

City of Shasta Lake

CDBG-DR Program Underwriting Procedures

Overview

Qualifying CDBG-DR Program applications will undergo an underwriting analysis prior to approval and release of funds. This ensures that the developer has the capacity to develop and maintain a housing project, which will be successful over the long term.

When a developer submits a request for funding for an affordable housing project, they should be prepared to provide the City with adequate data to assess the developer's experience and financial capacity, as well as the market demand and cost reasonable of the project.

Program Staff

The personnel listed in the Standard Agreement (SA) are the points of contact for day-to-day grant administration and for coordination on underwriting efforts. The City may acquire a contractor to work in collaboration with staff to implement and monitor underwriting policies and procedures, in conjunction with technical assistance from HCD.

Underwriting Analysis Components

The following will be required along with any request for CDBG-DR funds:

- Development application submitted in the Grants Network
- Review of pro forma and ability to meet project requirements
- Developer's most recent annual report
- Developer's financial statements with current valuation, available capital, and audits
- Description of developer's history developing affordable housing
- Description of executive/management staff's experience developing affordable housing
- Summary of ongoing projects and staffing levels

Review past projects funded by the City and include past performance

- Results of periodic monitoring
- Loan payments/performance

Review Criteria

Program staff will review submitted materials for the following criteria, as outlined in the “DR-MHP Development Application Review and Underwriting Checklist” to determine project viability. **Any criteria not met should be addressed and submitted in written form to the City.**

Program Requirements	
1	Proposed development is located in an area Most Impacted and Distressed (MID) or otherwise impacted by DR-4382 or DR-4407.
2	The address of the proposed development is within a MID area(s).
3	The proposed development meets one of the Priority Criteria established in Section 2.4 of the Policies and Procedures.
4	The development proposal includes at least eight (8) units.
5	The development proposal includes a minimum of four (4) affordable units, or 30 percent of the units as affordable units (whichever is greater), at least 51% affordable units for a senior new construction project, or a waiver request.
6	The total DR-MHP funding requested is less than or equal to 40% of the total development costs.
7	The development has received a NEPA clearance.
8	The development proposal meets one of the HCD project types defined in the “2018 Multifamily Housing Program Guidelines”.
9	Applicant has provided a list of comparable developments completed within the last three (3) years in the jurisdiction or in neighboring jurisdictions within the housing market area, including the total number of housing units and the total development cost for each development.
10	The cost per unit for the proposed development is in line with the average cost per unit of comparable developments (including consideration of inflation, prevailing wages, and non-comparable project amenities).
11	The per-unit assistance requested from DR-MHP funds complies with the Maximum Per-Unit Subsidy Limits table value in effect for the jurisdiction where the housing is located (supplied by HUD).
12	Applicant has submitted evidence that all sources of funding listed within the proforma development budget are committed and accessible.
13	Rents shown in Year One (1) of the proforma are in compliance with the High HOME rents for the project area.
14	The total project cost is at least \$250,000, or an approvable minimum award level waiver was included in the development application.
15	Total DR-MHP funding requested is limited to the amount that is necessary to address the gap between development costs and the sum of all other funding commitments.
16	Developer is verified at www.sam.gov as eligible to receive DR-MHP funds.

Development Underwriting	
17	The maximum developer fee is limited to the maximum allowable fee permitted by the California Tax Credit Allocation Committee for a 9% or 4% Tax Credit Project, or other funding source establishing a maximum allowable developer fee (if applicable). If not applicable, applicant has confirmed that the developer fee is limited to the maximum allowable fee permitted by Section 8312 of the State of California Uniform Multifamily Regulations.
18	Initial debt service coverage ratio in the first year is no less than 1.10:1 and no greater than 1.20:1, except where a higher first-year ration is necessary to: (A) project first-year cash flow after debt service and required reserve deposits equal to or less than 12 percent of operating expenses; (B) meet CalHFA's standard underwriting requirements or those of a direct federal lending program; or (C) project a positive cash flow over 20 years.
19	Pro forma reflect a minimum of 5% construction contingency amount for new construction and 10% of construction costs for rehabilitation projects. Pro forma fully address this contingency in the sources and uses statement.
20	Operating proforma reflect projected annual rent increases of no more than 2.5% per year for affordable units and no more than 6% for market rate units, following CTCAC Regulations, 10327.
21	Operating proforma reflect a project stabilized vacancy rate of 5% unless alternate figure is required by another funding source (including TCAC) or supported by compelling market evidence.
22	In the absence of other funding source requirements establishing minimum deposits for replacement reserves and operating reserves, the following requirements shall apply: <ul style="list-style-type: none"> - Operating proforma for new construction projects must reflect a minimum of 0.6% replacement costs of the structure to be funded to a replacement reserve, up to \$500 per unit. - Operating proforma for rehabilitation projects must reflect an appropriation per-unit amount of replacement reserves based on a physical needs assessment acceptable to the Department, or \$500 per unit. - Operating proforma must reflect an operating reserve equal to 4 months of projected operating expenses, 4 months of required replacement reserves deposits, and 4 months of non-contingent debt service. <ul style="list-style-type: none"> o For projects with tax credits, the requirements shall be 3 months of these items.
23	Operating proforma reflect a projected positive cash flow during the 20-year or 15-year DR-MHP affordability period.
24	Applicant has disclosed agencies underwriting the development proposal (i.e., California Tax Credit Allocation Committee, HCD funding source other than DR-MHP, government agency for use of HOME Entitlement funds, other funding source with acceptably stringent standards).
25	If no alternative agency has underwritten the development proposal, the City will underwrite qualifying proposals in accordance with the State of California Uniform Multifamily Regulations.

Developer Capacity and Experience	
26	Developer has provided evidence of experience with mixed income projects and producing developments of comparable size to the proposed development, based on the total number of units in each development placed into service recently.
27	Developer has provided evidence of experience successfully completing developments with layered funding and experience with similar funding used to produce prior developments, based on the funding sources included in each development placed into service recently.
28	Developer has provided evidence that each development is operating with positive cash flow and that projected reserve accounts are adequately funded, management fees listed in the finance statements are comparable to those proposed for the DR-MHP development, based on financial statements accompanying the list developments placed into service recently.
29	Developer has provided evidence that the proposed development team is knowledgeable, experienced, and responsive, based on review of resumes and reference checks.
30	Developer has provided evidence that the proposed management team team is knowledgeable, experienced, and responsive, based on review of resumes and reference checks.
31	Based on review of certifications submitted, developer has provided evidence that there are no civil or criminal legal matters pending that are not resolved and have the potential to impact the developer's capacity to produce the proposed development.

Key Evaluation Points for CDBG-DR Projects

- Projects will be viable long-term but at least for the CDBG-DR period of affordability;
- Project debt is appropriate for the project's proposed purpose, location, and Pro Forma;
- Evaluate risk of inadequate sources of funds, risk of additional uses on site, risk of construction costs and lease-up potential (particularly for developments reserved for certain populations).

In addition to these evaluation points, the City of Shasta Lake will prioritize projects in the following order:

- Mixed -use projects
- Multi-family (non-scattered site) 8 units or more
- Multi-family (scattered site) 8 units or more

Recordkeeping Requirements

Staff should include the following in the project file:

- Name of applicant who submitted materials for review (and date submitted)
- Name of staff person who conducted the underwriting analysis
- A description of materials reviewed, and criteria used
- Summary of the results of the analysis