

U. S. Department of Housing and Urban Development
Office of Community Planning and Development

2006 Technical Submission for the
Section 8 Moderate Rehabilitation Single
Room Occupancy (SRO) Program
and the S+C SRO Component

To be completed by conditionally selected applicants only

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Recipients that are conditionally selected (selectees) as a result of the rating and ranking process will be required to submit these exhibits.

Exhibit 1 - Site Information

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Exhibit 4 - Disclosure Requirements

Exhibit 5 - Rent Reasonableness Documentation

Discussion of SRO Development Process

This discussion below describes the steps conditionally selected SRO and S+C/SRO applicants must take to complete the Development process. Unless specifically indicated in the Technical Submission, any reference to the SRO program includes the S+C/SRO component.

1. Technical Submission

Applicants must submit two copies of the additional information requested in these exhibits, including site control, documentation of financial resources, and base and contract rent calculations, to the CPD office in the appropriate Field Office. Any nonprofit applicant should also provide a copy to the Public Housing Authority (PHA) that will administer the project. Applicants will have two months from the date of the conditional selection letters from HUD to submit the information to CPD in an approved form. If an applicant cannot meet this deadline, HUD reserves the right not to award the SRO funds, but instead to add them to funds available for the next competition.

An applicant will be approved for funding and ACC execution, and Grant Agreement execution in the case of S+C/SRO, when the CPD Field Office approves the technical submission exhibits and environmental review requirements are satisfied.

2. Environmental Review

Applicants under the SRO program are responsible for ensuring that an environmental review is conducted in accordance with 24 CFR parts 58. In the

cases where a private nonprofit is selected for SRO funding, the PHA with which it subcontracts is considered the recipient.

Under part 58, it is the Public Housing Authority's (PHA) responsibility to obtain an agreement with the responsible entity (RE) designated under part 58 for the performance of environmental reviews. In most cases, the RE will be the unit of general local government within which the project is located. Upon completion of the requirements of 24 CFR parts 58, the applicant must certify the completion and submit a Request for Release of Funds.

For the S+C/SRO component, applicants that are States or units of general local government must assume responsibility as Responsible Entities (RE's) for the environmental review process in accordance with 24 CFR Part 58. For selectees that are PHA's environmental reviews will be performed under Part 58 by the RE (usually the unit of general local government) that has agreed to be responsible for the environmental review, in accordance with the RE's assurance that the PHA included in its application. HUD will not release grant funds if the applicant or any other party commits grant funds before HUD approves a Request for Release of Funds (RROF) under Part 58, except for activities that would not have an adverse environmental impact or limit the choice of reasonable alternatives until HUD approves and RROF.

outreach;
(ii) A HUD-approved policy governing relocation; and

Development Process - Continued

3. Annual Contributions Contract (ACC) Execution

Under the SRO program, HUD obligates funds to a project through execution of the ACC with a PHA. The ACC is for 11 years, allowing one year for rehab. The PHA must submit the following to the local HUD Office of Public Housing (OPH) for review and approval prior to ACC execution and, for the S+C/SRO, the S+C Grant Agreement for the S+C/SRO must be executed simultaneously:

- (a) A proposed Schedule of Allowances for Tenant-Furnished Utilities and Other Services, Form HUD 52667, with a justification of the amounts proposed.
- (b) If applicable, proposed variations to the acceptability criteria of the HUD Physical Condition Standards (PCS) 882.404 including its incorporation by reference.
- (c) The fire and building codes applicable to each project. Please note that the McKinney-Vento Homeless Assistance Act requires the installation of sprinklers to protect all major spaces in each building, hard-wired smoke detectors in each unit, and other fire and safety requirements of the State or locality. requirement of sprinklers and smoke detectors applies to **all** SRO projects, regardless of State or local law.
- (d) Administrative Plan. The Administrative Plan, as well as any subsequent changes to it, must be approved by the Field Office. Program regulations require that the Administrative Plan include:
 - (i) Procedures for establishing tenant

(iii) A mechanism to monitor provision of supportive services.

PHAs should not wait for CPD's approval of the technical submission exhibits before submitting these documents. These items should be submitted within two months of the date of the field office request for these documents, so that once HUD approves the technical submission exhibits, the ACC and, in the case of S+C/SRO, the grant agreement may be executed. CPD and OPH should notify the FMC upon approval of their respective documents alerting the FMC to complete the reservation of the funds and start the execution of the ACC once CPD has sent the funds to the FMC via the HUD 185.

4. Agreement to Enter Into Housing Assistance Payments Contract (AHAP) Execution

The AHAP establishes that, upon satisfactory completion of the rehabilitation in accordance with the AHAP provisions, the PHA will enter into a Housing Assistance Payments (HAP) Contract with the owner. **An AHAP must be signed prior to commencing rehabilitation on assisted units.**

If the rehabilitation is completed prior to AHAP execution and the statutory requirements that all assisted units require a minimum of \$3,000 HUD Physical Condition Standards (PCS) required rehabilitation cannot be met, no assistance can be provided for the

project.

The PHA must perform a number of critical tasks before an AHAP may be executed, including:

- Inspecting the structure to determine

Development Process- Continued

specific work items which need to be accomplished to bring the units to be

assisted up to HUD Physical Condition Standards (PCS) or other standards approved by HUD;

- Conducting a final feasibility analysis and determining whether cost-effective energy-conserving improvements can be added
- Ensuring that the owner prepares work write-ups and cost estimates as required by 24 CFR 882.805(c)(3);
- Determining initial base and contract rents using the forms contained in Exhibits 3 and 5;
- After firm commitments for financing and a contractor are obtained, determining whether the costs can be covered by the original contract rents, computed in accordance with 24 CFR 882.805(d), and, where a project contains more than 50 units to be assisted, submitting the base and contract rent calculations to the HUD Field Office for review and approval in sufficient time for execution of the AHAP in a timely manner;
- Obtaining firm commitments to provide other necessary supportive services or resources to be provided;
- Confirming that the per unit \$3,000 Physical Condition Standards (PCS)-required rehabilitation is met; and,
- Discussing with the owner the various financing options available and approving all financing terms in accordance with program standards.

5. Housing Assistance Payments

Development Process - Continued (HAP) Contract Execution

When rehabilitation of a project is completed, the PHA must inspect the units to be assisted to determine that the units have been completed in accordance

with the AHAP and meet the HUD Physical Condition Standards (PCS) or other standards approved by HUD. Upon PHA acceptance of the units in accordance with 24 CFR 882.507, the HAP Contract may be executed between the owner and the PHA. An owner will begin to receive SRO rental assistance payments after the HAP Contract is executed.

As required by 24 CFR 882.806(a) (2), all units should be under an AHAP, rehabilitated, and under HAP Contract within 12 months of the execution of the ACC with HUD. If this 12-month period is going to be exceeded, the PHA must request a regulatory waiver from HUD CPD for an extension of the rehabilitation and leasing schedule.

The initial contract rents established at AHAP may be increased prior to HAP Contract execution only for the following reasons:

- (a) When, during rehabilitation, work items (including substantial and necessary design changes) which (i) could not have been reasonably anticipated or are necessitated by a change in local codes or ordinances and (ii) were not listed in the work write-up approved by the PHA, or

- subsequently required and approved by the PHA.
- (b) When the actual cost of the rehabilitation performed is less than that estimated in the calculation of contract rents for the AHAP or the actual, certified costs are more than estimated due to unforeseen factors (e.g., strikes).
- (c) When the PHA (or HUD) approves changes in financing.
- (d) When the actual relocation payments made by the owner to relocate individuals varies from the cost estimated in the AHAP contract rent calculations.
- (e) When necessary to correct errors in the computation of base and contract rents to comply with HUD requirements.
- In these cases, the PHA must review and approve the new items and recalculate the rents accordingly. A PHA may approve exception rent of up to 110% of the Moderate Rehabilitation SRO FMR for these costs. Additionally, a field office may approve exception rents of up to 120% of the Moderate Rehabilitation SRO FMR for these costs in accordance with 24 CFR 882.408.

Development Process- Continued

**Exhibit 1:
Site Information**

Complete this exhibit for each site

A. Name and Address of Owner: Name _____ Street _____
 City _____
 Telephone Number () _____

Name and Address of Site: Name _____ Street _____
 City _____

- B. Site Control:** Place an “x” beside the response that describes the form of site control. Attach a copy of the supporting document to this page.
- Deed
 - Executed Contract of Sale
 - Pre-lease Agreement
 - Executed Lease Agreement – Leases must be at least as long as the 10 year term of the HAP contract.
 - Executed Option to purchase. Note: An option to purchase or a pre-lease agreement is sufficient for technical submission purposes, but title to the property or other control of the property (such as a long-term lease) for the term of the HAP contract is required before an AHAP may be executed.

C. Completion Schedule: Enter the number of calendar days from the date of Annual Contributions Contract (ACC) execution that each of the activities will take place:

Inspection of units and final feasibility analysis detailed work write-ups and cost estimates	
Determination of initial base and contract rents	
Firm commitments of financing and loan closing	
Execution of Agreement to Enter Into a Housing Assistance Payments Contract (AHAP)	
Start of rehabilitation activities	
Completion of rehabilitation activities	
Execution of HAP contract (not to exceed 365 days after ACC execution)	

Note: Applicants should note that an **AHAP must be signed prior to commencing rehabilitation on** assisted units. If rehabilitation is completed prior to AHAP execution and the statutory requirement that all assisted units require a minimum of \$3,000 PCS-required rehabilitation cannot be met, no assistance can be provided for the project.

Eligible and Ineligible Rehabilitation Costs

An eligible rehabilitation cost is one which may be amortized through the contract rents. In many cases, the amount of rehabilitation that can be amortized under the Moderate Rehabilitation SRO FMR cap is less than the total rehabilitation costs. In these cases, selectees must fund the additional costs with non-debt instruments (e.g., a grant or equity for tax credits).

1. Eligible Rehabilitation Costs.

The following are eligible costs that may be amortized in the rents:

- Demolition
- Site work
- Necessary off-site improvements, e.g., utility connections
- Structure costs (including laundry/kitchen/bathroom and other equipment, kitchen/bathroom renovation, and work on common areas, e.g., recreation room or offices where residents will receive services)
- Reasonable general requirements
- Reasonable builder's profit
- Reasonable builder's overhead
- Bond premium
- Architectural and engineering work
- Other reasonable consultant fees
- Construction interest
- Taxes and insurance during construction
- Title and recording fees
- Permits and fees
- Legal work
- Relocation costs
- Reasonable developer fee
- Other necessary and reasonable project costs

If you have a question as to whether a cost is eligible, please call your Field Office CPD Representative for assistance.

2. Ineligible Rehabilitation Costs

An applicant may not amortize the following rehabilitation costs:

- Project costs related to the rehabilitation of a manager's unit.
- Costs related to rehabbing commercial space or other space to be leased to outside groups and not related to the direct provision of services for residents.
- Luxury items such as swimming pools.
- Contingency.
- Costs attributable to owner labor (i.e., direct work or supervision of the work).
- Costs associated with the ongoing operation of a project. (for instance, a recipient might want to employ a security guard given the location of many SROs. The salary of the guard would be an ongoing expense, and as such, covered by the base rent).
- Any rehabilitation on units other than assisted SROs or efficiency units.
- Replacement reserves, operating deficit reserves, or other reserve funds.
- Furniture, supportive services, transportation, or other non-

housing costs.

Eligible and Ineligible Rehabilitation Costs - Continued

- Marketing costs
- Acquisition costs
- Syndication expenses
- Costs of placing a bridge loan

3. Physical Condition Standards (PCS).

Physical Condition Standards are found at Section 882.404 . **A unit must require a minimum of \$3,000 of rehabilitation to meet Physical Condition Standards (PCS), including its prorated share of work to be accomplished on common areas or systems.**

The \$3,000 expenditure per unit includes the cost of materials and labor to perform the required rehabilitation.

The rehabilitation items required to upgrade units to comply with PCS must be accounted for before other eligible rehabilitation items may be amortized through the contract rents.

Once all PCS-required rehabilitation is accounted for, an applicant may amortize other reasonable rehabilitation costs. Only reasonable and eligible rehabilitation costs may be amortized in the rents. An applicant may use grants, tax credit equity, or owner’s cash to pay for ineligible costs.

The cost of fire and safety equipment is both an eligible rehab cost and may be counted towards meeting the PCS minimum. Section 441(d) of the McKinney-Vento Act

requires the installation of sprinklers

to protect major spaces in each building, hard-wired smoke detectors, and other fire and safety requirements of the State or locality. Section 24 CFR 982.605(b)(4) defines major spaces as hallways, large common areas, and other areas specified in local fire, building or safety codes. Hard-wired smoke detectors should be installed in each room.

4. Reasonableness of Costs.

In the past, HUD established a fixed amount for items such as rehabilitation financing fees. HUD has now established a more flexible policy that allows selectees to determine reasonable amounts within the context of their local markets.

At the same time, HUD reserves the right to reduce rehabilitation costs which are clearly unreasonable. For instance, real estate tax which accrues during construction is an eligible cost. However, a recipient would have to prorate these tax costs when a structure contains unassisted units. In cases where there were unassisted units and the recipient amortized the entire tax amount, HUD would reduce this amount.

5. Rehabilitation Cost Limitation.

Eligible rehabilitation costs which may be amortized may not exceed \$20,500 per unit for 2006 awards , plus the cost of the fire and safety improvements required by 24 CFR

982.605(b)(4).

Eligible and Ineligible Rehabilitation Cost - Continued

Eligible and Ineligible Rehabilitation Cost - Continued

However, this amount may be increased to accommodate local conditions, including high construction costs or stringent fire or building codes. To receive this increase, an applicant must demonstrate to HUD's satisfaction that a higher average unit amount is necessary to conduct this program and that every appropriate setup has been taken to contain the amount of rehabilitation within the \$20,500 limitation (24 CFR 882.805).

In reality, the applicable \$20,500 is often superseded by the limitation imposed on the contract rent. That is, the amount of rehabilitation debt that can be amortized under the Moderate Rehabilitation SRO FMR cap is often lower than the \$20,500 limitation. Applicants that wish to undertake rehabilitation that exceed the \$20,500 limit, or the amortizable limit, must fund the excess costs with non-debt instruments.

6. Rehabilitation Financing.

In determining the monthly cost of a rehabilitation loan, a loan term of 10 years must be used, unless:

1. The actual loan term is for more than 10 years, in which case the actual loan term must be used;
2. The total amount of eligible rehabilitation is less than \$15,000, in which case the actual loan term must be used even if it is less than 10 years.

The minimum term that may be used in imputing the debt service of owner cash is 10 years. The maximum interest rate that can be used in these cases is equal to the 10-year Treasury note rate plus 350 basis points.

In cases where there are eligible and ineligible costs, and a project is being financed with both grants and conventional financing, the recipient may choose to use grants, tax credit equity, or owner's cash to pay for the ineligible costs. When an applicant is using these sources to pay for ineligible costs, this amount may not be amortized through the contract rents.

Exhibit 2: Rehabilitation and Financing – Complete this exhibit for each site

Address of Site: Project Name _____
 Address _____ City _____ State _____

A. Project Description: Please provide a narrative description of the building including common areas. Include a description of commercial or other space in the building and whether it is related to provision of services for residents of the project.

B. Uses of funds: Provide a project budget that includes total costs for the project for both assisted and unassisted units, and that identifies eligible and ineligible costs for all units to be rehabilitated in the project. A suggested format for a project budget is provided at the end of this exhibit.

If your project contains rehabilitation of assisted and unassisted units, you must prorate costs between assisted and unassisted units. If all units are SROs or efficiencies, pro-ration may be figured as a percent of assisted SRO or efficiency units to total units. This percent should be multiplied times the eligible costs and this figure placed in the last column of suggested format for a project budget.

If units are of different sizes, i.e. some SROs, some one-bedrooms, total up the projects square footage and figure out what percent the assisted SRO or efficiencies and applicable common areas are of the total project. Multiply this times the eligible costs and place figure in the last column of suggested format for a project budget. All eligible costs attributable to the assisted SROs or efficiencies may be amortized in the contract rent.

C. Construction Budget: Provide an estimated construction budget with break-out of builder’s overhead and profit.

D. Sources of Funds: List below sources of funds to be used for this project. The total sources must equal the total costs shown in the project budget.

	Source	Amount	Documentation	HUD Use Only
Loans				
Grants				

Owner's Cash				
Tax Credit Equity				
Total				

Exhibit 2: Rehabilitation and Financing - Continued

E. Documenting Source of Funds:

Submit copies of written statements of financing from lenders and all other funding sources. Applicants must provide written statements from each source listed. While an unconditional commitment of financing is not required at this stage, the amount that a funding source is considering providing must be included in the statement. Additionally, for loans, the statements should include the proposed interest rate and term, and how the loan is to be amortized. Conventionally amortized with payment of principal and interest, payment of simple interest only, interest deferred and accrued for a period of time. Projects anticipating the use of tax credits must submit their state allocation letter. Submit any letters indicating the interest of syndicators in purchasing the tax credits and the amount expected to be paid.

Suggested Project Budget Format

Description	Total	Ineligible	Eligible	Prorated
Acquisition				
Purchase Price				
Other expenses				
Total Acquisition Costs				
Hard Costs				
Demolition				
Site work (including landscaping)				
Off-site improvements				
Construction costs (including equipment)				
Hard cost contingency				
Builder's overhead				
Builder's profit				
General requirements				
Bond premium				
Total Hard Costs				
Soft Costs				
Architect				
Engineering				
Construction interest				
Insurance (construction)				
Taxes (construction)				
Title and recording				
Permits and fees				
Consultant				
Soft cost contingency				
Legal (specify)				
Relocation				
Developer's fee				

Operating reserve				
Marketing/lease-up				
Working capital reserve				
Syndication expenses (legal, accounting, fees)				
Furniture				
Total Soft Costs				
TOTAL PROJECT COSTS				

Exhibit 3: Base and Contract Rent Calculation

1. Caution. Please note that your project’s base and contract rents must be calculated by the method described in Exhibit 3. **Your project is not automatically entitled to the FMR that was used to establish your conditional award. Do not represent to lenders that this is the rent that the SRO project will receive. FMRs set maximum rents, but actual base and contract rents may be lower than the FMR.**

2. Base Rent Calculation. The PHA must determine whether the base rent for assisted SRO units is reasonable in relation to the rents being charged for comparable unassisted units, taking into account the location, size, type, quality, amenities, maintenance of the units, and management. The base rent may not be in excess of rents currently being charged by the same owner for comparable unassisted units in the same SRO project.

Exhibit 5 instructs the PHA to locate three comparable properties and to select a base rent that falls within the range from the lowest to the highest comparables selected. The PHA and the applicant are responsible for establishing a base rent for the project which provides sufficient funds to cover

ownership, management, and maintenance costs. In some areas, it may be difficult to locate comparable, unassisted SROs. In these cases, the PHA may use 75 percent of the rent for an unassisted, modestly designed efficiency unit as the reasonable rent.

The base rent may not exceed 75 percent of the Section 8 Existing Housing 0-bedroom FMR minus any allowance for tenant paid utilities. If the base rent is lower than the SRO FMR maximum, an additional amount may be available for debt service. For example, assume that the current 0-BR FMR is \$533. Thus, the maximum base rent is \$400 (\$533 times 0.75) and the maximum Moderate Rehab SRO FMR is \$480 (\$400 times 1.2). The PHA finds three comparables at \$345, \$375, and \$385. The recipient demonstrates that the project can be operated for \$360, and thus the base rent is set at \$360. With the Moderate Rehab SRO FMR at \$480, this would allow up to \$120 for the repayment of debt. Therefore, the recipient could borrow an additional \$40 per unit (\$400 maximum base rent minus \$360 actual base rent) to rehab the property.

3. Contract Rent Calculation.

This section is used to demonstrate

preliminary feasibility. A conditionally selected applicant must use financing terms in the calculation consistent with the documentation provided in Exhibit 2, item D; use eligible rehabilitation cost figures in the calculations consistent with its detailed work write-up from Exhibit 2, item C; and accurately add the monthly base rent to the monthly

rehabilitation debt service. Preliminary feasibility is determined when the monthly base rent plus the monthly rehabilitation debt service is within the limit specified in Exhibit 3, item D9.

Exhibit 3: Base and Contract Rent Calculation -Continued

Rent Charged for Unassisted Units. Rents on a project’s unassisted units must not be set lower than the base rent on the project’s assisted units. Unassisted units must cover their own operating costs and cannot be subsidized by the assisted units. To allow for maximum payment of debt service on assisted units, rehab costs for unassisted units should be covered by the project’s grants, tax credit equity, or owner’s cash.

Address of Site _____
 City _____
 State _____

A. Total Number of Units in the Property: Complete the chart below to indicate the total number of units by size in the property.

SRO Units	
0 bedroom units	
1 bedroom units	
2 bedroom units	
3 bedroom units	
4 or more bedroom units	
TOTAL UNITS	

B. Total units to be Assisted: Complete the chart below to indicate the number of units to be assisted.

SRO units	
0 bedroom units	
TOTAL UNITS	

Purpose of the Calculations: † Agreement Rents † HAP Contract Rents † Other (specify) † Preliminary Feasibility (application 2nd submission)

C. Base rent Calculation: Per the previous instructions, the base rent must be within the highest and lowest comparables selected by the PHA. Complete lines 1 through 5 to calculate the monthly base rent. If tenants will not be paying utilities, enter “0” on line 2.

1. Reasonable rent (exhibit 5)	
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2. Tenant-paid utility allowance	
3. Total (line 1 minus line 2)	
4. OBR FMR X .75 minus tenant paid utilities, if any	
5. Monthly Base Rent for Assisted units (lesser amount of line 3 or 4)	

D. Maximum Contract Rent Calculation: Complete lines 6-9 to calculate the maximum contract rent. If tenants will not be paying utilities, enter "0" on line 8.

6. OBR FMR X .75	
7. Multiply line 6 X 1.2	

Exhibit 3: Base and Contract Rent Calculations – Continued

Address of Site _____
 City _____
 State _____

A. Total Number of Units in the Property: Complete the chart below to indicate the total number of units by size in the property.

SRO Units	
0 bedroom units	
1 bedroom units	
2 bedroom units	
3 bedroom units	
4 or more bedroom units	
TOTAL UNITS	

B. Total units to be Assisted: Complete the chart below to indicate the number of units to be assisted.

SRO units	
0 bedroom units	
TOTAL UNITS	

Purpose of the Calculations: † Agreement Rents † HAP Contract Rents † Other (specify) † Preliminary Feasibility (application 2nd submission)

C. Base rent Calculation: Per the previous instructions, the base rent must be within the highest and lowest comparables selected by the PHA. Complete lines 1 through 5 to calculate the monthly base rent. If tenants will not be paying utilities, enter “0” on line 2.

1. Reasonable rent (exhibit 5)	
2. Tenant-paid utility allowance	
3. Total (line 1 minus line 2)	
4. OBR FMR X .75 minus tenant paid utilities, if any	
5. Monthly Base Rent for Assisted units (lesser amount of line 3 or 4)	

D. Maximum Contract Rent Calculation: Complete lines 6-9 to calculate the maximum contract rent. If tenants will not be paying utilities, enter “0” on line 8.

6. OBR FMR X .75	
7. Multiply line 6 X 1.2	
8. Tenant-paid utilities, if any	
9. Line 7 minus 8 (The amount on line E 13c may not exceed this amount)	

Exhibit 3: Base and Contract Rent Calculations - Continued

E. Contract Rent Calculation: Complete lines 10 to 13 to calculate the actual contract rent.

10. Total Eligible Rehab Costs including soft costs
(from Exhibit 2b and 2c)

11. Sources of Funds for Eligible Rehab Costs and Monthly Debt Service.
Complete the chart below to indicate the total amount, rate, term, and monthly debt service for each source of funding for **eligible** rehabilitation costs.

Grants	Amount	Interest Rate	Term	Monthly Debt Service
Tax Credit Equity				
Owner's cash				
Loans				
TOTAL	11a			11b
12. Total Monthly Debt Service per month (11b divided by the number of assisted units)				12
13. Monthly Contract Rent for Assisted Units a. Monthly Base Rent (from line C5)				13a
b. Monthly Debt Service per unit (from line 12)				13b
c. Monthly Contract Rent for Assisted Units (line 13a + 13b) This amount may not exceed the amount on line D9				13c

Comment(s)

Discussion of SRO Disclosure Requirements

Other government assistance: Section 102(d) of the HUD Reform Act of 1989 requires that HUD ensure that the amount of HUD assistance provided to a project is not more than is necessary, taking into account “other government assistance.” Other government assistance is defined to include any loan, grant, guarantee, insurance, payment, rebate, subsidy, credit, tax benefit, or any other form of direct or indirect assistance from the Federal government (other than that requested from HUD in the application), a State, or a unit of general local government, or any agency or instrumentality thereof, that is, or is expected to be made, available with respect to the project or activities for which the assistance is sought.

Applicants should include a description under Exhibit 4, Reform Act Requirements, of any of the above assistance not described in Exhibit 2, item B. Applicants should also indicate in Exhibit 4 if they have been awarded tax credits for the project and the type and amount.

Pecuniary Interest and Identity of Interest: Applicants must also disclose any pecuniary interest and any identity of interest relationship.

Exhibit 4: SRO Disclosure Requirements

A. Other Government Assistance: Describe the type and amount of other government assistance which is not listed in Exhibit 2, Part D. In addition, if using low income housing tax credits (LIHTC), historic tax credits (HTC), or other State or local tax credits, describe the type and amount of tax credits.

B. Pecuniary Interest: Applicants should list the developers, contractors, consultants or management agents involved in the planning, development or implementation of this project if their financial interest or compensation from the project exceeds \$50,000 or 10 percent of the total SRO rental assistance, whichever is lowest. Please list names, addresses, the entity’s specific role and the amount earned from the project.

Pecuniary Interest: Applicants using tax credits should disclose who their investors are if they know at this point. In addition, any individual or entity who has an equity interest in the project and shares in any profit on resale or any distribution of surplus cash must be disclosed.

C. Tax Credits: If the project will not be using LIHTC or HTC programs, attach the following certification:

RE: Project No. _____ Project Name _____

I certify that neither I nor any other representative of the project identified above currently intends to participate in the LIHTC or HTC programs with regard to the subject project.

If plans change and I or another representative of the project decide to participate in the LIHTC or HTC programs with regard to the subject project, I will notify HUD in writing immediately following our decision to participate.

Signature _____ Date _____

Name _____ Title _____

Warning: It is a crime to knowingly make false statements to a federal agency. Penalties upon conviction can include a fine and imprisonment. For details, see Title 18 U. S. Code, Sections 1001 and 1010.

D. Identity of Interest: Selectees must disclose any identity of interest relationship between themselves and the seller of the project site, developer, contractor, subcontractor, consultant, management agent, material suppliers, or lender. Identity of interest is based upon family or financial ties or interest. Owners must fully disclose identity or interest relationships and describe these relationships.

If there are no identity of interest relationships, please sign the following certification.
RE: Project No. _____ Project Name _____

I certify that neither I nor any representative of the project identified above has an identity of interest relationship with the seller of the project site, developer, contractor, subcontractor, consultant, management agent, material supplier or lender. If this changes, I or another representative of the project will notify HUD in writing.

Signature _____ Date _____
Name _____ Title _____

Warning: It is a crime to knowingly make false statements to a federal agency. Penalties upon conviction can include a fine and imprisonment. For details, see Title 1d U.S. Code, Sections 1001 and 1010.

Exhibit 5: Rent Reasonableness Documentation - To be completed by the PHA

A. Proposed Project Site Information:

Street Address _____ City _____ State _____
Name and Address of Owner _____ Total number of assisted units _____
Type of Structure garden apts., elevator building, single family, Other

SRO _____

OBR _____

Maximum Base Rent (0.75 X OBR FMR): _____

Reasonable Rent (based on comparables below): _____

Note: The PHA should locate three comparable properties and select a base rent that falls within the range from the lowest to the highest comparable selected. The base rent should be entered on exhibit 3, line C1 of the technical submission exhibits. In cases where there are no comparable SRO units, applicants should identify three unassisted, modestly designed efficiency units in the area and use 75% of the rent for each of these units as the comparable rents.

If there are no comparable unassisted SRO or efficiency units in the jurisdiction where the project is located, the PHA should certify that there are no comparable units to determine rent reasonableness.

The following are rent comparables:

Name and Address _____ City _____ State _____

Type of Structure garden apts. elevator bldg. single family Other

Total Number of Units in Structure: _____

SRO _____

OBR _____

Tenant-paid utilities, if any: _____

Name and Address _____ City _____ State _____
Type of Structure garden apts. elevator bldg. single family Other
Total Number of Units in Structure : _____
SRO _____
OBR _____
Tenant-paid utilities, if any: _____

Name and Address _____ City _____ State _____
Type of Structure garden apts. elevator bldg. single family Other
Total Number of Units in Structure: _____
SRO _____
OBR _____
Tenant-paid utilities, if any: _____

I hereby certify that all the information stated herein, as well as any information provided in the accompaniment herewith, is true and accurate. **Warning:** HUD will prosecute false claims and statements. Conviction may result in criminal and/or civil penalties. (18 U.S.C. 1001, 1010, 1012; 31 U.S.C. 3729, 3802).

Name of Public Housing Authority _____

Signature _____ Title _____ Date _____

Attachment 2

Reviewer's Guide 2003 / 2004 SRO Technical Documentation

In order to approve a project's technical submission, all five exhibits must be submitted and be complete:

- Site Information, Exhibit 1.
- Rehabilitation and Financing, Exhibit 2.
- Base and Contract Rent Calculations, Exhibit 3.
- Disclosure Requirements, Exhibit 4.
- Rent Reasonableness Documentation, Exhibit 5.

The following guide provides more detailed information, beyond the narrative found in the 2003/2004 technical submission package, as to how to review each of these exhibits.

Exhibit 1: Site Information

Site control must be demonstrated in order to receive technical submission approval. Site control may be demonstrated through a deed, an executed contract of sale, an executed pre-lease agreement, an executed lease agreement which is at least as long as the ten year HAP contract, or an executed option to purchase.

An option to purchase or a pre-lease agreement is sufficient for technical submission purposes, but title to the property or other control of the property (such as a long-term lease) for the term of the HAP Contract is required before an AHAP may be executed.

For each of these methods of demonstrating site control, you should review the following:

1. Who are the parties on the deed, contract or other agreement. Are these the same parties discussed in the original application? If not, is it a wholly-owned subsidiary of the grantee or a limited partnership? Be sure you understand how these entities relate to the grantee. Generally for SRO projects, it is acceptable for the project's grantee or sponsor to have set up a subsidiary to be the managing partner of a for-profit partnership set up to take advantage of the Low-Income Housing Tax Credit (LIHTC). It is also acceptable for the project sponsor to be a subsidiary of HUD's recipient.
2. If entities totally unrelated to HUD's grantee recipient or to the project sponsor discussed in the application are parties to the site control document, get the recipient to explain. The AHAP and the HAP will be executed with the entity that has site control.

What dates are on the sales contract, option, pre-lease agreement or executed lease? Do they make sense within the completion schedule at Exhibit 1-C?

Are the documents executed or are they still in draft? If not, when will they be executed? They need to be executed before the AHAP is signed.

Do they contain the correct address of the site that was awarded funding? If not, is this a site change?

Exhibit 2: Rehabilitation and Financing

1. Make sure that Sources and Uses equal each other. If they don't, get the grantee recipient to explain the discrepancy.
2. Check eligible and ineligible costs shown in the project budget against the listing of eligible and ineligible costs in the technical submission booklet to ensure the proper classification. Only eligible costs may be amortized in the rents. Some costs, while eligible, may appear excessive or inflated. In these cases, the reviewer should question the cost estimate and require additional documentation. If necessary, the reviewer may reduce costs that are unreasonable.
3. The following standards should be used in determining reasonability for several line items in construction contracts:
 - General requirements. Will include items necessary to get a construction job done. Includes such things as rental of a construction trailer, site utilities, or construction fencing. Usually 5% to 10% of hard costs.
 - Builder's profit. The profit that the construction contractor will take for completing the construction job, usually 5 % to 10% of hard costs.
 - Builder's overhead. Covers the construction contractor's cost of doing business such as maintaining an office and related staff. Usually about 2% of hard costs.
 - Developer's fee. This is the developer's compensation for bringing a project to completion. A developer fee of not more than 10% of total project costs may be allowed.

The percent for these items may vary depending on where you are located. If construction contractors routinely charge 5% overhead in your area, simply provide documentation to this effect in the project file. Also, if the construction contract is small, the levels of profit may be higher.

Also, if the construction contract is small, the levels of profit may be higher.

4. Please remember that the above amounts are those that may be amortized in the rents. Amounts in excess of the above standards may still be paid for with grant funds.

Exhibit 2: Rehabilitation and Financing - Reviewing Sources of Funds

LIHTC's

1. Low-Income Housing Tax Credits (LIHTCs) are a frequent source of funds for SRO projects. This is a federal program run by the Internal Revenue Service (IRS). State Housing Credit Agencies run competitions and make allocations of credits to housing projects proposing to serve low-income persons. On receiving an allocation of credits, a project sponsor or developer will arrange to "sell" them to an investor. This "sale" is arranged by a "syndicator." There are many syndicators across the country. Two well known firms are the National Equity Fund (NEF) and the Enterprise Social Investment Corporation (ESIC).

The proceeds of this sale usually come into the project over a period of time, which may be as short as a year or as long as seven years. Short term financing or a "bridge loan" may be needed to bridge this gap.

In return for buying the credits and investing in the project, investors get to take 1/10 of the total allocation as a credit on the payment of annual federal income taxes for a period of ten years. The majority of investors are corporations who want to reduce their federal income taxes.

There is a disparity between the term of the HAP contract (ten years) and the tax credit LIHTC compliance period of fifteen years. Tax credit LIHTC projects will frequently have large operating reserve funds in order to ensure that the project is able to operate until the end of year 15, in the event that HUD does not renew the Section 8 assistance at the end of year 10.

2. Selectees need to have at a minimum, their tax credit allocation letter in order to receive technical submission approval. While it is not necessary for the applicant selectee to have finalized the sale of tax credits to complete the technical submission, a commitment letter with a description of the terms will be required for the subsidy layering review conducted by CPD Headquarters.

3. If the syndicators have provided a letter to indicate an amount of equity to be invested in the project, divide this by the 10 year tax credit allocation (equity/tax credit allocation) to determine the amount of equity per tax credit dollar. The resulting number should be between \$.55 and \$.80. In some cases, it may be higher. If it falls outside of this range, please call the Division of Community Assistance (DCA) of SNAPs at (202) 708-1234 to discuss.

4. If the recipient selectee has no letter from a syndicator, review the amount expected to be earned from the sale of the tax credits and make the same calculation and assessment as described in #3.

5. A project may also be receiving historic tax credits., if they are renovating their building according to standards established by the U.S. Department of the Interior., A credit of 20% of qualified rehab costs may be taken. Investors also buy these at about

\$.80 per historic credit dollar. The credit on against federal taxes must be taken in the project's first operating year. You should divide the expected equity by the amount of the tax credit and evaluate whether it is between \$.35 and \$.85. Call the DCA if it is not.

6. Sometimes syndicators will provide one amount that takes into consideration payment for both the LIHTCs and the historic credits. This figure will usually be above \$.60 and below \$.80. Ask the recipient selectee to get the syndicator to break the payment down for the two different types of credits. Call the DCA if they will not.

Other Considerations

1. If there is a CDBG or HOME loan in the project, get the recipient selectee to clarify whether this money is actually being granted to the recipient selectee or owner and then loaned to the project. This will be important in calculating the rents, as described below in Exhibit 3.

2. Clarify the source of funds under the Owner's Cash line item. Clarify whether this is money that the recipient selectee or owner is contributing out of its own bank account, or if it is a developer's fee earned from this project that will be reinvested in the project. This will also be important in calculating the rents, as described below in Exhibit 3.

Exhibit 3: Base and Contract Rent Calculations

1. The form for completing the base rent documentation for rent reasonableness is found in Exhibit 5 below.

2. **Debt Service Calculations.** Public and private lenders make a variety of different types of loans in order to make SRO projects work. The following describes the type of loan and tells how you should treat it in calculating a project's contract rent:

a. Regular amortized loan: Allows debt service for repayment of interest and principal at specified annual interest rate over the term of the loan. Use a financial calculator or EXCEL program to verify. This monthly debt service may be counted in the contract rents.

b. Loan amortized over a different number of years from the loan term: For example, the term of the loan might be set at 25 years with monthly payments amortized over the full term of the loan. However, the loan agreement might require a balloon payment at the end of 20 years. This approach provides for a smaller loan payment during the initial 20 years of the loan term. For rent calculation purposes, calculate the debt service based on the 25-year term and applicable interest rate. This monthly debt service may be counted in the contract rent.

c. Interest only loan: Take the amount of loan and multiply by annual interest rate. For instance, an interest only loan of \$500,000 at 10% would mean annual interest of \$50,000 or \$4,167 per month. This monthly debt service may be counted in the contract rent.

- e. **d. Adjusted interest loan:** The interest rate on a loan will float based on the prevailing interest rate. The interest rate used in the rent calculation should be the one in effect at the time the calculation is completed. This should then be adjusted to the rate in effect at the time the AHAP is signed and, again, at the time the HAP is signed. After this, no further adjustment will be made.
- f. **Residual receipts loan:** Loan will be repaid only if there is cash flow after the payment of operating expenses and other loans. These loans are written at a certain interest rate and term. They are used by public sector lenders for projects that have one or more of the following characteristics:
- Have high operating costs;
 - Are required by lenders or investors to put money into an operating reserve in order to guarantee that a tax credit project will be operational if the SRO rental assistance is lost after 10 years; or,
 - Must achieve a certain debt coverage ratio (DCR) of net net operating income to debt service to satisfy private lenders.
 - Net operating income (NOI) is the amount left over after the payment of operating expenses. If you divide the debt service into NOI (NOI/debt service), you get the Debt Coverage Ratio (DCR). Private lenders will have their own DCR standard, usually from 1.05 to 1.20. Below this, they will not lend money to a project.
 - Debt service may be paid out on a residual receipts loan if there is a reasonable expectation that some repayment will be made on the annual basis during the term of the HAP contract. If you have a project with a receipts loan, you should request a 10-year operating pro forma and review it per the instructions at the end of this section. Please call the DCA if you have questions.
- f. **Deferred and accrued loan:** Repayment of principal and interest is deferred over a period of years with all interest and principal due at the end of the term.

These loans are frequently used in tTax cCredit projects. The IRS requires that they be actual loans, not loans that will be forgiven at some point in the future. Debt service cannot be paid out on a deferred loan as there is no expectation of repayment before the end of the HAP contract.

3. **Loans of Less than \$15,000.** A term of at least 10 years must be used except where the amount of rehab work is less than \$15,000. In cases where a loan is less than \$15,000 and the term is less than 10 years, the actual loan term must be used. The project rent must then be reduced at the end of the loan term. Loans of less than \$15,000 are highly unlikely.

4. **Owner Cash or Equity.** Any owner cash or equity that is invested in the project to pay for eligible rehab costs is treated as a loan to the project. Debt service is allowed at an interest rate equal to the 10-year Treasury note rate plus 350 basis points over a term

of ten years. True owner's cash or equity is what a grantee or recipient is contributing out of their own bank account.

A developer fee earned by the project sponsor cannot be contributed to the project as owner cash and earn a debt service payment. Even though the fee would be reinvested in the project, this is deemed to be double dipping as the owner would receive both the developer fee and earn interest on it as well.

Funds from the sale of tax credits that are invested in the project also cannot be treated as owner cash and receive a debt service payment. This is also considered double dipping as the project investors would benefit from the tax credits and the project would earn a higher contract rent because of the imputed loan.

5. CDBG or HOME Funds Loaned to the Project. If there is a CDBG or HOME loan in the project, get the recipient selectee to clarify whether this money is actually being granted either to the recipient or the owner and then loaned to the project. If so, then no debt service may be paid. Double dipping results from this situation, as the recipient selectee or owner receives a grant and then earns a return on that grant that does not have to be paid back. However, if the funds are a loan that actually has to be paid back to the locality, debt service may be paid through the rents.

Review of Operating Pro Forma

If you request a pro forma from a recipient selectee in order to make a judgment about their base rent per the instructions in Exhibit 3, you should review the following items on it:

1. **Income.** Does the annual amount of rent to be collected accurately reflect the number of units (assisted and unassisted), the correct contract rent and rent for the unassisted units times twelve months?
2. **Vacancy Allowance.** Is the vacancy rate reasonable? Frequently, projects will show a vacancy allowance of 5%, although lenders may request that this be higher during the first year to reflect a period of lease-up.
3. Is the gross effective rent (income minus vacancy allowance) correct?
4. Are the operating expenses reasonable? Are there line items that you don't understand? Ask the recipient selectee to explain.
5. What is the amount left over after the payment of operating expenses? This is called the net operating income (NOI) and must be high enough to cover debt payments.
6. What debt service payments are being made and to whom? Do they reflect the terms and interest rates reflected in the commitment letters from lenders?
7. Is the project required by its lenders to achieve a certain debt coverage ratio

(DCR)? DCR is calculated by taking the NOI/debt service and represents a cushion of funds ensuring that a lender will receive a timely repayment on a loan even if the project runs into operating problems. Typical DCRs are 1.05 to 1.20.

8. What cash flow is shown? (Cash flow is what remains from income after payment of operating expenses and debt service). Where will it go? Are there incentive management fees that are being paid out of cash flow? Frequently, Tax Credit projects have such reserves and all available cash flow must go into them. This will help the project survive the full tax credit compliance period of 15 years in the event that HUD does not renew the rental assistance at the end of 10 years.
9. Please call DCA if the pro forma presents questions that you can't get answers to or if you don't understand whether debt service on a residual receipts loan should be paid through the SRO rental assistance.

Exhibit 4 - Disclosure Requirements

B. Other Government Assistance

1. If a project is using Low-Income Housing Tax Credits (LIHTCs), an additional analysis must be completed by SNAPs prior to execution of the AHAP. The recipient or project owner will be required to submit additional project information to SNAPs. The information will be used to complete a subsidy layering analysis as to whether the level of HUD housing assistance proposed is appropriate when combined with the LIHTC.

This review takes several weeks to complete, so the recipient or project owner must plan accordingly. To receive a list of the information that must be submitted, please contact the Division of Community Assistance DCA at (202) 708-1234.

2. If the project lists another type of tax credit besides LIHTCs please call SNAPs to review whether a subsidy layering review needs to be completed.

B. Pecuniary Interest

In reviewing these sections, you should look for Identity of Interest (IOI) relationships. Use the following guidance to evaluate and call the DCA to discuss if you find an IOI relationship (Note, section C. Tax Credits is self-explanatory).

1. IOI Definition

Any relationship that gives the appearance of being less than an arms length transaction between seller and purchaser, owner and general contractor, subcontractor, material supplier owner and lender. Identity of interest is based upon family or financial interests. There is nothing illegal with an identity of interest, although they require close scrutiny to ensure that parties do not act in collusion to inflate costs.

2. Disclosure Requirements

The Technical Submission requires owners to fully disclose identity of interest relationships or to certify that no relationships exist.

3. Identity of Interest Sales Transactions

The price of the property should be set no higher than the appraised value. As long as banks or public sector lenders are financing the purchase and have required an appraisal, SNAPs will recognize the sale at that price. While the cost of the property is not amortized in the base rent, a recipient may want to reinvest the proceeds from the sale in the project. You should not allow this to be counted as an imputed loan that earns debt service.

4. Identity of Interest Loans

When the IOI exists between an owner and lender, HUD will recognize a loan where the debt service is no more than the return allowed for owner cash invested in the project. This is an interest rate equal to the 10-year Treasury note rate plus 350 basis points for the 10-year term of the loan. Loans are capped at this amount.

5. Identity of Interest with Contractor or Supplier

Rehab costs should be reviewed to ensure that costs are reasonable and do not exceed area prevailing rates for such work.

Contract rents may include reasonable and prevailing amounts for overhead and profit. Also, a reasonable developer fee will be allowed. Additional amounts for owner labor or supervision may not be included in contract rents.

You should alert the PHA to any IOI relationships that you find.

Exhibit 5: Rent Reasonableness Documentation

1. A project's base rent must now fall within the range of rents on three comparable properties found by the PHA and must be set at an amount that provides sufficient funds to cover ownership, management and maintenance costs. For example: The rents on three comparable properties are \$300, \$325, and \$350. Therefore, the rent on the project must fall within the \$300 to \$350 range, at an amount that will allow sufficient funds for operating the project. In any event, the base rent cannot exceed 75% of the 0-BR FMR.
2. If a project is not feasible using this method of calculating base rent, and there are compelling reasons why a project cannot be operated using the above method, the recipient selectee may request that the rents be calculated in accordance with an alternative method approved by HUD pursuant to 882.805(d). Selectees should

submit a written proposal for an alternative method of calculating reasonable rent to the Field Office, the reasons why their project is not feasible using the above described method and a ten-year operating pro forma. The Field Office should review the pro forma per the instructions in this reviewer's guide and make a determination as to whether the request is reasonable. This request and recommendation should be forwarded to the DCA.

