Slide 1

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HOME and Housing Trust Fund
JANUARY 12 – 14

Housing Credit
JANUARY 14 – 16

MRBs and Other Federal Homeownership Programs
JANUARY 15 – 17

Section 8 and Other Federally Assisted Multifamily Housing
JANUARY 15 – 17

HOME & HTF Cost Allocation Clinic

January 13, 2020

NCSHA
National Council of State Housing Agencies

1

Slide 2

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Welcome & Introductions

- Sponsored by:
  - HUD's Office of Affordable Housing Programs
  - NCSHA
- Trainers:
  - Steve Lathom, TDA Consulting   – Caitlin Renner, OAHP
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Slide 2

2

Slide 3

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Objectives

- Hands-on overview
  - Mini-case studies
- Comparability & Eligible/Ineligible Costs
- Demonstrating use of Cost Allocation Tool
  - Available on HUD Exchange

Slide 3

3

Slide 4

Cost Allocation: When & Why

- Required when not all units are HOME/HTF-assisted
  - CPD 16-15
- Regulatory drivers:
  - Eligible costs: HOME §92.205(d)(1) & HTF §93.200(c)(1)
    - "Only the actual {HOME/HTF} eligible development costs of the assisted units may be charged to the {HOME/HTF} program"
    - Costs "determined based on a method of cost allocation"
  - Max. per unit subsidy limits: HOME §92.250(a) & HTF §93.300(a)
    - See CPD Notice 15-003; consult with Field Office
  - Underwriting: HOME §92.250(b) & HTF §93.300(b)
    - Invest no more than "necessary to provide quality affordable housing that is financially viable…"

Slide 4

4
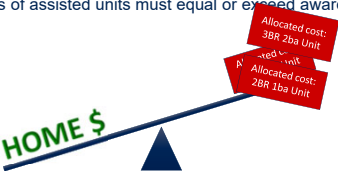
Slide 5

Cost Allocation: What

- Assigns project's actual and eligible costs to units
- Goal is balance btw HOME/HTF award and cost of units subject to restrictions
  - Eligible costs of assisted units must equal or exceed award

HOME $

Slide 5

5

Slide 6

Cost Allocation: HOME v. HTF

- Three minor differences for HTF
  1. State defines max. per unit subsidy in allocation plan, not tied to FHA Sec. 234 limits like HOME
  2. HTF can provide operating assistance/reserves in limited circumstances
     - Must be tied only to HTF unit (essentially cost allocated w/in the project's operating budget), so excluded from both TDC and HTF investment
  3. Subtle differences in eligibility of public housing units, may lead to variations in cost allocation

Slide 6

6

Cost Allocation Tool

- Excel workbook available on HUD Exchange
  - Selection of Method: Based on comparability and initial input (funds requested or designated units)
    - For every project
  - Method-specific worksheets: Standard Method, Proration Method, Hybrid Method
    - Only do one per project
- Units not comparable → must use Standard Method
- Most projects will use either Standard Method or Proration Method

Slide 7

7

Key Inputs/Determinations

- Cost Allocation Tool
  - Does the math
  - Doesn't make judgements
- Key evaluations a PJ must make:
  - Are units comparable?
  - Which costs are eligible/ineligible for HOME?

Slide 8

8

What Are "Comparable" Units?

- Comparable ≠ identical
  - Configuration (# BRs, bathrooms, total rooms)
  - Size (sq. footage)
  - Amenities & finishes (features, fixtures, & finishes)
  - Rents (if unassisted/unrestricted)
- May have comparability within unit types

Slide 9

9

Determining Comparability

- Review architectural plans for unit layouts and square footage
  - Summary table often provided
- Review specifications
  - Look for differences in finishes and amenities
  - Consider adding specific certifications/warranties in application materials disclosing any differences

Slide 10

10

Case A

HUD NET RENTABLE (LEASIBLE) SQUARE FOOTAGE

UNIT	TYPE	NUMBER OF UNITS	UNIT NET RENTABLE AREA [4]	TOTAL NET RENTABLE AREA
A	ONE BEDROOM	7	846	5,922
B	ONE BEDROOM HDCP.	2	847	1,694
C	ONE BEDROOM SENSORY IMPAIRED	1	846	846
D	TWO BEDROOM	24	1,143	27,432
DD	TWO BEDROOM	33	1,124	37,092
E	TWO BEDROOM HDCP.	2	1,124	2,248
F	TWO BEDROOM SENSORY IMPAIRED	1	1,124	1,124
TOTAL UNITS		70		76,358

Slide 11

11

Case A

- Determination: Units are comparable
- Need avg. sq. ft. by unit type for Cost Allocation Tool

HUD NET RENTABLE (LEASIBLE) SQUARE FOOTAGE

UNIT	TYPE	NUMBER OF UNITS	UNIT NET RENTABLE AREA [4]	TOTAL NET RENTABLE AREA
A	ONE BEDROOM	7	846	5,922
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DD	TWO BEDROOM	33	1,124	37,092
E	TWO BEDROOM HDCP.	2	1,124	2,248
F	TWO BEDROOM SENSORY IMPAIRED	1	1,124	1,124
TOTAL UNITS		70		76,358

5,922 + 1,694 + 846 = 8,462 divided by 10 = 846.2 avg.

27,432 + 37,092 + 2,248 + 1,124 = 67,896 divided by 60 units = 1,131.6 avg.

Slide 12

12

Slide 13

Case B — UNIT SQUARE FOOTAGE

UNIT	TYPE	HUD NET RENTABLE SQUARE FOOTAGE (1)	NO. OF UNITS	UNIT GROSS SQUARE FOOTAGE (2)	HUD NET RENTABLE SQUARE FOOTAGE (1)	GROSS SQUARE FOOTAGE (2)
A1	ONE BEDROOM	659	12	711	7,908	8,532
A2	ONE BEDROOM	631	10	682	6,310	6,820
A3	ONE BEDROOM	659	1	691	659	691
A4	ONE BEDROOM	648	1	700	648	700
A5	ONE BEDROOM - 1st-2nd FLOOR	724	2	784	1,448	1,568
A5	ONE BEDROOM - 3rd-5th FLOOR	724	3	811	2,172	2,433
A6	ONE BEDROOM - 2nd FLOOR	653	1	711	653	711
A6	ONE BEDROOM - 3rd-5th FLOOR	653	3	732	1,959	2,196
B	ONE BEDROOM - H/C	659	2	711	1,318	1,422
C	ONE BEDROOM - SENSORY	659	1	711	659	711
D1	TWO BEDROOM - 1st-3rd FLOOR	895	8	906	7,160	7,648
D1	TWO BEDROOM - 3rd-5th FLOOR	895	9	972	8,055	8,748
D2	TWO BEDROOM - 2nd FLOOR	893	1	960	893	960
D2	TWO BEDROOM - 3rd-5th FLOOR	893	3	989	2,679	2,967
D3	TWO BEDROOM - 2nd-3rd FLOOR	1,011	2	1,077	2,022	2,154
D3	TWO BEDROOM - 4th-5th FLOOR	1,011	2	1,090	2,022	2,180
E	TWO BEDROOM - H/C	895	2	908	1,790	1,816
F	TWO BEDROOM - SENSORY	895	1	908	895	908
SUB-TOTAL UNITS			64		49,250	53,313

13

Slide 14

Case B – One Bedroom Layouts

UNIT A2 — 631 Sq. Ft. — ONE BEDROOM

UNIT A5 — 724 Sq. Ft. — ONE BEDROOM

14

Slide 15

Case B

- Significant variation w/ 1-BR and 2-BR units
  - Treat as non-comparable, **or**
  - Refine unit typology to achieve comparable groups
- 1-BR units (36 total)
  - 5 "Large" 1-BR/1-Bath (avg. 724 sq. ft.)
  - 31 "Small" 1-BR/1-Bath (avg. 648.2 sq. ft.)
- 2-BR units (28 total)
  - 4 "Large" 2-BR/2-Bath (avg. 1,011 sq. ft.)
  - 24 "Small" 2-BR/2-Bath (avg. 894.7 sq. ft.)

15

16

HOME Eligible v. Ineligible Costs

• Distinguish btw eligible and ineligible costs in total budget
  • Needed for cost allocation, and
  • Disbursement, only disburse for eligible costs
• Key references
  • 92.206 (eligible costs) & 92.214 (prohibited activities)
• Usual suspects:
  • Stand-alone accessory structures
  • Capitalized reserves (exception for 18 month rent-up)
  • Organizational/partnership & syndication expenses
  • Off-site infrastructure
  • Furnishings and equipment

Slide 17

17

18

Slide 19

Practical Tips

- Seek more detailed itemization
  - Ideal: Update proforma/budget formats to itemize common ineligible items
  - In the meantime: Seek additional breakdown of costs when ineligible items obviously mixed in
    - e.g. hard costs includes accessory structures
- Err on the side of caution
  - Treat unclear or questionable items as ineligible
  - Treat contingency as ineligible (may not be used or may get used for ineligible purposes)
  - Worst case is marginal "over designation" of HOME units

Slide 19

19

Slide 20

Case A – Ineligible Costs

- Total costs treated as ineligible for HOME:
  - **$1,156,516**
- *Remember, acting conservatively, more detail may have resulted in fewer ineligible costs*

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Slide 20

USES	Total Costs
Construction Cost	8,178,858
Payment and Performance Bond	74,700
Land Cost	500,340
Permitting and Tap fees	138,700
Loan Fees (Perm/Const/Bridge)	140,200
Interest During Construction	240,000
Eng. & Architect	358,000
Builders Risk	28,600
Taxes During Construction	20,000
Legal and Organizational Costs	88,000 +
Other (Clubhouse, Marketing, etc.)	177,000 +
Title and Recording	44,000
Syndication Fee	0
Operating/Replacement Reserve	208,618 +
Deficit Reserve	0
PJ's Project Specific Soft Costs	45,000
LIHTC Fees	242,644 +
Builders Profit and Overhead	626,230
Contingency	440,254 +
Developer Fee	1,732,672
TOTAL USES	13,283,816

20

Slide 21

Cost Allocation Tool

- Let's fill it out…
  - Case A – proration method
  - Case C – standard method
- Handouts provided…

Slide 21

21