Portland Housing Bureau

Appendix B

PHB Underwriting Metrics Guidelines

August 2023

PHB will use the following quantitative standards ("Underwriting Metrics" or "Metrics") to evaluate projects for financial feasibility and sustainability. These Metrics are based on PHB-funded projects and current industry standards. PHB will refer to these Metrics for all projects applying for funds through a PHB solicitation.

Below guidelines are generally for rental housing however specific metrics are applicable to homeownership and noted below. PHB anticipates that most, but not all, projects will conform to these guidelines. If non-conforming, it is expected that the proposer will provide a detailed explanation of the rationale. These Metrics are subject to periodic review and revision as needed. Interpretation of all terms is at PHB's sole discretion.

Assumptions for Pro Forma (Excel)

- Construction (hard) costs contingency in line with State requirements of a minimum 5% for new construction and 10% for acquisition/rehabilitation (applies to both rental and homeownership projects)
- Construction price escalation at minimum 5% per annum of hard construction costs based on when construction is estimated to begin (applies to both rental and homeownership projects). For example, if a proposer's cost estimates are in 2022 dollars and construction is slated to start in 2024, then a minimum 10% hard cost escalation would be expected
- Income (rent) escalation at 2% per annum in line with State requirements
- Expense escalation at 3% per annum in line with State requirements
- PHB compliance fee of $25/per unit per annum for units supported by the PHB funding to be required as an expense above the net operating income (NOI) calculations line. Fee to escalate at 3% per annum
- Affordable housing residential vacancy rate of 5% per annum
- Interest rate and terms for senior loan financing assumptions consistent with Letters of Interest
- Low Income Housing Tax Credit (LIHTC) assumptions consistent with Letters of Interest, if any, or based on developer's recent transaction and/or current market conditions
- Include Commercial Activity Tax (CAT) and System Development Charges (SDC) in the uses and sources. Developer should apply for SDC Waivers and Construction Excise Tax (CET) exemption and non-profit tax exemption, if applicable. For homeownership projects, applicant should apply for Homebuyer Opportunity Limited Tax Exemption (HOLTE)

Debt Service Coverage Ratio

- The minimum debt service will reflect the amount of debt coverage typically found in successful, sustainable projects.
  - Year 1 minimum: 1.15x
  - Year 15 minimum: 1.15x

Developer Fee

The table below shows the range of capitalized (cash) developer fee as a percentage of Total Development Costs or TDC (defined below). More complex projects based on population served, financing and structure are expected to have a capitalized fee at the top of the range and less complex projects nearer the minimum. The balance of the Developer Fees is expected to be deferred.

For projects awarded Metro Bond funds, the maximum Net Cash Developer Fee (defined below) is lesser of $3 million, or percentages indicated below.

Project Size	Minimum Capitalized Developer Fee	Maximum Capitalized Developer Fee
1-30 units	8%	12%
31-75 units	6%	9%
76 -100 units	3%	6%
100+ units	2%	5%

New Construction: PHB's maximum total developer fee, capitalized and deferred, for new construction is 15% of TDC.

Acquisition/Rehabilitation: PHB's maximum total developer fee, capitalized and deferred, for acquisitions/rehabilitation is $4,000/unit, PLUS

- 20% for project 1-75 units or
- 18% for projects 76-100 units or
- 16% for projects over 100 units.

Developer Fee Calculation: The total percentage (both capitalized and deferred) referred to above is calculated as follows.

$$\frac{\text{Developer Fee}}{\text{Total Development Cost} - \text{Developer Fee}}$$

Contributed Developer Fees and/or Sponsor Loans: Proposers may seek an exemption in order to maximize LIHTCs by increasing developer fees above PHB indicated maximums above, if the proposal clearly shows that any "excess" cash developer fees are being contributed to the project as a source of funds under contributed developer fees and/or as sponsor loans. Such contributed developer fees and/or sponsor loans can be repaid from the Sponsor's share (50%) of excess cash flow.

Definitions

- Total Development Cost (TDC) = Total Project Costs MINUS Acquisition Costs, Capitalized Reserves, and PHB's Program Delivery Fee.
- The Developer Fee includes any capitalized and/or deferred fees paid to the sponsor, and certain third-party fees that pay for tasks historically undertaken by developers including payments to a development consultant, LIHTC or financial consultant, community engagement consultant, and construction manager or consultant. Payments to a relocation consultant, envelope consultant, traffic engineer, historic tax credit consultant or LEED certification consultant are not included within PHB caps.
- The portion of the Total Developer Fee in excess of the agreed capitalized (cash) fee is the deferred fee. For example, for a new construction if the cash fee is 9% and the total fee is 15%, then the maximum deferred fee is 6%. Typically, the deferred portion of the fee is paid within 15 years from cash flow after priority debt service payments.
- The Net Cash Developer Fee is equal to the total cash fee minus that portion contributed to the project as a source of funds (as contributed developer fees/sponsor loans), if applicable.
- Total Development Costs should not include any reserves except construction interest.

Replacement Reserves

- PHB will underwrite projects so that the capitalized replacement reserves and the ongoing contributions to replacement reserves can be expected to sustain the project without recapitalization for approximately twenty years. This reflects PHB's long term interest in project sustainability and tenant stability. A capital needs assessment for existing projects or projects involving rehabilitation providing sufficient information for PHB to make that determination is required for all projects at application.
- PHB recognizes that projects may require greater or lesser ongoing deposits based on the condition of the building after rehab, a building's physical characteristics, the tenant profile, and the amount of capitalized reserves.
- The balance of the replacement reserve account is not capped at a specific dollar amount, and reserves are available for any long-term capital investment in the asset.
- Replacement reserve accounts are subject to PHB annual reporting requirements.
- PHB will enter into a reserve account agreement with the owner. The balance in account will remain intact and with the property when the limited partner exits the partnership in syndicated projects.
- OHCS 2022 QAP has a minimum guideline of $350 per unit per year, $300 for senior projects. Amounts in excess will be considered if reasonably justified by Capital Needs Assessment and / or lender conditions.

Property Management, Asset Management and Administrative Expense

- The maximum standard for a project's combined budgets for off-site property management, asset management, compliance and administrative expenses is 40% of operating expenses. On site property management staff is exempt from this admin cap.
- Expenses that are included in the combined cap are off-site management expenses; the value of organizational overhead and administrative costs; management and administrative

payroll, taxes and benefits; tenant screening, marketing and promotion; postage; office supplies; staff training; dues and subscriptions; software; bank charges, telephone; asset management (if in operating budget); and all similar off-site management, overhead and administrative expenses. The cap does not include the cost of site manager, resident services, maintenance payroll, legal or third-party accounting.

- The definition of total operating expenses for purposes of this calculation includes ongoing contributions to operating and replacement reserves but does not include expenses paid "below the line" as allowed priority payments or paid from the owner's share of cash flow.

Resident Services

- A "Resident Services Plan" (RSP) should be incorporated in the Project Narrative and must be submitted when the cost of resident services is an operating expense.
- The RSP will outline the proposed services, specify the FTEs required to provide the services, and provide data supporting the plan.
- The appropriate plan for the delivery of services and the appropriate expense is expected to be determined on a case-by-case basis. The allowed expense will be subject to PHB underwriting based on the submitted RSP. Generally, per unit expense levels should be in-line with PHB portfolio norms. While PHB supports borrowers/owners in delivering services over and above those sustainable by PHB's allowed expenses, borrowers/owners should expect to fund such services through other sources/techniques.
- Funding these services "below the line," as a priority payment after the debt service ratio calculation and ahead of any cash flow split payment to PHB, will, generally, not be considered a viable funding solution.

Supportive Housing

Operating Expenses related to Supportive Housing (SH) should NOT be included in the operating budget tab of the Excel pro forma workbook. If a funding source specifically covers rent assistance for the SH tenant (e.g., OHCS Supportive Housing Rent Assistance or JOHS Regional Local Rent Assistance) it must be described in the rents and incomes section of the pro forma, along with an explanation of the award status in the project narrative.

The OHCS pro forma workbook includes a separate tab for proposers to list uses and sources related to the provision of Supportive Housing (SH) services. Proposers may provide as much detailed as needed in order to provide clarity to their Supportive Housing Service Plan Narrative.

Operating Reserves

PHB requires all projects to fund an operating reserve, typically 4-6 months of operating expenses, and amortized debt service. The operating reserve is for the designated project only and may not be applied to other projects in the sponsor's portfolio. PHB will enter into a reserve account agreement with the owner. The balance in the reserve account will remain with the project for the length of the most restrictive affordability period even after the LIHTC investor (if applicable) has exited. Sponsors will provide annual reporting to PHB on the operating reserve account.

Priority Payments

Priority payments are defined in the PHB Promissory Note as payments allowed before calculating the payment to PHB under a cash flow split formula. PHB's classification of which payments are priority payments is listed below as a guideline.

- Priority payments allowed ahead of the excess cash flow calculation include:
  - Investor Services Fee,
  - Deferred Development Fee,
  - Operating Reserve,
  - Unpaid credit adjusters,
  - GP Asset Management fees if applicable,
  - Project Asset Management fee escalated 3% annually, if applicable,
  - Repayment of partner loan for excess project development costs,
  - Operating Deficit Guaranty and Tax Credit Guaranty, and
  - Replenishment of project reserves.

Subject to PHB agreement, certain Sponsor Loans may be a Priority Payment and repaid ahead of excess cash flow calculations. These Sponsor Loans are typically funded by the Sponsor from its corpus and not third-party grants.

- Payments classified as non-priority and paid from the Sponsors share of excess cash flow include the
  - Partnership Management Fee,
  - Payments on Contributed Developer Fee and/or some Sponsor Loan (typically grants assembled by sponsor such as Portland Clean Energy Fund (PCEF) or other third-party grants and used as a subordinate loan to the project), and
  - Any Incentive Management Fee.

Cost Savings

Hard Costs Savings
- 50% to PHB; 50% to Developer
- Portion to Developer to reduce the outstanding deferred developer fee

Soft Costs Savings:
- 100% to PHB

PHB may revise cost savings allocations if the project has additional gap funders (e.g., OHCS LIFT).

Prevailing Wages: BOLI wages and Davis Bacon where applicable

PHB funded projects may be subject to the State of Oregon-Bureau of Labor and Industries' (BOLI) and/or federal Davis Bacon's prevailing wage laws depending on the specifics of the project. These laws require contractors and subcontractors pay their workers on public works projects weekly, and no less than the applicable rate of wage for the type of work they perform.

When a public works project is subject to both the state and federal prevailing wage rate laws, contractors and subcontractors must pay the higher of either the state or federal prevailing wage rates for the type of work being performed.

All PHB awarded projects will be required to obtain a BOLI wage determination letter. Below are links regarding the Davis-Bacon and BOLI regulations:

Davis-Bacon and Related Acts | U.S. Department of Labor (dol.gov)
BOLI : Prevailing Wage : For Employers : State of Oregon

Projects that include commercial space of any kind, retail, office, service, etc. should assume in their budgets/proformas that BOLI wages will be required for the ENTIRE project. Projects requesting federal funds should assume that Davis Bacon requirements will be required for the entire project

Asset Management Plan – Reporting:

Asset Management is the process of achieving the long- term goals of the owner/sponsor including the acquisition, administration, and disposition of real estate. It focuses on the owner's responsibilities that are separate from property management.

Eligible activities include fiscal planning including reviewing and accepting the annual audit and approving the operating and capital budgets, compliance and reporting to and interacting with lenders and regulatory bodies, oversight of property manager including selection and replacement, approving operating policies, risk management, handling legal issues, and planning for long term maintenance. These guidelines can be found at: Risk Analysis and Compliance | Portland.gov . Prior to closing development must submit an Asset and Property Management plan and be prepared to comply with teams must be willing to comply with reporting and monitoring requirements as established in the guidelines.