



THE HFA INSTITUTE

HOME & HTF
Cost Allocation Clinic

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National Council of
State Housing Agencies



U.S. DEPARTMENT OF
HOUSING & URBAN DEVELOPMENT


Welcome & Introductions

- Sponsored by:
 - HUD's Office of Affordable Housing Programs
 - NCSHA
- Trainer:
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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




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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...”




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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




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Cost Allocation: HOME v. HTF

- Three minor differences for HTF
 - State defines max. per unit subsidy in allocation plan, not tied to FHA Sec. 234 limits like HOME
 - 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
 - Subtle differences in eligibility of public housing units, may lead to variations in cost allocation




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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



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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?



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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



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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

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Case A

HUD NET RENTABLE (LEASIBLE) SQUARE FOOTAGE

UNIT	TYPE	NUMBER OF UNITS	UNIT NET RENTABLE AREA (sq. ft.)	TOTAL NET RENTABLE AREA (sq. ft.)
A	ONE BEDROOM	7	846	5,922
B	ONE BEDROOM HDOP	2	847	1,694
C	ONE BEDROOM BRIDGE	1	846	846
D	TWO BEDROOM	24	1,143	27,432
DD	TWO BEDROOM	33	1,124	37,092
E	TWO BEDROOM HDOP	2	1,124	2,248
F	TWO BEDROOM BRIDGE	1	1,124	1,124
TOTAL UNITS		70		76,358

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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 (sq. ft.)	TOTAL NET RENTABLE AREA (sq. ft.)
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F	TWO BEDROOM BRIDGE	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.

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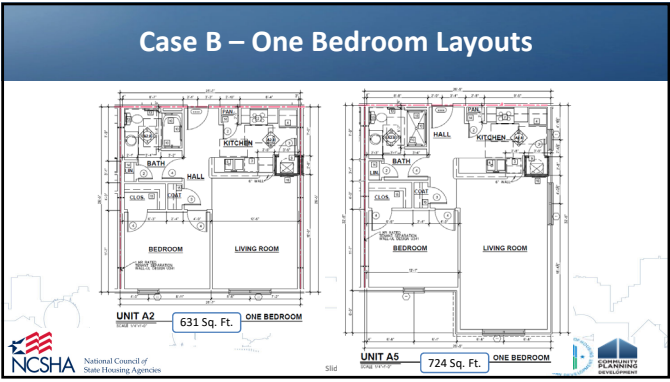
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Case B

UNIT SQUARE FOOTAGE						
UNIT	TYPE	HUD NET RENTABLE SQUARE FOOTAGE (1)	NO. OF UNITS	HUD NET RENTABLE SQUARE FOOTAGE (2)	HUD NET RENTABLE SQUARE FOOTAGE (3)	HUD NET RENTABLE SQUARE FOOTAGE (4)
A1	ONE BEDROOM	699	12	8,388	8,388	8,388
A2	ONE BEDROOM	631	10	6,310	6,310	6,310
A3	ONE BEDROOM	639	1	639	639	639
A4	ONE BEDROOM	648	1	648	648	648
A5	ONE BEDROOM - 1st/2nd FLOOR	724	2	1,448	1,448	1,448
A6	ONE BEDROOM - 3rd/4th FLOOR	724	3	2,172	2,172	2,172
A7	ONE BEDROOM - 2nd FLOOR	693	1	693	693	693
A8	ONE BEDROOM - 3rd/4th FLOOR	693	3	2,079	2,079	2,079
B	ONE BEDROOM - HIC	699	2	1,398	1,398	1,398
C	ONE BEDROOM - SENIORITY	699	1	699	699	699
D1	TWO BEDROOM - 1st/2nd FLOOR	899	8	7,192	7,192	7,192
D2	TWO BEDROOM - 3rd/4th FLOOR	899	9	8,091	8,091	8,091
D3	TWO BEDROOM - 2nd FLOOR	899	1	899	899	899
D4	TWO BEDROOM - 3rd/4th FLOOR	899	3	2,697	2,697	2,697
D5	TWO BEDROOM - 2nd/3rd FLOOR	1,011	2	2,022	2,022	2,022
D6	TWO BEDROOM - 4th/5th FLOOR	1,011	2	2,022	2,022	2,022
E	TWO BEDROOM - HIC	899	2	1,798	1,798	1,798
F	TWO BEDROOM - SENIORITY	899	1	899	899	899
GRAND TOTAL UNITS			84	84,240	84,240	84,240

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- 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.)
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Case C – First Floor

Not Comparable

1-BR units	
#103	– 970 sq. ft. *1.5-Bath
#104	– 468 sq. ft.
#105	– 472 sq. ft.
#108	– 658 sq. ft.
#109	– 511 sq. ft.
2- BR units	
#106	– 777 sq. ft. *only 1-Bath
#107	– 966 sq. ft. *1.5-Bath
3-BR units	
#101	– 1,139 sq. ft.
#102	– 1,145 sq. ft.

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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

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Case A – Budget

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	205,000
Builders Risk	28,600
Taxes During Construction	20,000
Legal and Organization 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
PI's Project Specific Soft Costs	45,000
LIHTC Fees	242,644
Builder's Profit and Overhead	626,230
Contingency	440,254
Developer Fee	1,732,672
TOTAL USES	13,283,816

Check for off-site or free-standing

Org./Syndication Costs

Reserves

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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

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Case A – Ineligible Costs

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
PI's Project Specific Soft Costs	45,000
LHMC Fees	242,644 ↑
Builders Profit and Overhead	626,230
Contingency	440,254 ↑
Developer Fee	1,732,672
TOTAL USES	13,283,816

- 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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Cost Allocation Tool

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

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