project will be exempt on the basis of nonprofit ownership, as the operation of housing in and of itself is not considered to be a nonprofit tax-exempt activity. Similarly, projects developed using tax credits are owned by for-profit entities and may not be eligible for tax programs targeted to nonprofit-owned affordable housing. If there is no abatement or exemption program available, the taxes should be projected on the basis of the assessed value of the completed project, at the tax rate likely to be in effect at the beginning of operation. Check with the local department of finance or taxation to determine the assessment policy (e.g., some localities do not assess at full value, but rather at a percent of value). Recently completed comparable
projects are the best source of determining projected taxes. Make sure that you check whether there are other charges on the tax bill that your project would be responsible for. This can be done by reviewing the prior year’s tax bill.

**Other Taxes or Fees**

Water and sewer charges (see “Utilities”) are sometimes included under the category of “taxes.” You may also have to pay for a local business license.

**Partnership Publication**

This refers to the cost of publishing the announcement of the limited partnership formation (as required by securities laws) in the required publications (e.g., law journals). This is typically about $1,500 and can be verified by the project attorney, who generally takes responsibility for this publication requirement.

**Partnership Management Fee**

This fee compensates the General Partner (subsidiary of the nonprofit sponsor) for the required reporting to the Limited Partners during the construction term. During operations, this fee is paid out of the operating budget. Equity investors generally allow $5,000 for this cost.

**Social Services Reserve**

This reserve is intended to cushion the project against the potential reduction or loss of social services funding over the 15-year partnership compliance term. There is no universal rule for sizing this reserve, and it is often set at the amount of “surplus” tax credit proceeds after other required costs are funded. Some local housing agencies have underwriting standards based on an amount per unit (e.g., New York City uses $5,000 per unit). This cost needs to be carefully considered based on the reliability of the services funding source, e.g., a three-year HUD McKinney contract may be less reliable than a contract with the state office of mental health. Also consider the fiscal environment and the amount of cushioning already in the services budget. Equity investors will probably not accept assurances from services funders that they are committed to services funding long-term, since they are almost always subject to annual appropriations. This reserve can also be established in a non-tax credit project.

**Tax Opinion**

An attorney qualified by the equity investor must render an opinion that the project meets the IRS code requirements under the Low-Income Housing Tax Credits Program. This opinion ranges in cost from about $8,000 to $12,000, depending on the complexity of the tax issues and whether the firm has provided a volume discount to the equity investors. This legal fee is rarely offered on a pro bono basis since most law firms insist on being compensated for the liability incurred in issuing a legal opinion.

**Interest on Bridge Loan**

If a predevelopment or construction loan is being provided by a bridge lender, make certain that the interest cost is budgeted, based on the applicable rate and term. Verify the interest rate with the lender, and project the term conservatively to account for delays.
**Other Permanent Financing Fees**

Certain programs that involve the sale of some or all of the project financing to a secondary market entity (e.g. Fannie Mae) or a pension fund may pass some of the associated costs through to the project. For example, a pension fund may charge administrative fees or require credit enhancement. Consult with the relevant financing sources to determine and evaluate these fees.

**Tax Abatement Exemption Filing Fee**

This may apply if your locality has a tax abatement or exemption program that charges a filing fee. Check with the local housing or finance department to determine this fee.

**Tax Abatement Consultant**

Some local tax abatement programs are complex and require the use of a tax abatement consultant. This fee is variable and can be verified with the local housing agency or other nonprofit housing developers.
CHAPTER 12: PREPARING THE SUPPORTIVE SERVICES BUDGET

Considerations for Supportive Services Budgets

There is no formula for the design and funding of services programs within supportive housing projects. The services plan most typically involves a mix of services delivered on-site and off-site. The specific mix at any given project will be based on tenants' needs, agency capacity, partnerships that have been established, resources available within the community, and available funding. Supportive housing programs may have services staff located on-site or may have mobile case management programs or Assertive Community Treatment (ACT) teams linked to the housing. Frequently, supportive housing programs have formal linkage agreements with other local organizations, such as drug and alcohol treatment programs, mental health clinics, and employment programs. In all arrangements, the staff helps to ensure that tenants make use of services and amenities in the community.

The types of services that comprise the “support” in supportive housing must be responsive to the varied needs of the people who live in the housing, and are often best determined through conversation with the target population(s). Tenants of supportive housing are individuals and families who face complex challenges -- people who have been homeless, and who also have very low incomes and often serious, persistent health issues and/or disabilities or other barriers to housing stability. These challenges may include mental health issues, substance use issues, and HIV/AIDS, and are oftentimes exacerbated by persevering and long-term poverty.

The extent of services needs among the tenancy also has major implications for the level and type of supportive services that will be required. If a provider plans to serve a population that may be expected to have considerable service needs (e.g., formerly homeless people who are dually diagnosed with serious mental illnesses and HIV disease), funding must ensure a staff-to-tenant ratio that will allow for adequate levels of service. Some individuals may need considerable support to remain stable and meet the obligations of tenancy, while others need minimal assistance once stabilized. Some specific service activities can be staff intensive, such as escorting tenants to appointments, medication monitoring, and budgeting assistance. Insufficient staffing can result in crisis-driven programs with high levels of burnout and turnover. If funding is inadequate, both project and program goals may need to be revisited.

Primary responsibility for services delivery and services budgeting will also vary from project to project as well. Potential models include:

- The owner and/or property management agency may provide some services directly, with the balance of the tenants' social services needs to be met through referrals to outside providers.
- Services may be delivered primarily by a third party provider that assumes lead responsibility for service delivery, coordination of services partnerships, and funding.
- The owner/sponsor of a supportive housing program may contract with a third party provider for services, but the owner/sponsor may have lead responsibility for the services funding.

Regardless of the services model, the project owner/sponsor must monitor the services activities closely to be sure that the needs of the tenants are being addressed. How the service provision is
structured in a given housing development will help determine many of the financial and budgetary considerations.

Expenses and Revenue in Supportive Services Budgets

In all cases, it should be an expectation that the project have a supportive services budget that is separate from the housing operations budget for the project – and some funding sources will require the clear separation of these budgets. This approach may represent a change of practice for some organizations, such as those that operate transitional housing programs, in which the operating and services costs are often all included within a single budget. As with all budgets, projected expenses must be matched with projected revenues.

Expenses

On the expense side, the support services budget must include staffing and service activity levels adequate to assist tenants to live independently in the supportive housing project. The expense portion of a social services budget will generally consist of personnel and other than personnel expenditures. Personnel consists of direct service staff such as counselors, case managers, nurses, etc. and supervisory staff, which can include direct supervisors such as program directors and portions of the overall agency administrative staff, including the executive director and financial manager. Other than personnel services can include supplies and materials directly related to the provision of supportive services as well as general office supplies and support, such as office machines, telephone, etc. Other related expenses can include tenant transportation and staff training and recruitment. Service activities that may be included in a support services budget are:

- Case management
- Life skills training
- Chemical dependency treatment
- Mental health rehabilitation
- Services for the chronically ill, including those living with HIV/AIDS
- Child care and parenting skills training
- Housing placement assistance
- Employment and education services
- Transportation services or subsidies
- Money Management services
- Community Building activities and events
- Training Costs

Revenues

A major challenge for supportive housing sponsors is to secure resources that can successfully be blended together to provide ongoing support for this range of activities for the diverse tenant population housed in supportive housing. While some supportive housing projects’ operating budgets generate enough revenue to help pay for a portion of the services costs, revenue for social services costs is generally provided in one or more of the following ways:
• **Fee-for-services arrangements**, such as those provided by Medicaid, where providers are reimbursed for specific services, such as attendance at a clinic. Reimbursement is generally according to a fixed rate (per visit or per day, etc.) and occurs only when an eligible tenant receives the service.

• **Through a publicly-funded contract** under which the organization provides specified supportive services according to an established budget. For example, examining how HUD pays for supportive services in the McKinney Supportive Housing Program, or how a contract with a local government agency is structured

• **Through fundraising from private sources**, such as grants from private foundations or corporations, special events, or revenues generated from businesses operated by nonprofit organizations (such as thrift shops).

Contracts that fund services according to a set budget have some distinct advantages over fee-for-services arrangements. Contracts are somewhat easier to manage insofar as the income will tend to be more uniform and predictable. Under fee-for-services arrangements, the number of reimbursed visits can be affected by events outside of an organization's control, such as weather, sickness or simple lack of demand. Contracts will also have budgeted and established schedules of personnel expenditures, while fee-for-service arrangements will require that the provider adjust staffing to meet actual demand for services.

Social services budgets will generally require a start-up phase of early operations. During this phase, the organization will have to recruit and train staff, secure space and facilities to provide services, and engage in outreach and screening of potential participants. Fee-for-services payment arrangements generally do not cover these start-up costs, while contracts and grant agreements arrangements often do – for example, HUD permits start-up costs to be paid out of McKinney Supportive Housing Program grants. If the primary reimbursement source does not cover start-up expenses, such costs will have to be paid for and funded through grants or by loans that will be repaid based on the fee-for-service revenue generated.

Whenever possible, supportive service funding commitments should be in place before construction begins. By this time, you should also have reached formal agreements with any outside service providers who will be linked to your program. You should seek funding both for services you will provide directly and services that will be provided by other community agencies. The funds will cover case management as well as specific services for parents and children. Service funding is typically secured through a complexity of local, county, state and federal/national sources, both public and private. Service providers tap into a variety of community-based service funding systems, generally tied to the characteristics of those they serve, such as federal pass-through funds to state chemical dependency services, mental health services funding, and a variety of sources tied to family services.

**Note:** CSH's *Toolkit for Developing and Operating Supportive Housing*, includes documents that provide more detailed information regarding planning the supportive services to be provided. See the tools within the *Supportive Services* section of the Toolkit, available at [www.csh.org/toolkit2/services](http://www.csh.org/toolkit2/services). Information regarding accessing Medicaid resources to help pay for supportive services can be found within CSH's joint publication with the Technical Assistance Collaborative, *Leveraging Medicaid: A Guide to Using Medicaid Financing in Supportive Housing*, available for download at [www.csh.org/publications](http://www.csh.org/publications).
CHAPTER 13:
NEXT STEPS: PREPARING FOR OPERATIONS

Tenant Selection and Lease-Up
As the project is in the later stages of construction (approximately three months prior to construction completion), the sponsor and property management should begin to actively screen and select tenants. This will allow units to be leased quickly when construction is complete. This is of particular concern if the project involves tax credits, which require units to be leased within a specific time frame (generally 90 to 120 days depending on the size of the project). Moreover, if you will be receiving tenant rent subsidies, leasing units immediately allows you to begin receiving subsidies in the early months of operation.

In order to ensure that there are individuals ready to move into available units upon their completion, there are several things your organization can do to prepare itself. Linking your organizations to service providers that conduct outreach in the community to homeless populations is a good start. Identifying populations on the street who are homeless and veterans is an ideal way to ensure a flow of potential tenants for your development. In addition, having your own organization conduct outreach to social service providers, local hospitals and clinics and other programs that provide government aid such as TANF or food stamps could be additional ways to ensure that your organization locates eligible applicants to fill the units of your building. Once your units are leased, a waiting list should be developed to provide applicants with an accurate idea of when they will be eligible to access a vacant unit.

A detailed discussion of tenant selection and lease-up can be found in the Tenant Screening, Selection, and Move-In section of the Toolkit for Developing and Operating Supportive Housing available at www.csh.org/toolkit2screening.

Asset Management
During the development feasibility stage, the development team needs to consider the ongoing activities associated with asset management. Asset management involves activities associated with preserving the real estate value of the property, and managing the compliance obligations associated with the housing's financing.

Earlier we discussed the variety of options for providing property management services. Asset management functions present the same possibilities. The housing sponsor can contract out the functions, or assume them in-house. (Obviously, if the project is being leased, there would be no asset management obligations.) In essence, the asset manager provides an oversight role to the property management functions. It may be important to separate these functions among different firms, or ensure that the property management firm has capacity in both areas, and has segregated the functions sufficiently to assure proper oversight.

Housing sponsors, whether they are managing the property or contracting for property management services, may be tempted to address the asset management functions in-house. If you make this decision, be sure to understand the functions and the potential costs of staff and expert time involved to fully respond to the expectations of your funders/lenders. Some housing providers have taken on this function only to be surprised by its demands and the costs they have assumed. It is for this reason we recommend that you include an asset management fee in the
operating pro forma. While it will be difficult to argue for more costs in the operating budget, it is an expense that will aid in establishing financial stability for your project in the long term. You may need to find additional resources to help fund the cost of asset management functions. Often, projects in occupancy do not perform as precisely envisioned in the operating pro forma. Utility, insurance and staffing costs increase. Unforeseen events increase costs, such as an increase in crime necessitating 24-hour security. As the housing sponsor you should try to anticipate these “surprises” and develop strategies to mitigate their impact on your project’s financial stability.
APPENDIX A:
CASE STUDY OF VETERANS ACADEMY AT THE PRESIDIO

Veterans Academy at the Presidio
1029 & 1030 Girard Road, The Presidio, San Francisco, CA

Organization Background and Description
Founded in 1974, Swords to Plowshares is a community-based nonprofit organization that provides counseling and case management, employment and training, housing, and legal assistance to veterans in the San Francisco Bay Area. Originally, the organization was started to serve the vocational and legal needs of veterans that had returned from war and were left with few employment options and difficulties accessing public benefits.

War causes wounds and suffering that last beyond the battlefield. The Mission of Swords to Plowshares is to heal the wounds, to restore dignity, hope and self-sufficiency to all veterans in need, and to significantly reduce homelessness and poverty among veterans.

Guiding Principles of the Project Sponsor
1. The inspiration for our name is taken from Isaiah 2:4. They shall beat their swords into plowshares, and their spears into pruning hooks.
2. The conditions of military service, both in wartime and peacetime, disrupt the lives of those who serve.
3. Society has a covenant to help our nation's veterans; they have sacrificed their personal interests and well-being to serve our country.
4. We should separate the soldier from the war. Veterans must never again be treated as 'second-class' citizens as they were after the Vietnam War.
5. Veterans should not be barred from equal access to the justice system. Expert legal help is vital to veterans' ability to secure the benefits they have earned.
6. Our services should be directed to veterans with the greatest needs.
7. All veterans should have access to health care, housing, employment opportunities, legal assistance, and other means of support.
8. Our direct services should inform our advocacy for public policies that address the unmet needs of veterans.
9. With support and respect, homeless and disadvantaged veterans can turn their lives around and live again with dignity and hope.

Menu of Housing and Services
The foundation for their direct assistance to veterans is a peer support and care model that is comprehensive and based on harm reduction. They foster a strong veterans' peer community through a veterans-helping-veterans approach, mentorship and the broad support of all our nation's veterans. Swords to Plowshares' unique in-house continuum of care for veterans serves as a model for organizations across the country addressing the needs of disadvantaged populations.

Housing for those who are homeless
- Emergency housing
- Transitional (three months to two years) supportive housing
- Permanent supportive housing

Health and social services
- Crisis intervention and counseling for:
  - Post traumatic stress disorder
  - Other mental health problems
  - Addiction and recovery
  - Access to medical care

Benefits advocacy
- Legal counsel and representation before
  - Department of Veterans Affairs
  - Veterans' appeals boards and courts
- Assistance obtaining Social Security and other benefits

Employment and training
- Assistance obtaining
  - Vocational and technical education
  - On the job training
- Job Placement

Advocacy and Public Education
- Policy advocacy and leadership to ensure veterans receive their fair share of support
  - Increase the public's awareness of the magnitude of unmet needs of veterans
Project Description

Origin of Project
Swords to Plowshare began providing employment and legal assistance to the veteran community in San Francisco beginning in 1974. They began identifying a growing population of homeless veterans not being served by other programs in the mid 1980s. Therefore, in 1992, Swords to Plowshares opened its first transitional housing facility, which consisted of two group homes with a total of 13 beds funded through local city funding as well as a grant through the Department of Housing and Urban Development. In 1998, the organization began work on its first permanent housing project on the former Presidio Army Base in two adjacent buildings that had been the Letterman Hospital Complex. This area has subsequently been designated as a national park. The development, which was completed in 2000, serves 100 homeless veterans with a combination of permanent housing and wrap-around social services.

Staffing and Tenancy of Project
Swords to Plowshares provide almost all of its client services through its own staff. The only services that are provided through other individuals are some of the extracurricular community activities, such as art, which are conducted by volunteers with a particular expertise in the community. The organization has 5.7 full-time employees, which includes three case managers. The case management ratio at the Academy of the Presidio is 1 to 33 participants. In addition to the services provided by Swords to Plowshares staff, the Academy development is located in close proximity to the VA where clients can receive an array of services including all medical care treatment. Despite a desire to provide as much of the housing and services by in-house staff, Swords to Plowshares has a private property management company that assumes all property management duties.

The reasoning for contracting out all of the case management largely began by stipulation of the City of San Francisco. In 1997, when Swords to Plowshares was discussing the project with the City, it was stipulated as part of their grant agreement that a private company be brought on initially to provide property management services. This would provide Swords to Plowshares the opportunity to learn more about property management of permanent housing from an experienced provider and also concentrate on providing the highest level of social services to its clients. Over the years, Swords to Plowshares has had the opportunity to assume the property management functions originally sub-contracted out; however, they have chosen not to do so based on the fact that they like the separation of roles.

For initial rent-up the marketing was conducted through mailing and posting to San Francisco agencies serving homeless veterans, shelters, and presentations to staff at VA Hospitals and clinics in San Francisco and Menlo Park. Applications were received and a lottery was conducted. PA three-tiered preference set was established as follows: 1) San Francisco homeless veterans exiting residential treatment or transitional housing programs, 2) San Francisco homeless veterans, 3) all other homeless veterans. Eligibility criteria was verified and screening interviews were conducted until the project was filled. A waiting list was created with the remainder on the initial lottery. This list depleted quickly and a second lottery was ultimately held to re-establish the waiting list. Currently, sixty (60%) percent of the Academy’s tenants are over the age of 51. Forty-one percent (41%) of the tenants are Black/African-American, fifty-percent (50%) are white and twelve percent (12%) are Latino. In addition, over eighty-five percent (85%) of the Academy’s tenants have an average monthly income of less than $1000.
Today, the eligibility for clients to become residents of the Academy is based on availability and a preference for those applicants that meet the criteria mentioned previously. Referrals for the program come from a variety of providers in the community as well as Swords to Plowshares' own transitional housing program. Although the original lease and program design were not designed with tenant input, the tenants have an on-site resident council that has been quite active since the initial opening of the development. The management also conducts annual tenant surveys to garner additional feedback. Although they did not have initial client involvement in program design, Swords to Plowshares staff utilized lessons learned from running their transitional housing programs into the program design for the Academy at the Presidio. It is on major city bus lines with shopping located less than 1.5 miles from the site.

**Project Site Description**

The project site consists of two adjacent buildings located on the former Presidio Army base which has now been converted into a national park. The project consists of one-hundred (100) SRO units. Swords to Plowshares had to have the site rezoned prior to construction, which was the most challenging part of the entire development process. The site was provided to Swords to Plowshares with an initial 10-year lease with an option to extend the lease for an additional 10-year period.

No relocation was necessary for the redevelopment of the site as the two buildings being rehabbed had previously been a hospital complex and were vacant prior to construction. Each of the two buildings are approximately 20,000 sq. ft. and three stories tall. The original architect was James Fagler, with Asian Neighborhood Design. He managed to incorporate a great deal of open space with a courtyard incorporated between the two buildings as well as the fact that the site remained located on land that had been converted into a national park.

During the design process Mr. Fagler added a computer lab and redesigned five of the original units to be ADA compliant as well as adding ADA compliant amenities throughout the development. There is a separate bathroom that is shared between every two units. All units are furnished with a wardrobe, bed, microwave, refrigerator and a chair.

Common space within the development includes a dining hall that provides two hot meals per day for all residents, a resident kitchen facility, a 15-station computer lab, and a community lounge/library. The owners built space for services to be provided on-site as well as having additional office space so that the property manager could also house their staff onsite. Classes are offered on site in beginning to intermediate computers, as are educational and vocational assessment and case management services.

Volunteers and other community resources also provide art therapy groups, meditation groups, and physical fitness classes. Residents can utilize group membership cards to the local YMCA for additional physical fitness opportunities and classes.

Community-building activities are also the responsibility of Services staff. These include support for a tenant's council that is active and meets weekly, movie nights on a donated large screen television, holiday parties and events, and group participation in cultural events in the larger community.

In speaking with representatives from Swords to Plowshares, there were no major challenges noted in the development process of the Academy site. The City and other local stakeholders came
together and worked as a team to move the project forward from concept to lease up. However, one point that representatives did mention was given the fact that the site had been converted to a national park, there were considerable challenges from a process standpoint in getting the site rezoned to accommodate the needs of its tenants.

**Project Budgets: Capital, Operating and Services**

**Capital Funding Sources/Uses**

<table>
<thead>
<tr>
<th>Sources</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>San Francisco Redevelopment Agency (Predevelopment)</td>
<td>$75,000</td>
</tr>
<tr>
<td>Acquisition</td>
<td>NA</td>
</tr>
<tr>
<td>Construction:</td>
<td></td>
</tr>
<tr>
<td>• Prop A Bond funding (administered through the SF Mayors Office of Housing grant</td>
<td>$461,100</td>
</tr>
<tr>
<td>• Prop A Bond funding permanent loan (amortized for 10 years at 6%)*</td>
<td>$1,710,195</td>
</tr>
<tr>
<td>• Swords to Plowshares fundraising</td>
<td>$50,000</td>
</tr>
<tr>
<td><strong>TOTAL Construction Costs:</strong></td>
<td><strong>$2,221,295</strong></td>
</tr>
</tbody>
</table>

*NOTE: Any “Tenant Lease Equity” derived from operations following the satisfaction of the 10 year loan is to be applied to the Permanent Loan. Any balance remaining on the Permanent Loan after 20 years is to be forgiven by City & County.

**Capital Cost Breakdown By Unit**

<table>
<thead>
<tr>
<th>Type of Funding</th>
<th>Cost Per Year</th>
<th>Cost Per Month</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rehab cost per unit</td>
<td>$21,713/unit</td>
<td>NA</td>
</tr>
<tr>
<td>Service cost per unit</td>
<td>$4,706/yr.</td>
<td>$392/mo.</td>
</tr>
<tr>
<td>• excluding meals</td>
<td>• $2,969/yr.</td>
<td>• $247/mo.</td>
</tr>
<tr>
<td>Operating cost per unit</td>
<td>$9,645/yr.</td>
<td>$804/mo.</td>
</tr>
</tbody>
</table>
### Operating and Service Budgets

<table>
<thead>
<tr>
<th>Operating Costs:</th>
<th>Services Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>Administrative Expenses:</td>
<td>Staff and Supplies $296,871 (5.7 FTE)</td>
</tr>
<tr>
<td>FTE</td>
<td>Meals Program $173,750</td>
</tr>
<tr>
<td></td>
<td>Total Services Cost $470,621</td>
</tr>
<tr>
<td>Utility Expense $93,600</td>
<td></td>
</tr>
<tr>
<td>Operating and Maint. $242,240</td>
<td></td>
</tr>
<tr>
<td>Taxes &amp; Insurance $120,347</td>
<td></td>
</tr>
</tbody>
</table>

**Sub Total basic Operating** $682,481
Debt Service $61,128
Master Lease $174,000

**Required Reserve deposits** $22,938
**Sponsors Overhead** $24,000

**Total Operating Costs** $964,547

**NOTE:** 100% of the units are subsidized through the project-based Section 8 program.

**NOTE:** 80% of services funding is obtained from HUD McKinney-Vento Supportive Housing “Permanent Housing for the Disabled” funds administered by the SF Department of Human Services. The remaining 20% of services costs are paid from Swords to Plowshares unrestricted funds.

---

### Big Picture and Lessons Learned

Swords to Plowshares has been providing permanent supportive housing to homeless veterans in the San Francisco area since July 1, 2000. During the past five and a half years the organization has learned a great deal about what it takes to provide effective and cost-efficient supportive housing to its target population. Overall, the organization feels that it had an optimal development experience with little trouble securing funding for capital, operating or services. They feel that the local government entities they worked with provided a great deal of guidance in helping all of the pieces fall into place. However, there were some challenges in the area of zoning the development.

The challenge of zoning was due to the land’s designation as a national park. This challenge has translated into issues for the organization in its overall legal expenses over the years. If the organization needs to evict a tenant they must go to federal court to do so. This is time consuming and expensive. In fact, a representative from Swords to Plowshares stated that they have had to triple their legal budget from what was originally estimated. The location might have been one of the only variables of the project that they would have reconsidered; however, the feasibility of the project and availability of the project site more than make up for this inconvenience.

There have been no major technical assistance providers involved in the project after initial lease up. Prior to its opening, Swords to Plowshares spent considerable time working with the Corporation for Supportive Housing both on specifics related to the Academy project as well as their transitional housing facility.

Swords to Plowshares has several outcomes they utilize to gage their progress and success. They include:
- 80% of all participants will remain in housing for one year or move to other permanent housing where they pay their own rent;
• 70% of participants will remain in housing for two or more years or move to other permanent housing where they pay their own rent;
• 70% of participants will obtain increased marketable skills or income within two years;
• 60% of all participants will be involved in training or education within one year;
• 70% of all participants will remain in recovery for a minimum of three years;
• 80% of the participants that participate in the education and training services will increase their skills in at least one area; and
• 60% of the participants that increase their skills in education and/or training will secure part-time, full-time or volunteer work.

The annual tenant survey completed by Swords to Plowshares on-site staff as well as their ongoing case management of tenants assists in determining the effectiveness of its programs and whether it is meeting its benchmarks. Additional information on Swords to Plowshares and the Academy at the Presidio can be obtained at www.swords-to-plowshares.org.
APPENDIX B:  
GLOSSARY OF AFFORDABLE HOUSING FINANCE AND DEVELOPMENT TERMS

**Accessible housing:** Dwellings that meet the needs of the physically disabled; interpretations of how those needs can be met vary somewhat across localities, but generally require barrier-free, adaptable design in both common areas and individual units.

**Acquisition financing:** Funds obtained for the purpose of purchasing vacant land or properties.

**Adjusted gross income:** Income after standard deductions set by federal guidelines.

**Affordable housing:** A general term applied to public- and private-sector efforts to help low- and moderate-income people purchase or lease housing. As defined by the United States Department of Housing and Urban Development, any housing accommodation for which a tenant household pays 30% or less of its income.

**Amortization:** A gradual paying off of a debt by periodic installments.

**Appraisal:** Official report required by lenders and regulators, giving an opinion of value based on pertinent data and prepared by a qualified appraiser.

**Area Median Income (AMI):** A figure calculated by HUD based on census data, for specific size households in a specific area. The median income divides the income distribution into two equal groups, one having incomes above the median, and other having incomes below the median.

**At risk of homelessness:** A person or family that is coming out of a treatment program, institution, transitional living program, half-way house or jail and has no place to go; is living in a situation where the person/family is at great risk of losing their housing; is in need of supportive services to maintain their tenancy or is living in an inappropriate housing situation (i.e. Substandard housing, overcrowding, etc.).

**Bond financing:** A municipal bond is an interest-bearing debt obligation issued by a state or local municipality, which may support general government needs or fund a public works project. A municipal bond can also be issued by legal entities such as a housing authority.

**Building code:** Regulations, ordinances or statutory requirements of a governmental unit relating to building construction and occupancy.

**Cash flow:** The income remaining after all operating expenses and debt service have been paid.

**Cashflow bridge loan:** Cashflow bridge loans are used to assist sponsors in meeting an emergency need by bridging a time-delayed regular payment or start-up of a contract. Proceeds may fund any costs, including working capital, for which the borrower will receive a future payment under a contract or grant (e.g. against a tax credit syndication developer fee for project or executed government contract or philanthropic grant).
**Census tract:** A small statistical subdivision of a county. Census tract data identifies population and housing statistics about a specific part of an urban area. A single community may be composed of many census tracts. Census tract information is used to make allocations and other decisions regarding housing and community development.

**CDBG (Community Development Block Grants):** Community Development Block Grants are provided to communities from the U.S. Dept. of Housing and Urban Development (HUD) for a range of eligible activities, setting their own priorities as long as they meet basic program requirements. Larger cities and counties receive formula funding; small communities compete for funding which is administered by states.

**Community Development Corporation (CDC):** Nonprofit groups accountable to local residents that engage in a wide range of physical, economic and human development activities. CDCs rebuild their communities through housing, commercial, job development and other activities. A CDC’s mission is normally focused on serving the local needs of low- or moderate-income households.

**Closing costs:** Expenses involved in transferring real estate from a seller to a buyer, including lawyer’s fees, charges for surveys, title searches, title insurance, and fees for recording deeds, mortgages and other documents.

**Collateral:** Stocks, bonds, evidence of deposit, and other marketable properties which a borrower pledges as security until a loan is repaid. In mortgage lending, the collateral is the specific real property being financed.

**Commitment:** A statement in writing representing a lender’s legal commitment to a borrower that it will loan a certain amount of money at a particular interest rate and term, contingent upon specific conditions being met by the borrower.

**Commitment fee:** Lender’s charge for agreeing to hold credit available for a specific period of time and to reimburse the lender for administrative costs of underwriting the loan. The fee is usually payable when the borrower accepts the commitment, evidenced by signing the commitment letter.

**Community Housing Development Organization (CHDO):** A nonprofit housing development organization which can be eligible for a portion of a Participating Jurisdiction’s HOME Funds allocation and for technical assistance, site control and seed money loans. A CHDO may also be eligible for organizational support. A community development organization must meet HUD-established criteria and be certified by the Participating Jurisdiction within its area of service in order to be eligible for development set asides and organizational support.

**Community Reinvestment Act (CRA):** Passed in 1977 (federal legislation), it states that commercial banks and thrifts have a continuing and affirmative obligation to help meet the credit needs of the local communities which they serve. It requires regulatory agencies to evaluate these institutions’ record of meeting the credit needs of their designated communities, consistent with the safe and sound operation of the institution.
**Construction loan:** A loan, usually short term, which is made to finance the actual construction or renovation of a property. The funds are distributed as needed in accordance with a disbursement agreement, and the money is repaid on completion of the project, usually from the proceeds of a permanent mortgage.

**Contract of sale (purchase agreement):** Document that states the conditions under which a property will be transferred and the rights and obligations of the buyer and the seller during the contract period.

**Debt Service Coverage (DSC):** The ratio of estimated net operating income to debt service. This ratio is established by lenders to provide a cushion between the amount remaining after payment of operating costs and the amount of the annual mortgage payment.

**Davis-Bacon Act:** An act passed in 1931, and subsequently amended, requiring that all laborers and mechanics employed in certain programs of federal financial assistance involving construction activities be paid wage rates no less than those prevailing on similar construction in the locality, as determined by the Secretary of Labor.

**Drawdown:** The withdrawal of funds from an account established for a specific purpose (e.g., drawing funds against a letter of credit, a federal grant, or an escrow account).

**Environmental assessment:** Official report required by lenders to determine whether a proposed development site may have been contaminated by hazardous wastes.

**Environmental survey:** Assessment of the project site to identify physical characteristics, such as soil conditions, presence of wetlands, etc.

**Equity:** The amount of an owner's free and clear interest in real property which represents the difference between the property's market value and the amount of debt and other encumbrances.

**Errors and omissions insurance:** Insurance carried by architects or engineers to protect them from claims based on malpractice due to faulty designs. Also called professional liability insurance.

**Escrow:** Money, securities or other properties or instruments held by a third party until the conditions of a contract are met.

**Fair housing laws:** Federal, state, or local laws prohibiting discrimination in the sale, rental, or financing of housing, for any reasons.

**Fair Market Rent (FMR):** Fair Market Rent is an amount determined by the U.S. Dept. of Housing and Urban Development (HUD) to be the cost of modest, non-luxury rental units in a specific market area. Generally, an "affordable" rent is considered to be below the Fair Market Rent.

**Forgivable loan:** A loan with no repayment obligation if program requirements are met for a specified period of time. Usually provided by a public or other nonprofit entity.
**General contractor:** The main contractor for a project who may hire smaller or more specialized contractors for portions of a development.

**Guaranty:** A guaranty is a promise by another organization to repay a loan on behalf of the borrower in the event that the borrower defaults on its obligation. A parent organization or an affiliate of the borrower typically provides guarantees. A guaranty is typically required if the borrower has few or no assets (e.g. newly created affiliate established to hold the real estate for tax credit and other purposes).

**Intercreditor agreement:** An intercreditor agreement details terms and conditions of agreement between lenders as to order and amount of disbursements and repayments. It may be required when a lender records a mortgage and there are two or more other mortgage lenders involved. Given the multiple parties involved, these can be difficult and time consuming to negotiate.

**Hard costs:** The direct costs to construct a building, also known as “bricks and mortar” costs, as distinguished from legal, financing, architectural and other fees required for the project.

**Housing and Redevelopment Authority (HRA):** A branch of city or county government that coordinates housing programs and administers redevelopment activities.

**Housing and Urban Development (HUD):** The U.S. Department of Housing and Redevelopment, created in 1965 to administer programs of the federal government which provide assistance for housing for the development of the nation’s communities. HUD administers housing and home finance programs, the Public Housing Administration and FHA.

**Loan closing:** Legal session during which final loan documents are executed and the loan is funded.

**Loan term:** The amount of time over which a borrower is expected to repay the loan.

**Loan-to-value ratio (LTV):** The ratio of money a lender is willing to lend relative to the appraised value of the property.

**Long-term homelessness:** Includes all people who have been homeless for long periods of time, as evidenced by repeated (three or more times) or extended (a year or more) stays in the streets, emergency shelters, or other temporary settings, sometimes cycling between homelessness and hospitals, jails, or prisons. This definition intentionally includes a larger group of people than the federal government’s definition, such as families and youth. The federal government (and as a result, many states, cities, and service providers) frequently uses the term “chronically homeless,” defined as “an unaccompanied homeless individual with a disabling condition who has either been continuously homeless for a year or more, or has had at least four episodes of homelessness in the past three years” (Notice of Funding Availability for the Collaborative Initiative to Help End Chronic Homelessness/Federal Register, Vol. 68, No. 17/Monday, January 27, 2003, 4019). This definition excludes homeless families and partnered homeless people as well as those who do not have a documented disability. CSH asserts that anyone who has been homeless for the long-term may be well served by the services and housing offered by permanent supportive housing providers.
Low-Income Housing Tax Credit (LIHTC): A congressionally created tax credit (Internal Revenue Code Section 42) available to investors in low income housing designed to encourage investment that helps finance construction and rehabilitation of housing for low income renters.

Master leasing: A legal contract in which a third party (other than the actual tenant) enters into a lease agreement with the property owner and is responsible for tenant selection and collection of rental payments from sub-lessees (see sublease).

Mortgage: Debt instrument by which the borrower (mortgagor) gives the lender (mortgagee) a lien on property as security for the repayment of a loan.

Net operating income (NOI): The amount of income left after total operating expenses, but not the mortgage payments, have been paid.

NOFA: Notice Of Funding Availability; see SuperNOFA.

No-interest loan: A loan for which the lender does not charge interest, but which must be repaid.

Operating and maintenance expenses: The ordinary expenses of operating and maintaining an income property, such as taxes, insurance, repairs, utilities, etc.

Operating reserve: Funds set aside to be used to offset possible losses due to unexpectedly low rent collections or unanticipated operating and maintenance costs. A reserve may be required by a lender in the form of an escrow to pay upcoming taxes and insurance costs.

Option: The right to purchase or lease a property upon specified terms within a specified period of time.

Owner's representative: An individual or firm designated to act on behalf of the owner on construction projects.

Pre-development financing: Funding to cover project – such as architectural, engineering, legal, and environmental services – that are incurred before funds to pay the project costs are available. Funds may come from the owner's resources or from an intermediary funding organization, and are typically reimbursed by a designated construction or permanent loan.

Permanent housing: In the world of supportive housing, the term “permanent” typically refers to affordable rental housing in which the tenants have the legal right to remain in the unit as long as they wish, as defined by the terms of a renewable lease agreement. Tenants enjoy all of the rights and responsibilities of typical rental housing, so long as they abide by the (reasonable) conditions of their lease.

Pro forma income and expenses: Statement showing the expected development or annual income and expenses of a project.
**Public housing agency/authority (PHA):** Any state or local government entity or its agency which is authorized to engage in or assist the development or operation of low-income housing. Public Housing projects are owned by PHAs, but supported through funding from the federal government (HUD).

**Reasonable accommodation:** The legal requirement that housing features, procedures, and other adjustments are considered and/or made to meet the needs of a person with a disability.

**Recourse loan:** A recourse loan permits the lender to seek recourse beyond the pledged collateral. Loans are typically structured as “recourse” obligations of the borrower. This means that in the event that the loan is not repaid in accordance with its terms, then the lender can seek a legal judgment against the borrower, permitting the lender to receive repayment of the loan from the assets of the borrower. The value of the borrower’s assets may be determined by an evaluation of the financial statements of the borrower.

**Replacement reserves:** Funds set aside on an annual basis to be used to pay for anticipated replacement of systems and equipment.

**Revolving loan:** Proceeds may be used for various purchases; funds may be repaid and drawn again. Revolving loans are used to facilitate project development by funding multiple purchases, which have multiple repayment dates and/or sources.

**Scattered-site:** Housing units that are not located at one single location.

**Section 8 housing:** This type of affordable housing is based on the use of subsidies, the amount of which is geared to the tenant’s ability to pay. The subsidy makes up the difference between what the low-income household can afford, and the contract rent established by HUD for an adequate housing unit. Subsidies are either attached to specific units in a property (project-based), or are portable and move with the tenants that receive them (tenant-based). The Section 8 program was passed by Congress in 1974 as part of a major restructuring of the HUD low-income housing programs.

**Site control:** Evidence that a developer has, or will have control of a site by the time financing is committed. Evidence can be an option agreement, a purchase agreement/contract, or evidence of ownership (grant deed).

**Single site:** Housing units that are located within one building or area, typically located on just one site.

**Soft costs:** Expenses other than “bricks and mortar” costs incurred in developing a real estate project. They include legal, architectural, financing and other fees.

**Sources and uses:** A schedule submitted as part of a financing application that identifies the different sources of funding for the construction of a project and a detailed identification of the uses of the funds in the development process.
**Sublease**: A secondary lease agreement in which the tenant signs a lease with someone other than the owner or owner’s agent. Tenants who sign sublease agreements maintain state and local tenancy rights and responsibilities.

**Subordinated loan**: A loan that is repayable only after other debts with a higher claim have been satisfied.

**SuperNOFA - Super Notice of Funding Availability**: Each year, the U.S. Department of Housing and Urban Development (HUD) issues a super Notice of Funding Availability (NOFA) for the Department’s Housing, Community Development, and Empowerment programs. This SuperNOFA announces the availability of HUD program funds covering 32 grant programs, including the Supportive Housing, Shelter Plus Care, and Section 8 Moderate Rehabilitation Single Room Occupancy programs; the Housing Opportunities for Homeless Persons with AIDS (HOPWA); Section 202 Supportive Housing for the Elderly; and Section 811 Supportive Housing for Persons with Disabilities.

**Supportive Housing**: The term “supportive” in supportive housing refers to housing with voluntary, flexible services designed primarily to help tenants maintain housing. These voluntary services are those that are available to but not demanded of tenants, such as service coordination/case management, physical and mental health, substance use management and recovery support, job training, literacy and education, youth and children’s programs, and money management.

**Survey**: A legal record of the exact boundaries and location of a property.

**Take-out loan**: The take-out loan is a permanent mortgage loan which replaces the construction loan; also called permanent end loans.

**Tax credits**: Tax benefits, granted for engaging in particular activities, that are subtracted on a dollar for dollar basis, from taxes owed. Also see Low-Income Housing Tax Credits.

**Title insurance**: Insurance which protects an owner or other party of interest against defects in title created by improper parties signing an instrument of conveyance, fraud, etc.

**Underwriting process**: Process of analyzing the creditworthiness of a loan application and determining the terms and conditions of a loan.

**Vacancy allowance**: The estimated amount of income that will be lost during one year from rental units that remain empty for a period of time.