Portland's Housing Bond

Appendix C
PHB Underwriting Metrics
April 2019

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 Portland Bond funds.

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)

- Income (rent) escalation at 2% per annum
- Expense escalation at 3% per annum
- PHB compliance fee of $25/per unit per annum to be required as expense above the net operating income (NOI) calculations line. Fee to escalate at 3% per annum.
- Construction (hard) costs contingency in line with State requirements of 5% for new construction and 10% for acquisition/rehabilitation.
- Construction price escalation at minimum 5% per annum of hard construction costs based off when construction is estimated to begin (for example if a proposer's cost estimates are in 2019 dollars and construction is slated to start in 2021, then a 10% contingency would be expected).
- Affordable housing residential vacancy rate minimum 5% per annum
- Interest rate and terms for senior loan financing assumptions consistent with Letters of Interest, if any, or based on developer's recent transactions and/or current market conditions
- 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

Debt Service Coverage Ratio

- The minimum debt service will reflect the amount of debt coverage typically found in successful, sustainable projects.
- Year 1 minimum: 1.25x
- Year 15 minimum: 1.15x

Developer Fee

New Construction

The table below shows the range of capitalized (cash) developer fee for new construction projects only. 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 maximum total developer fee, capitalized and deferred, for new construction is 15% on Total Development Costs as defined below.

New Construction Project Size	Minimum Capitalized Developer Fee	Maximum Capitalized Developer Fee	Maximum Capitalized Developer Fee as a % of Maximum Total Developer Fee
1-30 units	8%	12%	80%
31-75 units	6%	9%	60%
76 -100 units	3%	6%	40%
100+ units	2%	5%	33%

Acquisition/Rehabilitation

For acquisition/rehabilitation projects PHB’s maximum total developer fee, capitalized and deferred, is $4,000/unit PLUS

- 20% for project 0-75 units or
- 18% for projects 76-100 units or
- 16% for projects over 100 units.

The percentages listed above will be applied to Total Development Cost as defined below. In addition, the maximum capitalized (or cash) Developer Fee as a percent of Total Developer Fee is below. The balance of the Developer Fees is expected to be deferred:

Acquisition / Rehab Project Size	Maximum Capitalized Developer Fee as a % of Maximum Total Developer Fee
1-30 units	80%
31-75 units	60%
76 -100 units	40%
100+ units	33%

Definitions

- The total percentage (both capitalized and deferred) referred to above is calculated as follows:

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

  Total Development Cost (TDC) = Total Project Costs MINUS Acquisition Costs, Capitalized Reserves, and PHB's bond administrative fees, including Bond Program Delivery Fee and Construction Administration 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, and construction manager or consultant. Payments to a relocation consultant, 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 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 over time from cash flow after priority debt service payments.

Replacement Reserve

- 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.

Property Management, Asset Management and Administrative Expense

- The maximum standard for a project's combined budgets for property management, asset management and administrative expenses is 40% of operating expenses.
- Expenses that are included in the combined cap are all the on-site and off-site management expenses; the value of any manager's apartment; 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; and all similar management, overhead and administrative expenses. The cap does not include the cost of 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) 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.

Permanent Supportive Housing (PSH)

- Expenses related to PSH should NOT be included in the operating expenses tab ("Expense") of the Excel workbook (Form D). PHB has created a template for proposers to include all the uses and sources related to the provision of PSH services.
- Proposers may provide as much detailed as needed in order to provide clarity to their Project Narrative.

Operating Reserve

- Historically, PHB allowed an annual "cash flow cushion" to be deducted before determining the repayment due to PHB for loans involving a cash flow split formula, and PHB did not require that funds taken by the sponsor under the cash flow cushion formula remain with the project. For projects that apply for funding in the GO Bond solicitations, PHB will eliminate this non-restricted cushion but will allow borrowers to elect to fund an optional project operating reserve.

- The operating reserve account is intended to provide sponsors additional means to address any urgent, unforeseen expenses at the project.
- The maximum contribution to this operating reserve account is $250 per unit per annum, capped at the equivalent of 4 years of reserve payments. For example, a 30 unit building's operating reserve account will have a maximum balance of $30, 000.
- If the balance in this reserve is below the cap for project size, the owner may elect annually to fund within the described annual and overall limits.
- Funding the operating reserve will be considered a priority payment within the cash flow waterfall ahead of loan payments due to PHB.
- Once the reserve account is fully funded or the maximum $250 per unit per year investment is made, excess cash flow is split in accordance with loan documents; generally, 50% to the sponsor and 50% to PHB in line with approved product guidelines.
- Operating reserves are for the designated project only and may not be applied to other projects in the sponsor's portfolio.
- Sponsors will provide annual reporting to PHB on the operating reserve account.
- PHB will enter into a reserve account agreement with the owner. The balance in the account will remain intact and with the property when the limited partner exits the partnership in syndicated projects

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 payment is listed below.

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

- Payments classified as non-priority and paid from the Sponsors share of excess cash flow include the
    - Partnership Management Fee,

- Payments on Sponsor Loan (typically grants assembled by sponsor and used as a loan to the project), and
- Any Incentive Management Fee.