Alaska

Affordable Housing Development Workbook

June 1995

Alaska Housing Finance Corporation

First National Bank of Anchorage

Department of Housing and Urban Development

Alaska Affordable Housing Development

A Hands-On Workbook

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Chapter 1

Nonprofit Real Estate Development

Overview

Before you take the plunge into housing development you will want to learn as much on the topic as possible. Your board and staff should spend plenty of time becoming familiar with both the development phases and what's involved for the staff. Many nonprofit organizations have learned housing development by simply doing it. But this chapter will explain what the process involves. We begin with some widely used definitions. Next, we focus on each of the development phases and the steps within each phase.

Definitions

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Let's begin by defining *affordable housing* and the income categories that are targeted by funders and regulators:

Though affordable housing has gone through various public definitions, policy makers are in agreement that *affordable housing* should be defined as *a family paying no more than 30 percent of their monthly income to cover rent and utilities (for renters) or mortgage, insurance, utilities and taxes (for homeowners).* Several federal agencies have developed compatible definitions so that the nonprofit organization's challenge in establishing eligibility requirements when using multiple funding sources has eased in recent years.

There are two primary income groups targeted for affordable housing — low– and very–low income:

Low–income
Households whose income does not exceed 80 percent of the median income for the area, as defined by the U.S. Department of Housing and Urban Development (HUD).

Very–low income
Households whose income does not exceed 50 percent of the median income for the area, as determined by HUD.

After you complete a needs assessment (Chapter 3) and your housing strategy (Chapter 4), you will determine to which of these income groups you will target your resources.

The real estate process

The real estate development process is a fast–paced and ever–changing business (see Diagram 1). Each phase has unique steps and expertise which may differ quite a bit from those of the next. For example, the skills required in the development phases (the first "three circles") are very different from those of construction and project management or operation. To complicate things further, while you proceed through each subsequent phase step-by-step, you will also be constantly *rechecking* the previous phases to ensure that the same set of assumptions hold and that your project has maintained its original intent. One changed or misplaced piece of information can derail a project. Further, this is a business wherein time truly is money and any mistakes or delays will be at expense of your organization's limited resources.

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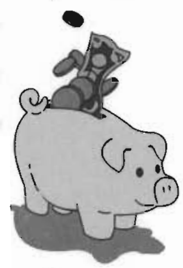
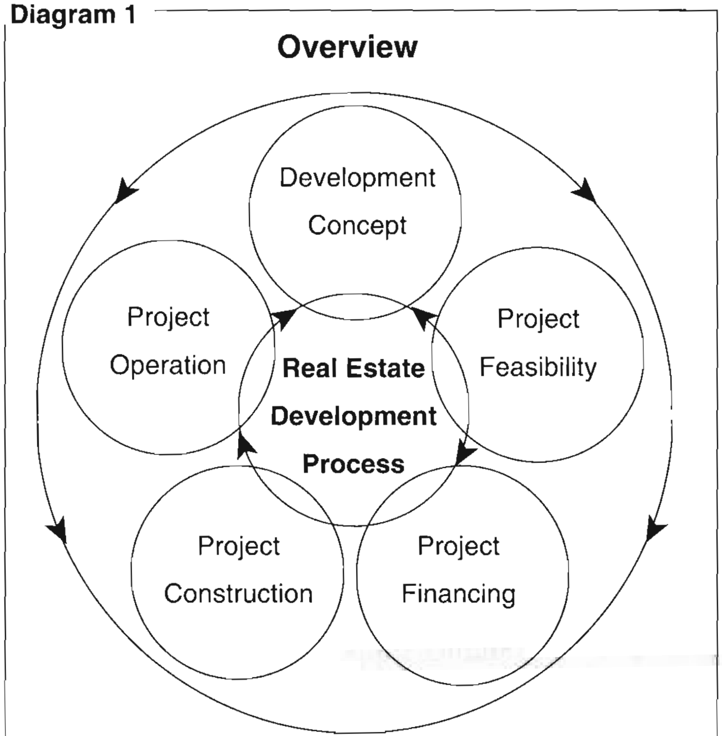


Steps in the process

Housing development organizations have boldly gone where no one has gone before, discovering and then following the many steps of the development process. The Enterprise Foundation has identified the basic steps in the real estate development process (Reference

Diagram 1



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1). Following are brief summaries of the steps for the five phases. These steps, which can be generally categorized into five distinct phases, include: *development concept, project feasibility, project financing, project construction* and *project operation*. They serve only as a *guide*, as each project may flow differently because of the role your organization takes, or the nature of project or the type of funding resources involved. Each of these phases could comprise individual manuals and three-day workshops by themselves (and some do). But to give you a sense of the context, each phase presented here outlines the steps and essential goals to be accomplished.

Development concept

The place to start, and the one most often overlooked, is an analysis of the community housing needs and the role the organization may play in meeting that need. Tackling the development process may change your organization's core purpose; therefore you should review your organization's mission statement to ensure that housing development fits that mission. You may find that you have to modify that mission or even decline to pursue development.

Housing needs assessments are required in many communities. They can be good opportunities to sort out the housing priority needs and the service roles for the various organizations involved in the proposed project.

Select what is simple, visible and has the greatest chance for success for your first project. An early victory carries a lot in credibility and experience to take on more difficult projects later. Use this phase to not only develop your project concept but to start generating community support.

The steps in the *development concept phase* are:

- Evaluate the community situation and apparent needs
- Review, develop and/or compare apparent needs to the organization's mission and goals
- Conduct and analyze housing needs assessment
- Develop a housing strategy for the community
- Decide your organization's role(s)
- Adopt a development concept, comparing that concept to the organization's mission and goals
- Solicit community support for the concept

Project demand and feasibility

Here is where you test your concept with reality. This phase begins with organizing your development team. This might consist of a volunteer group of board members and advisory members. Next, scope out targeted neighborhoods and properties. With several alternatives picked, try several versions using different local properties and resources to meet the targeted need. Once the analysis is completed for what seems possible, it's time to analyze the market so that you know that "if you build it, they will come." This is referred to as a *market study* and compares what is already available in the community to the demand for the additional units. After the demand for the proposed project has been established, the financial feasibility of the project must be determined. This includes both development feasibility and operational feasibility. Development feasibility considers whether there are sufficient sources of funds available to cover the cost of construction. Operational feasibility considers whether project reserves will be sufficient to pay for operating costs and debt repayment.

The steps for the *project feasibility phase* are:

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- Organize the development team
- Conduct the site search and select preliminary choices
- Conduct informal environmental review and regulatory requirements
- Develop the design concept and the initial cost estimates
- Perform initial sources and uses of funds analysis
- Gain site control with conditions
- Develop schematic building plans
- Complete preliminary cost estimates
- Complete preliminary feasibility analysis

This is also the phase where you start working with a *pro forma* (Chapter 5). This is a standard format to analyze income and expenses, including debt service, to determine if the project operates profitably. This document is one of the basic tools used in real estate development.

Project financing

After you have completed the feasibility phase, you should have a sense of the funding needed and what amount of debt funding the project can support. This is the time to go shopping to the various funding sources. You will need to have certain items prepared to complete the financing packages. Those items may differ with each lender. In most cases, you will incur costs to complete plans, cost estimates and other pre-development requirements to satisfy various lender requirements. These costs may be significant, and you may find it beneficial or necessary to pursue sources of "predevelopment" funds.

If you have completed the development concept and preliminary feasibility phases properly, you have minimized your financial risk and can be reasonably sure that the project is viable.

The steps in the project financing phase are:

- Develop project finance plan
- Hire appropriate consultants if necessary
- Initiate funding applications
- Secure commitments from regulating authorities, partners, tenants
- Revise schematic building plans and update cost estimates for submission to lender
- Prepare funding applications for funding
- Draft marketing or management plan
- Determine roles and method of construction management
- Compare approved project to development concept
- Negotiate and secure project funding

Project construction

Construction management is a specialized business in affordable housing development. By the time your project has reached this phase, several components have either been decided *by* you or *for* you by your funding sources. The types of decisions the organization needs to make requires that you locate and possibly hire someone who has the skills to be a project construction manager. There are several options, including having your organization act as a general contractor or hiring that position out as a construction cost. *If you act as the general contractor, it is recommended that you have a construction project manager on staff.*

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The steps in the *project construction phase* include:

- Complete design drawings and estimates
- Make a detailed construction budget
- Qualify contractors and develop bid list
- Secure property
- Initiate and complete bidding requirements
- Finalize construction estimates and project budget
- Negotiate and award construction contract
- Closing loan(s) and grants
- Preconstruction meeting, commence and complete construction
- Final inspection and certificate of substantial completion

Project operation

This is the phase where you finally get to do what you planned to do way back in the development concept. This requires another type of expertise which differs greatly from the other phases. Further decisions have either been made for you or by you on your role in this process.

The steps in *project operation phase* are:

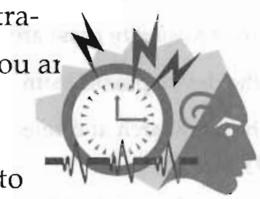
- Initiate marketing plan prior to construction completion
- Solicit and select property manager or sale representative
- Have open house/community relations event
- Select tenants or offer sales
- Initiate construction closeout
- Hire a site resident manager

- Oversee move in
- Perform evaluations and warranty inspections

Planning your schedule

One easy way to save yourself a lot of grief is to plan the project with realistic schedules. A great source of frustration with affordable housing construction is how long it actually takes to get things done. *Two or three years is not uncommon as a development schedule.*

Having illustrated the logic of the real estate development process with the diagram (page 3) and given you the basic steps in the five phases of development (Reference 1), we hope that you have gained some perspective on the issue. If nothing else, the illustration will help to explain why you may feel that you ar always running in circles.



Having reviewed these basic steps, you're ready to begin assessing your capacity, project and organization in Chapter 2.

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Reference 1: Basic Steps in Real Estate Development

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Adapted from The Enterprise Foundation

Chapter 2

Nonprofit Organization Issues in Housing Development

Overview

Your organization was formed to benefit the public in a particular way or to benefit a particular segment. Your purpose is probably broad enough to incorporate a variety of activities, but now you want to know how housing development will impact your organization, your staff, your way of doing business, before you proceed. What are the basic organizational requirements that must be met to be successful? Will housing fit within your mission and strategic plan? What kind of an assessment can you conduct to determine your capacity? This chapter will answer these concerns.

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A myth about the nonprofit organization

Nonprofit means you cannot earn income over expenses. Yes? No? Being a nonprofit organization does *not* mean you are a poor business person and not able to make income over expenses or *profit*. However, you are restricted from distributing your assets to benefit single individuals, members, owners or shareholders (unlike a private business). Because the major purpose of your organization is to provide a public benefit, all resources and any profit that you make must be directed toward the purpose for which you are chartered. In other words, your major activity cannot be profit driven. For example, you cannot be a nonprofit housing organization *and* have your major activity be buying and selling income property.

The impact of housing development upon your organization

Housing is a unique, time sensitive business that will impact your organization's operations and relationship with the community. The following discussion will help you to understand better how you will be affected.

Impact on your organizational operations

Finances. The development and operation of housing projects may require changes in your accounting and reporting systems. In many instances, you will need to develop a business approach to your activities. Whereas in the social services field, you can expand or contract according to your funding situation, in the housing development arena the project must be developed to financially support itself. Whereas service providers can establish pay-as-you-go operations, housing providers must have financial commitments for long-term debt and sustainability.

Work style. Housing development will affect your decision making and work style. As a "hurry up and wait" business, there are long periods of time in housing development when nothing will happen unless you make it happen. Then, there are other periods when events move very quickly and irreversible decisions by your board and staff have to be made, sometimes within a few hours.

Assumptions and decisions. Housing production contains lots of questions with interlocking answers. During the development process, which can last from 6 to 24 months, you keep narrowing the questions and answering them. Your board and staff have to be prepared to go forward without knowing all of the answers.

Impact on your community relations

Community perception of your organization. The community may perceive you as a developer rather than as a public service provider. Without proper community outreach, neighbors and community people may treat you like any other developer/business corporation. And unlike many programs, housing usually involves a business relationship of selling or renting housing to the residents ("clients"). Sometimes the business needs of the project may conflict with a resident's social needs.

Community perception of your project. As architecture, housing development is visible in the community over the long term. It is a physical and permanent improvement that you create. The community and the local government will probably expect your housing

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project to blend within the community and conform to local design standards. Unlike many programs, an affordable housing project can sometimes be seen as a threat to property values and community quality of life. Your project may stir concern and even opposition from people *outside* your usual sphere of involvement, including property owners and business owners close to the proposed site. With careful education and community participation, you will help to develop a positive perception of your organization and housing project by the public.

Long-term commitment to the community. Long after your project is complete, residents wanting repairs may come back to you, even if you no longer own the project. Second, if there are design or appearance problems, the community will not forget that your organization was originally responsible.

General requirements

Now that you know how you will be affected, let's look at the general requirements that you must meet before you begin.

A basic understanding of development. As in other new technical program areas, boards and staffs will have to commit time and resources to learning enough about housing to manage the process responsibly. They must learn the fundamentals of housing development and the terms that are used in the field. Using this workbook is one way. Also, there are several workshops and seminars that you can attend. A list of training organizations you can contact is included in Worksheet 1.

New expertise. In order to obtain technical advice from trusted experts, you may need to make structural changes — adding board members, creating an advisory committee, or creating a corporate subsidiary. Use legal assistance to review your corporate documents and other procedures for consistency.

Long-term commitment. The average length of time for developing a housing project is three years, with the range between two and six years. Ask yourself, "Can we commit the time and resources throughout the duration of the project?"

Collaborative approach. Practice "give and take" in working with the local government and other groups impacted by your project. A proactive, collaborative approach will help mitigate community resistance, especially if you involve them in the decision making. A collaborative approach is also needed for the board and staff members who must work together as a team. The board must guide decision making, make appropriate policy and be available for quick decisions. The staff should update the board so that there are no surprises and make known any risk to the organization.

Selection and control of consultants. You may have to rely heavily upon consultants for land use approvals or financial analysis, and upon other professionals for architectural and other services. You will have to monitor their work and develop contracts for their services.

Clear vision and realistic goals. Organizations that succeed in housing can visualize the goal well before progress is complete. Make a commitment to goal-setting and your agency planning.

Community support. Many projects are thwarted because of lack of support. Identify where your support will be weak. Chapter 8 will give you some ideas for obtaining support.

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Credibility. Develop a reputation for doing good work. Be thorough and follow through on project details.

Ability to obtain funding from several sources. Most housing projects must use a variety of traditional federal/state/local sources and private sector sources such as banks and equity syndication investors. You must become familiar with both types of eligibility criteria.

Assessing your capacity

Your challenge is to know what your strengths and weaknesses are prior to jumping in. Complete a SWOT (strengths, weaknesses, opportunities and threats) analysis (Worksheet 2) to assess your internal and external situation. Then complete the assessment process by asking the questions below:

Do we have the *right people*?

Does our staff have . . .

The *technical knowledge* (construction? finance?) and if they don't, are they willing and can they learn?

Communication skills? Can they articulate our project concept? Are they fearless about asking questions? Are they comfortable with not knowing all the answers?

Coordination skills? Are they good at juggling details in several areas?

Dedicated time? You must make housing an organizational priority. One person must be dedicated at least 25 percent (and 100 percent during some periods) to your housing activity. Without consistent attention, your project will either grind to a halt, fall apart or become a "mess."

Does our board of directors have . . .

Skills in accounting? Real estate? Property management? Public relations? Are they *connected to the community* in ways that will lend support to our project?

Does our organization have . . .

Strong partnerships and business relationships in the community, with local government agencies, associations and networks? You will need to draw upon them for your development team.

Do we have the *right project?*

Do we have a project concept that's a *good match* for our organization? Is it consistent with our mission, our values and long-range goals? Set aside time to study how housing activity will fit within your overall purpose. If you do not have a mission statement, develop one now so lenders and supporters know who they are helping and why.

Do we have a clear understanding about our *role* (developer? owner? manager?)? Chapter 4 discusses these. Assess your role in terms of the skills you have and those you will need.

Is the *size and scale* of the project we want appropriate for our capacity? If you are just starting out, we recommend choosing a small, simple project that will be achievable. This also applies if your organization is burdened by other priorities.

Do we have the *right management capability?*

Are our *administrative systems and policies* adequate and appropriate? Do we have technical capability (computers and software)? Can we store and retrieve information?

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Do we have a personnel plan?

Do we carry out *planning*? Short term? Long term? Can we commit to planning our housing activity goals?

Are we capable of making *quick decisions*? Are our decisions based on adequate information and reported in a way that produces consistent actions? The board and staff may have to make very quick, irreversible decisions within an hour or a few days.

Have we thought of ways to *delegate* to improve our decision making? More than in many program areas, housing production requires that board members focus on the big decisions and delegate the rest. A less-involved board may delegate to the staff. A more-involved board may create separate small committees, e.g., a property and design committee, a finance committee, and delegate some decisions to them. The executive director may also have to delegate more decisions than he or she is accustomed to. Some other options are to delegate the decision making to the board president, project manager, consultant or executive committee of the board. Having every decision go to the board is slow and cumbersome.

Do we have the right *fiscal capability*?

Do we have an *adequate accounting system*? Can we develop a project spread sheet? Your accounting and reporting systems must be able to accommodate funding from several sources (general fund accounting). It must provide quick responses to rapid changes and report status of funds. Finally, if you act as the construction manager, you'll need an invoice/purchase order system for purchasing materials.

Do we have *internal controls* in place to prevent mismanagement? Due to the amount of cash flowing into the agency during a development project, there is more opportunity for financial mismanagement. Separate your cash management duties among your staff members and write down your fiscal procedures.

Do we have a plan for developing an *unrestricted fund base*? You may want to invest (are expected to) your own unrestricted cash in a project to pay the option for property and predevelopment costs.

Have we thought of ways to obtain *program related income* (income from your project which you use for the next project)? Some examples of income sources are development fees, syndication proceeds and excess operating income.

Can we meet *business feasibility and traditional grant programs criteria* when we apply for funds? The criteria for awarding funds differ for each potential funder. Traditional grant program criteria include items such as sound idea, competent implementation plan and reputation. Though the private sector is concerned with these as well, there will be a greater emphasis upon the financial health of your project (Chapter 6).

Are we able to deal with *financial risk*? Risk is due to:

- Development money coming in stages
- Coming too slow
- Coming with additional requirements
- The project falling through
- Producing less income than expenses during project operation

You will need to develop contingency plans for any of these risks.

Use Worksheets 3 and 4 for assessing your capacity to carry out affordable housing activities.

Adapted from A Development Primer, *Women's Institute for Housing and Economic Development, Boston and by Paige Chapel of Shorebank Advisory Services*

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Chapter 3

Housing Needs Assessment

Overview

After you have assessed your capacity and decided that you have the skills for housing development, or can acquire them, your next step will be to complete a housing needs assessment. The needs assessment provides a comprehensive picture of the need for housing in a specific area, such as the community or borough. It describes housing costs, conditions, market and current, as well as future, housing trends. You may already be familiar with some of the housing needs, but this document will summarize the state of housing in your community at a specific point in time. It becomes the basis for setting goals and objectives for housing projects needed by your community and determining your housing strategy (described in Chapter 4). It is the first level of analysis of need to be followed up later with a market analysis (Chapter 5). In this chapter we give you the steps to follow and a suggested format.

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How the community needs assessment compares to a market analysis

Before investing considerable effort in an assessment, we ask you to consider how the *needs assessment* compares to a market analysis. The two are often confused. The community needs assessment is a *global* assessment of housing needs and conditions in the community. It considers all households in addition to a particular niche population that your organization is concerned with. Your organization and community leaders can use this comprehensive assessment for setting priorities about the types of housing that is needed by groups within the population.

The second level of analysis that you will complete is the *market analysis* (Chapter 5). Once you know there is a particular need for housing in your organization, you will decide on the kind of project to meet that need. You will conduct a market analysis to determine if there is a demand in the community for your project. You will measure the demand in numbers, a far more accurate portrayal of whether people in the community will move into your project than interest surveys or verbal accounts.

Major steps

1

Step one: Define the study area

Your first step should be to define your study area. Will it include one or more communities? The borough? Growth areas? Native lands? Unincorporated areas? It should be an area for which there is existing data, such as the census. Your final document should include a map that highlights the study area. Use existing boundaries to define its boundaries — borough or community limits. You might want to show on the map which areas are available for development, not available and already developed residential.

Step two: Collect data about the housing in your study area

Before you begin to collect your data, determine, to the extent possible, what existing information is available. Contact local planning departments and specific organizations that may already have the information you want in planning reports. One of the most widely used sources is the U.S. Census. Though identifying all the sources available is not possible, we have listed in Worksheet 5 a variety of sources that may be useful to you. Be sure to collect only the data that you will need for the assessment. The three most common categories of housing problems are: inadequate or substandard housing conditions, overcrowding and cost burden information (a household that pays more than they can afford).[1]

Census Bureau

The Census Bureau provides computer files of census information. Called Census Bureau Summary Tape Files (STF) they include data on race, age and household characteristics, housing costs and tenure by age. Much of the data is cross-tabulated, such as age and race by income status and housing tenure by household size and age.

Surveys

If the data does not already exist in local reports or agency files, you may want to conduct a survey questionnaire or a "windshield survey," a visual survey of housing conditions. Your survey questionnaire should be drawn from a representative sample of the population you are concerned with, using a random technique. Mail surveys, though they tend to have a low response rate, save staff time.

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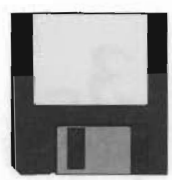

[1] Housing Assistance Council, "Assessing Local Housing Need: A Guide for Rural Communities."

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Several rules of thumb for collecting your data

Collecting can be a never-ending process so it is best to adopt some guidelines for your effort:

- ✔ The data collected must make sense in terms of the community you are serving.
- ✔ Look for data gaps — the difference between the data you need and the data that is available.
- ✔ Talk to community leaders and knowledgeable people in the community who can give you information.
- ✔ Display your data in table or chart format. For example, you can display the number of persons in the study area by household income and home ownership.

Step three: Develop a demographic profile

Your demographic profile will include:

- ✔ Population statistics
- ✔ Household statistics
- ✔ Household income information

Worksheet 6 provides a checklist of the types of data you will need to collect and organize.

Population statistics

This data should include the number of persons living in the study area, their age group, their income and rental or ownership status. Don't forget to collect data about special population groups, such as first-time home buyers and the elderly.

Household statistics

Some of the household characteristics you will want to summarize are: the numbers of households by age group and the average number of persons per household. Most needs assessments identify rental and owner-occupied units and provide data for four groups: elderly, large and small families, and single persons. An elderly household is defined as one with a head of household who is at least 62 years old. A small family has two to four household members; a large family is one with five or more household members. In order to forecast the number of units to house the population, divide the projected population by the average number of people in each household.

Household income information

Cross tabulate the above household groups by their income. Some examples include the percentage of very-low income elderly, the number of low-income large families. The cross tabulating will help you to assess any differences between groups.

Step four: Assess the housing stock

This is an inventory of the types of residential buildings (single family, multifamily and manufactured homes), ownership versus rental status, quality and condition of housing, and costs of housing in your area. Think in terms of supply — the number of available, adequate and affordable housing units. Use local building permit records to supplement census data and contact real estate and apartment associations for information on the vacancy rate (the number of unoccupied rental dwelling units at any given time). The vacancy rate is a good indicator of supply and demand at varying rent ranges and cost levels. You may want to conduct a windshield survey for information about local housing conditions.

Step five: Determine trends in the study area

Is the population and any subgroups in it growing or changing in any particular manner? Growth in any area is an influential variable in predicting the demand for housing. Growth is often measured in five

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year increments. What are the contributing factors? Economic change? In-migration? Planned growth? Are there any plans for new employers coming into your area? Are certain population segments moving out because there are too few jobs?

Step six: Analyze housing affordability and current resources

Housing affordability

You will want to know for certain income groups and special populations, what households can afford measured against what housing is available. By identifying income characteristics you determine the number of households without sufficient income to compete for available housing. For this step you will need to determine:

- ✔ Actual and affordable rents and mortgages (and gaps)
- ✔ Average payment by dwelling type
- ✔ Projected number of households by income range

Remember to use the "affordability" definitions in Chapter 1 for calculating rental and home ownership "affordability."

Current resources

When you assess current resources look for the following: current housing programs available in the community (and number served) and services by a public, private or nonprofit provider. The types of information to consider under the provider category of current resources include:

- ✔ Providers
- ✔ Type of provider (nonprofit, public or private) (examples: public housing agency, social ser-

vice agency, mental health agency, planning agency)

✔ Housing resources

- Type of housing (permanent, transitional, special needs, etc.)
- Population group and location
- Units (and average length of stay, if not permanent)
- Primary sources of revenues

If you organize the current resources under the category of programs, the following format may be useful:

✔ Programs

- Type of program (ownership programs, rental, special needs)
- Providers
- Services
- Requirements for eligibility
- Funding sources

Include information about the demand for affordable housing by getting waiting lists and numbers.

Step seven: Inventory land and potential to meet need

You will need to know how much land is available. Call local realtors and the real estate association for your area for referrals. Then check land prices, ownership, whether land is zoned appropriately and has services, and whether there are any environmental issues. Regulations and policies governing land planning will be set by both the local governmental bodies and public finance sources. Find out what the restric-

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tions and requirements are by considering:

- ✔ Zoning ordinances
- ✔ Subdivision regulations
- ✔ Local land use plans
- ✔ Environmental regulations (e.g., ICBO thermal and energy inspections)

(We will discuss the environmental considerations in more detail in Chapter 7.)

Finally, if you find that land is not available, you may need to consider the option of rehabilitating existing dwellings. These, too, should be inventoried.

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Step eight: Summarize the conclusions

Now is the time to wrap all your information into a package of conclusions as clearly as possible. You will want to put first the vital information you most want the public to know. Describe the *most serious* problems overall. Are they:

- ✔ The cost of housing?
- ✔ The condition of housing?
- ✔ The availability of housing?
- ✔ Overcrowding?

Second, describe which groups have the *highest needs*. Are they:

- ✔ Homeless or special needs populations?
- ✔ Large or small families?
- ✔ Renters or owners?
- ✔ Low- or very-low income groups?

Third, identify in which locations there are unmet housing needs.

Fourth, identify the imbalances between the *need* for housing in the study area and the *supply* of affordable and available housing and supportive services. How does the condition, cost, number of housing units meet the needs of particular income, racial, family and tenure groups? Are there insufficient rental units for certain target populations, e.g., large families, special needs? Are they affordable at rent levels above 30 percent of their income?

Finally, *accuracy* is the key to communicating the information in the needs assessment. It is far better to err on the side of underestimating the need for housing by a particular population niche than overestimating. Much later, when you determine the demand for your specific project, you must be able to convince both public and private investors that when you build your project, the people will move in.

Step nine: Write the needs assessment

There is no one format that works best for all needs assessment reports. But you may find the following suggested format useful as a guide, tailoring it to fit your particular body of data:

- Summary of conclusions
- Demographic profile of the study area
- General assessment of housing conditions
- Analysis of housing affordability
- Assessment of land availability
- Inventory of current housing resources

Some optional components include:

- Analysis of regulatory and other barriers to creating affordable housing
- Set of policy goals and strategies based on the identified needs and priorities

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Chapter 4

Housing Development Models and Strategies

Overview

You've gathered data about your community and you've figured out:

- ✔ Which people have unmet housing needs
- ✔ In which locations
- ✔ Which are the greatest needs (largest incidence)
- ✔ Which are the most acute needs (best acceptable conditions)

The needs assessment gave you a snapshot of your community's housing needs but now, because there

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are limited resources to address them, you must make decisions about how your organization will spend those resources and what role you will play. Will you:

- ✔ Help a target population?
- ✔ Help the most people?
- ✔ Fix the most severe problems?
- ✔ Make positive changes that will last the longest?
- ✔ Complement other community development or service efforts?
- ✔ Other reasons?

Will you:

- ✔ Develop the project?
- ✔ Manage the construction?
- ✔ Manage the operation?
- ✔ Own the project?

In this chapter we will help you build a housing strategy for directing the use of your limited resources and for determining how your nonprofit organization can make a difference in solving some of the housing problems in your community. You will look at what is important to you in building housing in your community, then develop goals for five years and each annual year. At the end of five years you want your community housing profile to have changed in a particular way.

- ✎ Today the housing profile is . . .
- ✎ In five years you want it to be . . .

First, identify your organization's values

If you have carried out any strategic planning you may have looked at your organization's values, what is important to you in serving your community or a special needs population. Your values represent your organization's philosophy and approach to work. Now is the time to look at them again as they relate to the kinds of housing activities you will want to carry out.

For example, if your organization values *empowerment*, where the residents learn to help themselves, you may consider developing housing projects in which the residents participate in the decision-making or building process. Some examples of housing activities which emphasize empowerment are cooperatives, self-help housing and tenant-based management.

If your organization values *supportive services to residents*, consider what types of supportive services are important or needed by your target population. Often, special needs housing projects incorporate services, such as case management and employment referral, designed to help the residents develop independence. With transitional housing projects, the supportive services are designed to help residents move on to a permanent living arrangement. For example, one organization that values the care of residents' children created a policy to reflect this value. Each of their rental developments must incorporate a day care center. They partner with a local day care provider for this service.

If your organization is more concerned with affecting the community's housing stock your housing goals may consist of projects with fewer or no services.

Worksheets 7 and 8 are provided to help you consider what you value to help you decide on your housing activities.

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Next, identify your five-year housing goals and objectives

What do you want to achieve in five years? Your goals are targets to shoot for. They are concrete and measurable so that it's clear when you have achieved them. Objectives are the specific steps to take for reaching your goals. The action plans tie your goals and objectives together by identifying who is going to do the work and when and where.

Using Worksheet 9, your task will be to brainstorm your housing goals for the next five years and then prioritize them. Be sure to attach numbers to your goals. Some examples of five-year goals:

- ✎ Develop 30 more units of transitional housing with supportive services for substance abusers
- ✎ Develop 50 additional affordable single family houses in standard condition for first-time home buyers
- ✎ Help 25 additional low-income families to buy their first homes
- ✎ Create 20 more affordable units suitable for large families

Annual goals

Your housing strategy is your long-range, guiding document. You must now translate your five-year goals into annual goals. These are smaller, step-by-step plans that will help you advance your five-year strategy. They are mini-strategies about how to spend your limited resources year by year. They include decisions about which housing needs will be tackled in which order and by whom. These decisions are grounded by the reality of your situation. Go back to your SWOT survey and review your opportunities and threats.

Then consider:

- ✔ *What do we have enough funding to do something about, or might be able to get funds to solve?* Tie what is important to you with what resources are available.
- ✔ *What is politically acceptable, or mandated?* Are you going to give in to what is politically acceptable in place of what most is needed? What are the trade-offs?
- ✔ *What project is likely to succeed?* Your success, to a large extent, is related to your capacity and the opportunities identified in Chapter 2.
- ✔ *Which efforts need more ground work before we can begin?* This will help you determine which projects are achievable this year, next year or further down the road.
- ✔ *What can be started this year and done in stages?* Factor in the time for the predevelopment and construction phases and the funding cycles of your funding sources.

This year's action plan

Your answers will help you decide which housing goals you want to address this year. Again, state your housing goals in measurable terms so you know how to define and measure your success. Some examples include:

- ✔ Create 10 additional transitional units
- ✔ Offer five first-time home buyer opportunities
- ✔ Create 15 more affordable units for large families

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Housing development models

Your next year's action plan is consistent with the five year strategy, but it's not complete. You also must decide which housing development model to employ for your project. There are three elements to every housing development model:

- Type of structure: multifamily, single family, SRO, group housing?
- Type of tenancy: fee-simple ownership, condominium ownership, cooperative ownership, co-housing ownership, renter?
- Type of construction: new construction, substantial rehabilitation, moderate rehabilitation?

You can make informed decisions about each element if you consider:

- Who are you serving?
- What are their needs?
- What part of town is best for them, available to you?
- What is the existing housing stock like?
- What is the stock of vacant land like?
- What type of structure is best for the community?
- What is affordable?
- Who is available to own, develop, or sponsor any units?

At this point in the process, based on information in your needs assessment and the answers from the above questions, determine your housing development model. The following is a fictitious example:

Development model for the Alaska Housing Corporation

The Alaska Housing Corporation (AHS) will produce five newly constructed, two-bedroom duplexes, in close proximity, but not next to one another, to serve as transitional housing for recovering, single female substance abusers. The close proximity will allow efficient case management of the residents, while the scattered sites will be better received by the community.

Structure type	=	duplex (single family)
Tenancy type	=	rental
Construction type	=	new

As you begin to assess project feasibility in Chapters 5, 6 and 7, you may have to revisit these decisions and make adjustments. If, for the above model, the available land is suddenly sold, or the cost of developing the infrastructure is prohibitive, the AHS would need to change the construction type from *new construction* to *rehabilitation* to adjust for the obstacles.

Which role do you want to play?

Now that you have determined where to target your limited housing resources and you have figured out which development model will best meet the needs of your target population, it is time to consider what role(s) you should play in making the development happen. There are three major roles you can play in housing development:

Developer, which includes:

- ✎ Finding the land
- ✎ Assembling the design and construction team
- ✎ Assembling the property management team
- ✎ Securing the financing

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Construction manager, which includes:

- Managing the construction
- Carrying out the construction
- Tracking the construction finances

On-going **project manager**, which includes:

- Renting or selling the units
- Managing the physical aspects of the development
- Managing the financial aspect of the development
- Case management for the residents, in some instances

You may have the experience required and choose to take responsibility for all three major phases. Or you may have experience in one phase and choose to work with one or more partners with the expertise to manage the other two phases. You may partner with another nonprofit organization, or for-profit business, to tackle all three phases.

Some business management advice for deciding on your role

In the business world there is a recommendation, "stick to your knitting." Though it is easy to get excited about a new opportunity that may be different from your current focus, most business planners advise that you build on your strengths. If your strength is counseling, consider a housing counseling program and find a partner for the other three phases. If your strength is in finance, you may want to partner with another organization with construction or housing management experience.

Do not confuse opportunity with sound business planning because building housing is a business. If your organization receives a donation of a hotel to rehabilitate and convert to a single room occupancy project, that does not mean that the potential project fits with your strengths and skills[2].

Skills required and administrative impact

To help in this decision making, again, look at the skills required for the project you want to build and the administrative impact on your organization. You have done this to some extent in Chapter 2 when you made the decision to enter the housing field, but now you want to give it careful consideration with a specific project. Use the following summary for your assessment of whether you have the skills and administrative capability, and to determine if there is a match with your strengths. If not, you may want to consider finding a partner with the capacity you lack:

Role	Skills Needed	Administrative Impact
Developer	Financial Accurate forecasting Close management	General Fund Accounting Special record keeping for public funding
Construction manager	Contract bidding Construction Cost estimating Inspection	Invoice and materials purchasing Pay scheduling Federal rules (lead based paint, handicap accessibility)
Project manager (Operations)	Financial Accounting	High volume of transactions in a short time Rent and fees collection Payables for maintenance and debt

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2 Enterprise Foundation, Business Planning for Nonprofit Organizations.

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Partnership options

If you don't have the skills for a particular role, there are a variety of partnership options to choose from in your community. Contact:

- Other nonprofit organizations
- Banks
- Local government units
- Task forces
- The chamber of commerce
- Alaska Housing Finance Corporation

By partnering with other groups you prevent any compromising of your organization's primary focus and resources. In addition, you save time and money!

An example . . .

The following are examples of how two organizations partnered with other groups in their community:

The Alaska Housing Services (AHS) has experience rehabilitating and weatherizing homes for seniors. They believe that they can apply their rehabilitation skills to developing new senior units. They decide to purchase and manage the rehabilitation of a vacant hotel, but they do not have the skills for its operations or the support services. AHS enters into an agreement with Senior Care, a nonprofit organization experienced in providing supportive and housing services to the elderly. All the responsibility for the long-term management of the senior project will be the responsibility of a local management firm.

Let's say that Senior Care originates the project. Their market analysis demonstrates a demand for senior housing and they decide they want to increase the community's senior housing stock. Because of their limited finance skills, they decide to find a partner, such as AHS, to develop the project.

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Educating a potential partner about a possible win-win situation

Early planning is the key when deciding upon or when you begin looking for a development partner. During the project concept stage, bring your idea to other groups and educate the potential partner on how they could profit from the co-venture. Then market your idea from this positive perspective.

win = win

Partnering with a private developer

Many nonprofit organizations are approached by private developers to produce affordable housing. There are incentives for both the developer and your organization. Below are some of the incentives for entering into a partnership with a private developer from the perspective of the private developer and your own organization:

Benefit to the private developer	Benefit to your organization
• Better terms • Access to public funds • Nonprofit organization lends its good will • Community support of nonprofit organization	• Greater capital • Access to predevelopment funds • Less risk (protects the mission) • Promised income cash flow • Greater experience

Development team

Now you are ready to bring your development concept to the team of persons who can help make your development happen. Choose among the skills and talents of the following professionals:

- Architect
- Local government planner
- Environmental engineer

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- Attorney
- Lenders
- Contractors
- Technical assistance providers (state, federal, etc.)
- Market analysts
- Project manager

In addition, you may want to call upon local volunteers, prominent citizens and community leaders who can provide *pro bono* services to your project.

Chapter 5

Project Feasibility — Market Analysis

Overview

When you prepared your needs assessment (Chapter 3) you figured out which groups needed housing and why. In this process, you looked at many factors that are incorporated within a market analysis. Presumably the people whose housing needs are not being met, want them satisfied, so there is a desire. But it is common for service providers to confuse the *need for* housing with the *demand for* housing by potential residents.

For example, your organization may have determined that the site you have chosen for building 12 units for the developmentally disabled is the best. But in surveying the potential residents and other service providers you find that the site is inappropriate because it lacks access to transportation and is far from retail establishments. If you were to build the

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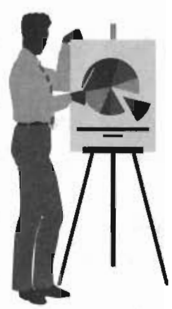
project anyway, the demand would not be sufficient to carry the project's expenses. There would be a strong likelihood that the project would fail. Even if your project is designed to meet the housing need for the target population in the community, there are a variety of economic, social and demographic factors that influence choice, and each must be examined before your project is considered feasible.



In addition, the demand for your project must be supported by actual numbers about its marketability. Though interest surveys and verbal accounts about need are important, lenders and other supporters of your project will want to know that if you build your project, the residents will rent or buy the units you propose. You must look at a variety of supply and demand factors to make a projection.

In Chapter 5 we lead you through the steps in the process of conducting a market analysis. You will look at a variety of data that will help you determine what your target population both needs and wants to rent or own at the specific rent or sales level. In completing the market analysis, you will consider the actual proposed development and its desirability from the future residents point of view. As a result of your analysis, you want to assure both private and public lenders that the data supports the risk you are proposing.

Why a market analysis?

The first reason for a market analysis is to check your own logic. You analyzed a housing need. You proposed a development model to fill the need. Does that need equal a market demand? Will your proposal fill that demand? The second reason for a market analysis is to show lenders there is a need and a demand that is both documented and an objective, unbiased analysis.

The following pages will take you through the steps of conducting your market analysis.

Step one: Define and summarize the proposed site

Market area

Begin with a description of where the project is to be located (borough, village, community), any specific geographical features, natural barriers and boundaries. From a business perspective, the market is defined as the geographical area in which housing projects compete for residents. From the residents' perspective, it is the area in which one would shop for and compare housing options. Next, provide an economic summary of the area, including any trends and conditions that would be helpful to know in forecasting housing demand. You will want to contact local planning departments, chambers of commerce and other local agencies for this information. A one-page description with a map of the area should be enough.

Site

If you have a proposed site, describe it and its position in the community. Include its location with respect to residential support services.

Step two: Determine housing needs and desires of targeted population

One of the best tools for determining the desires of the population group you wish to serve is the focus group meeting. This is a meeting where you allow direct input from potential residents of the proposed development. You will want to get feedback about your project's size, cost, design and amenities. This information will be helpful for your study's final recommendations but it should not be confused with actual *demand* for your project.

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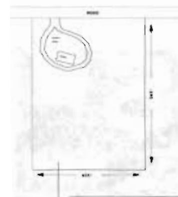

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Conduct the demand analysis

In this step you will develop three profiles and calculate the demand:

- ✎ Demographic profile — a picture of the population
- ✎ Economic profile — a picture of the economy and if it is changing
- ✎ Housing supply profile —a picture of the housing stock
- ✎ Demand formula— mathematical formula for calculating need

Demographic profile

The demographic profile begins by looking at the characteristics of the current population of the area. Answer these questions:

- ✔ What is the population (past, present and projected)?
- ✔ What are the age, sex and race characteristics? (with changes over time, median age)
- ✔ Are particular segments growing or declining?
- ✔ Moving in or out and why?
- ✔ What are the households (past, present and projected)?
- ✔ What are the households by tenure (ownership and renters) over time?
- ✔ What are the households by income group (and average monthly income)?
- ✔ What is the correlation of households by income group and tenure?
- ✔ What is the median income?
- ✔ Are incomes regular or seasonal?

- ✔ Can household incomes be expected to continue at the current level?
- ✔ How much housing cost can the intended beneficiaries afford?
- ✔ What is the rental or purchasing power of the target population?
- ✔ What percent of the target population is paying more than 30 percent of its income on housing?

Organize your data into these categories:

- Population
- Households
- Households by tenure group
- Households by income group

Household data will tell you what portion of a housing demand is created by increased households. Households by tenure (renter or owner) gives information on the households that make up the target population for the project. Households by income group determine how many households will be able to pay the rent and utilities of the proposed project. The following formula (Worksheet 10) will help you compute the minimum annual income needed by a household to afford rent and utilities.

Example:

If rent for a one-bedroom apartment is $325 with a $50 utility allowance, the minimum annual income needed to pay the bill and still spend less than 30 percent of total income would be:

$375 divided by .30 x 12 = minimum income of $15,000

By providing the entire scale of incomes in the area, you can estimate the number of renters that lie within the feasibility range.

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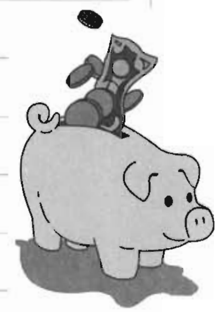

Economic profile

This is a summary of the economic base of the study area in relation to the targeted population. You will want to determine the economic stability of the study area. Ask:

- ✔ Who are the major employers?
- ✔ What is the employment rate?
- ✔ What is the average family income?
- ✔ What is the poverty rate?
- ✔ How many of the target population are at the poverty rate?
- ✔ Are the employers increasing or decreasing the number of their employees?
- ✔ Are there any housing-job imbalances?
- ✔ Must the target population look for housing outside the target area?

Depending upon the type of housing you are wanting to provide, the economic profile may not be very important, e.g., for elderly housing, but do mention changes in employment patterns and their impact on the community.

Housing supply profile

Now summarize the availability of housing for the population you want to serve. Ask:

- ✔ What housing is available?
- ✔ Number
- ✔ Single family and multifamily
- ✔ Substandard
- ✔ Other
- ✔ What are the rents or costs of units in the area (market and subsidized)?

- ✔ What is the rental or purchasing power of the target population? (Are rents and home prices increasing while incomes stay the same?)
- ✔ What are the building types?
- ✔ What are the conditions?
- ✔ What are the vacancy rates?
- ✔ Who are the residents?
- ✔ Where do the intended beneficiaries currently live?
- ✔ What is the level and trend of residential construction?
- ✔ What is the owner/renter mix?
- ✔ What is the residential/other-uses mix?

Demand analysis

With the demand analysis you want to show a demand for a specific project for a specific group of people in a specific market. The demand for your project will be measured in mathematical terms. It is established by using the following factors:

- ✎ Total number of households
- ✎ Percentage of renters or homeowners
- ✎ Percentage of income-eligible households
- ✎ Number of competitive units

These factors are inserted into the following formula:

- ✎ Total number of households
- ✎ Multiplied by percentage of renters or homeowners
- ✎ Multiplied by percentage of income eligible households
- ✎ Minus number of competitive units
- ✎ Unmet demand for rental or homeowner assistance units

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The following is an example:

Total households		2,114
x Percentage of renters	x	0.32
	=	676
x Percentage of income-eligible	x	29.7
	=	200
- Number of competitive units	-	156
= Demand for rental units	=	44

Use Worksheet 11 to calculate the demand for your project.

Step three: Perform the competitive analysis

You will want to know if there is any existing housing, market-rate and subsidized, of the type you propose in the area. Look at their condition, the mix of units, rental rates and vacancy rates. Are they:

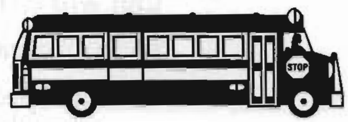
- ✔ Competitive with your project in terms of appeal?
- ✔ Less than desirable and why?
- ✔ Located inconveniently?
- ✔ Unreasonable due to other factors?

Contact building departments using building permit records to determine if there are any planned housing. Provide a picture and profile of each housing comparable.

Step four: Conduct the site analysis

The site analysis examines the physical and social characteristics of your proposed site, considering land use constraints and opportunities that could affect your project. You must pay particular attention to the neighborhood context and development suitability. Include the present zoning, size and shape of the terrain and the immediate surrounding environment. Additional items to look at are:

- ✔ Character of the neighborhood
- ✔ Proximity to transportation
- ✔ Proximity to shopping
- ✔ Proximity to schools
- ✔ Cultural considerations (proximity to family, recreation, worship)
- ✔ Incidence of crime
- ✔ Additional needs of the target population



Step five: Describe the project concept

The project concept is a short description of the project by location, site and concept. Below is a sample:

Project location

The proposed project will be located south of and adjacent to Fig Road and east of and adjacent to Old Delphi Road (99W) in the southwest corner of Boundary.

Site description

The proposed site is approximately 5 acres, is generally rectangular, and appears to be at grade with adjacent properties. There are no rare or endangered species or habitats at or near the site. The site has sewers and water service lines. See Exhibit X for site photos. The site is accessible to schools, shopping and transportation services.

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Project description

The proposed project is a 12-unit family rental complex with 4 one-bedroom units, 4 two-bedroom units and 4 three-bedroom units. In addition to the living units, the project will contain a resident manager unit, project office, laundry facilities and play area. Each unit will contain individual heat controls, kitchen appliance, carpet and window coverings. Energy efficient appliances and fixtures will be used throughout the project.

Professional market study

Many lenders require a professional market study. They want to know that the study was conducted objectively, with no interest in the project by the analyst. If you contract with a consultant, the fees should not be contingent upon project approval; the consultant should provide references for all data.

Worksheet 12 is a neighborhood market report form you can use to obtain the information that should be supplied in the market study if you conduct the analysis yourself or if you must explain the requirements to a paid professional. Worksheets 13 and 14 provide several information sources for affordable housing market research.

Chapter 6

Project Feasibility and Financial Analysis

Overview

You have completed a market analysis and determined that there is a demand for your project by the population segment you want to help. Now you must determine if the project will pay for itself. This chapter explains how to go about analyzing the financial health of your project. We begin by explaining why the financial feasibility analysis is necessary. We then look at three financial elements of your analysis so you can design a project which has a likelihood of success. We then look at some additional features lenders will look at when determining whether or not to lend on your project.

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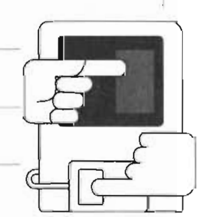
What is a financial feasibility analysis?

The financial analysis shows you whether your project is viable, how to determine and to what extent a financing gap exists, and your probability of obtaining necessary financing. Until you know where all the money is for the project, it is not feasible or healthy. The central document in the analysis is the *pro forma cash flow statement* (also known as the pro forma income and expense schedule). It measures cash flow over a period of time. The two other elements include the *project cost budget* and the *sources and uses statement.*

Preparing the components

To prepare the analysis, you must research and assemble the study. The feasibility analysis is only as good as the quality of the information you put in it. If you choose, the analysis can be shaped to project a very rosy picture, or alternatively, a dark and gloomy one. The picture you paint depends upon how realistic you are in your assumptions and data gathering. Otherwise, the analysis will simply reflect what you want it to, not what is real.

Tools for conducting the analysis



The tools you will need can be divided into three categories — tangible items, information and an open inquiring mind. Other than paper and pencil, two tangible items are very helpful both in saving time and improving accuracy — the financial calculator and spreadsheet software such as Lotus or Quatro Pro. Second, you need information. Most of it will be available simply for the asking. Acquiring the information is not difficult, but you must pay attention to detail and seek out appropriate sources.

Project cost budget (development budget)

The first element of the financial feasibility analysis is the project cost budget. The development budget accounts for all the capital needed to create the project and to carry out your development proposal. The development budget is made up of five separate elements: land acquisition, predevelopment, construction, marketing and permanent financing. Use Worksheet 15 to make sure you get all the information you need. To help you better understand the various categories, we will discuss each of them on the worksheet in turn.

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Acquisition costs

Acquisition costs consist of the purchase price of the land, costs of optioning the land (if not credited against the purchase price), past due public utilities or back taxes (if paid by the purchaser) and real estate sales commissions. Other costs include title, escrow and recording fees, transfer taxes and the cost of an appraisal, particularly if the acquisition occurs prior to and separately from the closing of the construction interim financing. You can obtain information about acquisition costs from the seller or the borough tax assessor.

Title and escrow fees. Title and escrow services are available from a title company. The fees are usually based on the dollar amount of the transaction. As the purchaser of land, you will want a policy of title insurance or abstract of title. Check if an exemption is available to you as a nonprofit entity. Recording fees are usually based on the number of pages in the document being recorded.

Predevelopment costs/soft costs

Predevelopment costs, also referred to as "soft" costs, include architectural and engineering costs, legal fees, soils and environmental hazards testing, consultants fees and governmental-approval application fees. Architects typically charge around six percent of the

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construction costs. Fees for engineering may or may not be included in the architect's services.

Soils testing and environmental studies. Soils testing is necessary to determine the suitability of the ground for the proposed use. Soils testing and environmental studies costs can range between a few hundred dollars to more than $5,000. They average about $3,000. Call your architect and engineer for referrals and an idea of actual costs if they do not provide these services directly.

Governmental-approval fees. This category covers any fee required to be paid to a governmental entity for submitting an application for some sort of official action. They may include zoning change applications, lot line adjustments, mergers or splits, conditional use permits, tax credit application fees, subdivision approval or public report fees. The information is available from the local jurisdiction's planning department.

Construction costs

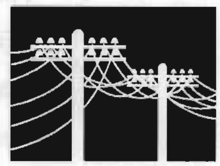
Construction costs, the "hard" costs, consist of building permits and fees, impact fees[3], off-site and on-site improvements, construction costs (labor and materials), utility connection fees, landscaping, contractor overhead and profit, construction contingency, course of construction insurance, contractor general requirements, construction interest reserve, property taxes, interim financing fees and costs, construction lender's appraisal and title, escrow and recording fees. Often this section is where the developer's fees are reflected.

You can estimate hard construction costs on a per-square-foot basis, but the best and most accurate

[3] Impact fees can and often include school impact fees (to cover the cost of building additional classrooms), water/sewer/ public utility impact fees, police/fire impact fees, transportation traffic impact fees. They are typically found in those jurisdictions which have limited the ability of the government to raise revenues from property taxes.

estimate will come from doing a "take-off" from the plans. This process involves making a detailed estimate of materials needed for your project based on the plans and specifications and applying current cost factors for the materials.

Off- and on-site improvements. Pay particular attention to whether the infrastructure is already at the site or whether you must include the cost of extending the infrastructure to the site. Off-site improvements are those items necessary to bring roads, public and private utilities to the site. On-site improvements are the costs associated with installing roads, curb, gutter and sidewalk, and the utilities on the site within the property boundaries.



The contractor's overhead and profit is usually calculated as a percentage of the hard construction costs. Remember, the busier contractors are, generally, the higher the percentage. Contractor's O/H & P will typically range from a low of 6 percent to as high as 12 or even 15 percent when construction activity is very hot. Many governmental subsidy programs [U.S.D.A. Rural Economic and Community Development (RECD), HOME] will limit the O/H&P to 6 percent.

Contractor's general requirements include any bonds required to be posted. They may include bid bonds, performance bonds and payment bonds. Typically, premiums for these types of bonds are based on a percentage of the bond amount. You can obtain information by contacting bonding agencies.

The contingency fund is also based on a percentage of the construction cost. For new construction activity 5 percent is reasonable; for rehabilitation projects we strongly suggest at least a 10 percent fund. The contingency fund is a source of funds for payment of unforeseen additional costs as a result of unavoidable price

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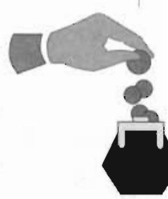

changes for materials, the need to carry out additional work not contained in the plans or specifications, or even due to changes in the plans and specifications during the construction process.

An interest reserve is a mandatory requirement of lenders providing interim construction financing. Though the construction lender expects to be repaid with the proceeds from the permanent financing, interest will accrue as construction funds are disbursed. There are two methods of calculating the amount of the reserve. Both require knowing the amount of the construction loan, the interest rate and the probable construction and lease-up period. Fill out Worksheet 16 to calculate the reserve amount.

Marketing

You will incur costs for marketing your project — costs for advertising the availability of the project and lease-up expenses. These expenses will include the preparation and printing of leases, project rules and regulations and unit inspection forms, advertising expenses, rental office setup, management fees (if paid on a flat-fee basis), and operating expenses during lease-up period. The scope and nature of the marketing efforts will be based on the "Affirmative Fair Marketing Plan" usually required by federal regulations.

Initial operating costs

You will want to have a pot of funds set aside to cover initial operating costs (and debt service on the permanent loans) between the completion of the project and the receipt of revenues. It is not unusual for the closing of the permanent loan to be delayed until a specified number or percentage of the units have been rented. You must pay the fire and liability insurance premium, turn on the common area utilities (gas, water, electric, sewer) and retain an on-site manager.

Permanent financing

These costs include an application fee, loan points, lender legal fees, appraisal, credit report on the borrower, title, escrow and recording fees associated with closing the permanent loan(s). Discussions with the lender will provide the necessary information.

Title and escrow. Information about title and escrow fees and costs is available from the title company. They include the cost of title insurance policies for the lender and for the borrower/owner, a fee for escrow services[4], recording costs, document drawing fees, notary fees, even charges for faxing or overnight mail delivery.

Total development cost

The compilation of all these items constitutes the total development cost for the proposed project. If for some reason you are unable to raise this sum, you will probably not be able to create the housing. Your project development budget represents one side of an equation. The other side of the equation is determined by the calculations further described in this chapter. Both sides must balance. Your project capital needs must be less than or equal to the amount of capital attracted to the project, or else you will not be able to pay for the cost of creating the housing.

[4] Title and escrow refers to two separate functions. Title services consist of searching and investigating the state of title to a property, issuing title insurance policies insuring against loss due to the existence of unknown defects in title. Escrow services consist of acting as an independent third party for purposes of facilitating the exchange of money and other documents of value (mortgages, deeds of trust and promissory notes) for evidences of title ownership as represented by property deeds. Quite often these services are provided as a combined service, but not always.

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Two cautions

After you have compiled your costs, you will want to ask two questions:

- ✔ Are all the costs shown and accurate?
- ✔ Are the costs reasonable and appropriate?

An easy way to check for accuracy and thoroughness is to get an outside party to review your budget. This may include your architect, another developer, or someone from your board who has development experience. If you are partnering with another non-profit organization, both parties should review the project budget. Then start asking questions to obtain a wide range of opinions on each category.

Sources and uses of funds statement

Do you have enough resources to cover your total development demands? Affordable housing usually requires many sources, and lenders will want to know what they are. The *Sources and Uses of Funds Statement* identifies all sources of financing for the project. They include loans, bond financing, grants, tax abatements, tax credits, donations and any equity investments. Uses of funds are divided into the categories of land and property, construction and rehab, relocation and project soft costs. The sources must meet or exceed uses as shown in the table on page 61. Fill out the Sources and Uses Worksheet (Worksheet 17) before you meet with any lender. Include backup documentation such as commitment letters, partnership agreements, earnest money agreements.

Sources and uses of funds				
Description of work	**Total cost**	**CDA loan**	**Equity**	**HOME**
Construction	$2,066,791	$ 853,584	$513,207	$700,000
Architect	$ 99,262	$ 74,487	$ 24,775	
Legal (financing)	$ 8,500	$ 8,500		
Marketing	$ 17,000	$ 17,000		
Real Estate Tax (const.)	$ 8,500	$ 6,384	$ 2,116	
Insurance	$ 15,000	$ 11,266	$ 3,734	
Other	$ 35,700	$ 35,700		
CDA financing fee	$ 25,500	$ 25,500		
Title and recording	$ 4,000	$ 3,008	$ 992	
Land and buildings	$ 609,747	$ 499,571	$110,176	
Construction interest	$ 165,000	$ 165,000		
Syndication placement	$ 135,000		$135,000	
City admin. costs	$ 20,000			$ 20,000
Relocation	$ 30,000			$ 30,000
Deficit escrow	$ 200,000		$200,000	
Total	**$ 3,440,000**	**$1,700,000**	**$990,000**	**$ 750,000**

The pro forma schedule of income and expenses

The third part of the financial analysis is the pro forma schedule of income and expenses. It is an estimate of the revenues and costs resulting from the project operations. The income generated during project operations must cover the expenses. Whereas the project budget is a description of the cash *outflows* necessary to create the project, the pro forma is the

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basis for determining the cash *inflows* available to build and manage the project. Use the pro forma format shown in Worksheet 18 and Table 1. Keep in mind that the income generated must be sufficient to cover the expenses of the project initially and through the life of the project.

Table 1

Gross Income		$$$
Vacancy & loss %		$
Effective gross income		$$
Operating expenses		$$
Taxes & insurance	$	
Repair & maintenance	$	
Management & administration	$	
Replacement reserves	$	
Operating reserves	$	
Net operating income		$$
Debt service		$
Cash flow	$$	

What is project income?

Project income, often referred to as Potential Gross Income (PGI), consists of:

- Rent from the residential units
- Rent from commercial space, e.g., thrift store
- Laundry income
- Commercial facilities, e.g., video games
- Parking fees (unlikely in most affordable housing projects)
- Rental assistance or other subsidy payments
- Fees for supportive services — separate out

Residential rental income

Base your residential rental income upon the potential of 100 percent occupancy and the income levels of the target population being served. The requirements of any subsidy program, such as the HOME program, will limit the rents that can be charged with further reductions for a utility allowance.

Vacancy and loss

Do not expect that all the units in your project will be occupied all the time. There will be times when units will be vacant because tenants may have to be evicted or otherwise move, repairs may need to be made or the rent may not be paid. The vacancy and loss amount is calculated as a percentage of the potential gross rental income. The standard accepted rate is five percent, except if the vacancy rate in your community is higher.

Effective gross income

Effective gross income (EGI) is the remainder after subtracting the vacancy and loss from potential gross income. This is the amount that you have available to pay the costs of operations and debt service on loans.

Expenses

The next section of the pro forma details the estimated costs associated with operating the project. Operating expenses are subtracted from the project's Effective Gross Income (EGI) to derive the Net Operating Income (NOI) from which the amount available for debt service is calculated. Another way to look at this is that operating expenses get paid *before* the lender gets paid. In multifamily rental projects you cannot generate project revenues unless the units are occupied. And you cannot maintain unit occupancy if the expenses of operating the project are not paid. So, lender's want to see that the bills are paid. You will

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need to account for the project expenses before determining the level of debt service the project can carry.

Operational expenses generally consist of seven categories: taxes, project insurance, utilities, repair and maintenance, administration and management, replacement reserves, and operating reserves. Some of these expenses are easily predicted, others are not. Some are stable from one month to the next, from year to year. Others may be variable. Preparation of this section of the pro forma requires careful research and information gathering.

Taxes. The property tax is typically the result of application of a tax rate (often expressed as mils, sometimes as a percentage) to an assessed value. A discussion with the borough tax assessor's office should provide guidance in preparing your calculations.

If your nonprofit organization qualifies for an exemption or waiver of the property tax on your affordable housing project, the waiver request cannot be sought until after the project is complete. If the waiver of taxes is discretionary, you must develop your pro forma on the basis that property taxes will be *due and payable.* In any event, the lender will evaluate the project with property taxes. If the lender were required to foreclose, they, or any subsequent purchaser, probably would not be able to maintain the tax waiver.

Besides traditional property taxes, many localities also impose additional revenue-raising techniques through the creation of special assessment districts, lighting and landscaping districts, and improvement bonds. These are additional costs above the traditional property tax. Check with the tax assessor's office in determining what these impositions may be.

Insurance. Every project will need to have fire and liability insurance coverage. If you have an on-site staff such as a manager and maintenance personnel you may have to pay workman's compensation insurance. If they handle money, some funding programs will require a fidelity bond. You can get advice on the types and coverage appropriate for the project and cost estimates from your insurance agent.

Utilities. Your project will have costs for gas, electricity and fuel. You must first determine what fuel source will be used for appliances and for heat and hot water. In addition, you will need to determine if the storage for your fuel source is adequate.

Repair and Maintenance. Repair budget items should account for the expected cost of fixing those small items like light bulbs, window glass and screen repair, etc. Do not include large item repair/replacement such as roofs, washers, dryers and so forth. These bigger-ticket items are taken care of in the replacement reserve category. The best source of information is to look at the actual repair budget of a similar project[5].

Maintenance budgets cover those costs associated with the regular and on-going project upkeep. These costs include grounds and common areas, trash and garbage service, regular pest control/extermination service, unit upkeep and redecorating/cleaning, service contracts on appliances, e.g., washers, dryers, and office equipment, maintenance personnel payroll and fringe benefits, appropriate tool and equipment repair/replacement costs, supplies and materials.

Administration and management. The administration and management budget accounts for the "soft" costs of operating the project. They cover costs directly related to the management of the project. Will you have an on-site manager? Does the on-site manager's

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[5] The project should be as similar in size, age, construction and management as possible.

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compensation include an apartment? Will you retain an outside management company? Is there an on-site office separate from the manager's apartment? Are there common area utility costs? What about on-going advertising and marketing costs?

The administrative budget includes book- and record-keeping costs, legal fees, audit fees, supplies, personnel payroll and fringe benefits.

Replacement reserves. The various elements of a housing project all eventually wear out, some faster than others. As a means of providing for the eventual replacement of worn out items, you need to establish a reserve, or pool, of funds. Typically, the replacement reserve is established to pay for non-trivial durable goods, items such as washers, dryers, roofs, refrigerators, paving, fencing. With Worksheet 19 we guide you through the use of two methods for deriving the replacement account.

Operating reserves. Operating reserves are a fund of money set aside to bridge temporary cash shortages. They are usually budgeted as a percentage of project income. Three percent of effective gross income is generally deemed enough.

Net operating income. Net operating income (NOI) is the amount you have available to pay loans and make distributions to the owners after paying all the operating costs. This figure is the basis for determining the debt carrying capacity and fair market value of the project.

Debt service. Debt service is simply the amount needed to be paid to lenders according to the terms and conditions of their loans to the project. Debt service will be some amount less than the available NOI. No lender will knowingly make a loan which requires debt service payments which are greater than the amount available to make the payments. As a practical and regulatory requirement, the net operating income of the project will always exceed the debt service payment requirements.

Cash flow. Cash flow is that sum of money remaining from project revenues after paying the operating expenses and debt service.

Finding the Information

Take care in selecting the data you will use. If your assumptions used to derive income and expense figures are inaccurate, so too will be the results of your analyses. The predictive value of the analyses you will conduct, described in the following sections, will be only as good as the soundness of the information you put in the pro forma. Where, then, do you get the information?

Rental income projections are based on two sets of information. First, are calculations based on the presumed income levels of the households you expect to serve. This information is derived from census data and regulatory restrictions. Against these projections, compare actual market information for the locality. Though not highly likely, there is always the possibility that the local market rents are actually less than the projected rental rates based on income levels.

Operating expense information will come from a variety of sources. Information for insurance is best obtained from insurance agents, property tax information from the tax collector. Management fees, of course, can be estimated best by contacting professional property management firms.

Determining repair and maintenance budgets can be more difficult. Often the best source is referral to the

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actual costs for these items gained from other operational projects within the locality.

Support services income and expenses

Each line item of your income and expenses will be looked at very carefully by any lender or funder. Many special needs projects incorporate support services as part of the project's design. For these kinds of projects the lender will want to know:

- If all supportive services income and expenses are shown
- If the supportive services income and expenses are reasonable
- The assumptions on which income and expenses are based
- That you can ensure the support services over the life of the project

A common mistake is to forget to incorporate the support services income and expenses into the pro forma. Their inclusion is important because your lender will want to make sure that there will be enough NOI left over to cover any debt service on its loan.

Income and expenses over time

Develop a year-by-year pro forma for the term of financing and the term of affordability. Throughout the life of your project, costs may go up or down. Lenders will want projections and back-up documentation. Costs may go up for a variety of reasons: property taxes, insurance, maintenance and management services. Costs go down when loans and system development fees are retired and when revenues (rents) go up.

Other calculations lenders want

Some other calculations that lenders will want and expect from you include the debt service coverage ratio (DCR or DSC) and loan-to-value ratio (LVR).

Debt coverage ratio

Once you determine how much debt you can afford for the project you will need to determine the cushion that lenders want to cover any margin of error or limited funds . Lenders require more NOI than the minimum needed to pay loan payments. They require projected income to exceed projected expenses by a set factor, typically 1.15 - 1.25. With a factor of 1.15 for a $100,000 project, the lender would want $115,000 in operating income. Any excess income may indicate that a subsidy is not needed.

Loan-to-value ratio

In addition, lenders cannot exceed a set loan-to-value ratio. Lender's debt plus any senior debt cannot exceed a set percentage of the property value (market value as set by an appraiser). Conventional lenders typically use 70 - 80 percent. With a 70 percent upper limit on a $100,000 project, the lender cannot exceed $70,000. If your development costs exceed the market value, you will need to decide if your organization is willing to take a risk on the project. Check with your proposed lending sources as to the applicable loan to value rate for the proposed borrowed funds.

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Chapter 7

Site Selection, Land Acquisition and Environmental Review

Overview

You must weigh several factors when you choose a parcel of land or a building for a project. It is rare to find an ideal site, so your decision will involve a number of trade-offs among various site conditions. In addition, once your site is selected, you must review its environmental suitability. While a good site review does not guarantee speedy approval, it can improve the likelihood of moving your project quickly through the environmental review process. In this chapter we begin by listing the major considerations for site selection and look at what's involved in land acquisition. Next, we summarize the environmental

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review process itself, including what to expect when complying with HUD and RECD requirements.

Site selection

Some rules of thumb

There are some rules of thumb worth considering when you begin your site selection. First, site selection is much easier to confidently accomplish in a geographic area you know well. If you are unfamiliar with the area, contact people, e.g., realtors and local planners, who are. If you're trying to rid the neighborhood of eyesores, your choices are narrowed to the offending properties. If you're trying to site a certain type of development you may look at a wider range of sites. If you're intending a multiple-site project, contiguous sites are easier to manage and save money during construction. (However, scattered sites may be an important part of your project design.) Bear in mind that the cheapest property may not result in the least expensive development. In some cases, there are good reasons why the property is priced low. Willing sellers and unclouded property titles may be worth paying a bit more for.

Your first considerations

When you see a site, your first question should be, "Is the property we're looking at the right site for the people we want to serve?" To some extent you answered this question during your market analysis in Chapter 5. In deciding on a piece of property look at the following factors:

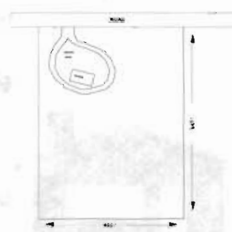
- ✎ Proximity to support services: shopping, medical, public transportation, schools, social services, day care, employment, special services

- Proximity to cultural services: places of worship, community centers
- Character and safety of the neighborhood
- Utility services: whether water, sanitary and storm sewers, electricity, gas and telephone utilities are in place
- Whether there is a choice for the fuels source and if there is an adequate storage facility for fuel
- Roads — available and sufficient

New construction site considerations

There are different site selection considerations for new construction and rehabilitation projects. If you are planning a new construction project, consider whether the site is "buildable" and within your budget. An initial inspection does not generally require engineers and expensive consultants, but does require someone with an experienced eye. The inspector should consider a broad range of conditions:

- Size of land
- Shape of parcel
- Access to main roads
- Access to utilities
- Grade of site and grading needed to build
- Drainage
- Soil composition
- Condition of surrounding area
- Prior use of the land
- Toxic substance or environmental issues



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The site information will help you determine if there are any constraints that, in turn, will influence the cost of your project, even making it infeasible. Varied physical conditions, such as wetlands and protected habitats, can carry with them a host of legal issues which can affect the development's feasibility.

Rehabilitation site considerations

Rehabilitation activity is the upgrading of a property. This may involve correcting code violations, eliminating structural deficiencies and removing decay. It may encompass cosmetic improvements and historic restoration. The rehabilitation activity may be *minimal*, less than $1,000, or *moderate*, up to $10,000 and in some cases, *substantial*, over $10,000. Again, an initial property inspection does not generally require engineers and architects, but does require someone with an experienced eye. Your inspector should consider the presence of costly structural or systems problems and ask these questions:

- ✔ Does the building look plumb?
- ✔ What about the other buildings on the block?
- ✔ Are there signs of site erosion, or sunken sidewalks?
- ✔ Does the structure bulge or sag?
- ✔ Are roof lines clean and straight?
- ✔ Is the foundation plumb and in good condition?
- ✔ Are there signs of flooding?
- ✔ What is the condition of the basic systems?
- ✔ Will revision of spaces be necessary?
- ✔ If so, where are the load bearing walls?

- ✔ Consider possible toxic substance and environmental issues.
- ✔ What have been the previous uses of the building?
- ✔ Could they have produced toxic substances? (oil tanks, asbestos, lead paint, radon, by-products of drug production)
- ✔ Are there environmental review issues?
- ✔ Is the fuel source and storage adequate or will it need to be replaced?

Relocation and replacement issues

You will incur relocation costs if the construction requires moving the residents out of the property until it is completed. The cost of relocation under the Uniform Relocation Assistance and Real Property Acquisition Policies Act, even if temporary, may be costly to your project. However, if you finance your project with public funds, you will need to consider a variety of relocation and replacement issues. In order to minimize any relocation activities, ask:

- ✔ Is the property occupied?
- ✔ Will current residents be able to remain?
- ✔ Are there issues of over-crowding?
- ✔ Will your development result in the same number and size of living units?
- ✔ Are the units currently affordable?
- ✔ Will they be affordable?

For both new construction and rehabilitation consider:

- ✔ What is the current zoning?
- ✔ Will it have to be changed or will you need to seek a conditional use permit?

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- ✔ What are the allowable uses?
- ✔ What is the allowed density?
- ✔ What are the set-back requirements?
- ✔ Are there any special site placement requirements?
- ✔ Are there building height restrictions?
- ✔ Are there any special structural requirements?
- ✔ Are there any special site development requirements, e.g., emergency vehicle turn-arounds, sidewalks, street paving?
- ✔ What state and local permits will be required?
- ✔ Are there any special assessment districts, systems development charges, or annual fees?
- ✔ Are there any municipal liens or has the property been posted for any violations?
- ✔ Who is the title holder?
- ✔ Does the owner want to sell?
- ✔ Is the title encumbered, e.g., mechanics liens, IRS liens, property taxes, mortgages?
- ✔ Is the price right?

Worksheet 20 is a site selection checklist to use in your review of potential sites.

Appraisals

An appraisal is probably the most accurate estimate of the current market value of a piece of property. Appraisals are expensive, and probably not necessary at this early stage of consideration. Appraisals are partially based on comparables and so other sales have had to have occurred recently. You can do some research to determine if the asking price is fair and will work for your project. Ask:

- ✔ What is the tax assessed value?
- ✔ What are other similar properties selling for?
- ✔ How long has this one been on the market?
- ✔ How fast are properties selling in the area?
- ✔ Who owns the property?
- ✔ When did they take possession?
- ✔ Is your development feasible with this much acquisition cost?
- ✔ Can you get the property donated, or partially donated?

Tying up the property

It may be helpful to ask the village or borough to enforce any inspection authority it possesses to work as an increased incentive for the owner to sell. If you're trying to acquire more than one site, think of ways to prevent the various owners from being aware of the whole plan.

Usually the first step in the purchasing process is to secure an option. An option is an agreement between you and the owner. It specifies a set purchase price. It contains the option to withdraw your offer if specified contingencies occur. The option payment may or may not count toward the purchase price. The option payment may or may not be refundable if you withdraw your offer. Typical option periods are from six months to one year, but may be any length.

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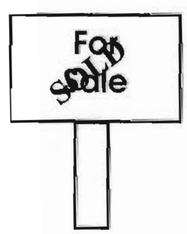

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Developing housing on Tribal trust lands

Many groups hold the assumption that you cannot develop housing for native groups due to the isolation of native villages, the harsh climate and the fact that the land belongs to the native corporation. However, there are mechanisms for working with native corporations. There are 13 regional, village or urban corporations that can conduct business transactions. The native corporation has jurisdiction over it's land and whether it can be sold. Corporate owned land can be marketed and sold on the market. If you want to develop housing on native land, the first step is to contact the native corporation and the qualified attorney for the native village. Check on the type of native ownership and whether the land can be conveyed to a long-term lease. Finally, contact several lenders to find one who is willing to work with a native corporation.

Environmental review

Many federally funded housing programs must go through an environmental review process. The environmental review is part of any project's feasibility study. The site you select must be appropriate in terms of the environment and the type of housing project.

In order to avoid or mitigate environmental problems when acquiring property, your site analysis should answer four questions:

1. What is the nature of the site and surrounding environment?
2. Will the housing project have an adverse affect on the environment?
3. Will the environment affect the health and safety of the projects residents?
4. Will the site meet the site selection requirements under state and federal laws and for any funding agencies?

Your goal should be to find land that is environmentally safe with as few environmental problems as possible. Any site with environmental problems will only add unwanted costs — for mitigation of problems, regulatory compliance measures and possible lawsuits. These costs, in turn, impact whether your housing project is affordable or whether financing can be obtained. Also, any environmental problems will cause unwanted delays in the project approval process.

Regulatory requirements

Before you conduct your site survey, become knowledgeable about how to comply with several environmental protection laws and protect important natural resources. The federal laws you should be concerned with are:

- National Environmental Policy Act (NEPA)
- Endangered Species Act
- Farmland Protection Policy Act
- Coastal Zone Management Act
- Archeological and Historic Preservation Act
- Executive Order 11988, Flood Plain Management
- Executive Order 11990, Wetland Protection

In addition, you must be familiar with the state laws pertaining to protecting the environment. If your organization is using state funds, you must comply with state energy standards. Contact the Alaska Housing Finance Corporation for more information.

NEPA provides the procedures for making an initial study determination, and procedures and requirements for an Environmental Impact Review (EIR).

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Need for a thorough environmental study

To avoid environmental problems, costs and delays, you must conduct a thorough research of the subject property. This will involve:

- ✎ a history of land use
- ✎ a history of ownership (50 year title search)
- ✎ review of nearby land use
- ✎ search of natural and man-made conditions

Your staff will need to look at public records, conduct neighbor interviews and site inspections, and obtain owner disclosures. The research will probably include soil and percolation tests, determining slope, depth to water table and depth to bedrock. A study of natural conditions includes climate, typography, elevation above floodplain, distance from floodplain, hydrology, soils, vegetation and wildlife. The study of man-made conditions includes existing and historical land use and evidence of contamination. Some examples of contamination are:

Naturally occurring

- ✎ heavy metals
- ✎ radon

Existing use

- ✎ underground storage tanks
- ✎ septic tanks, pesticide use

Past use

- ✎ landfill or dumping

Migration from surrounding properties

- ✎ migrating subsurface solvents, toxic wastes

If you develop a housing project where there is contamination without carrying out adequate mitigation measures, the court will look at whether you made all appropriate inquiries and whether your organization "had no reason to know" a site was contaminated. The burden of proof will be on your organization if there is a lawsuit.

Use of environmental impact guides and checklists

There are many guides and checklists for environmental reviews. Worksheet 21 is an adaptation of the RECD Form 1940-20 for conducting an environmental review. It is an excellent guide for site selection, regardless of the source of financing you plan to use. Question 3 is especially helpful: "Are any of the following land uses or environmental resources either to be affected by the proposal or located within or adjacent to the project site?" A yes to any of the items is a signal to look for alternative sites. Also, any item marked yes must be explained regarding the negative and positive impact. For negative impacts, you must provide additional written explanations outlining how the adversity can be mitigated.

Mitigation

The environmental review must propose measures for mitigating all significant impacts of the proposed project. Your organization has several choices:

- Take no action or parts of action to avoid impact
- Alter the magnitude of an action to minimize severity
- Repair, rehabilitate or restore the impacted environment
- Reduce or eliminate the impact over time by preservation

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✔ Yes

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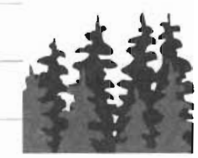

- Take an offsetting action or provide substitute resources or environments to compensate for the impact

Actions that would result in loss or degradation of agriculture land, flood plain, historical or archaeological site, wetlands and wildlife must be modified or accompanied by mitigation measures. The following are some examples under RECD guidelines and regulations:

Flood plain

If the site is in the floodplain or borders the floodplain, you must hire a consultant to define exactly where the flood plain is (the FEMA map is too general).

Forested/wildlife

A biologist must identify the tree type and wildlife. If there are protected wildlife in the area the you must preserve a quarter of the land for the wildlife to pass through. If a prime timber type, the timber must be preserved.

Wetland

You must not divide the wetland, but you can subdivide the adjacent property.

Archeological

You must obtain an assessment from the state historical agency in the early stages to determine if a survey is necessary and whether the site is on the National Register of Historic Properties.

Toxic wastes

If there are any toxic wastes, an engineer must be hired to develop a plan for removing or stripping the toxic wastes to safe levels.

Under NEPA there are standard mitigation measures and project specific measures. Standard mitigation measures are those that are invoked routinely for problems of a generic nature. For example, if the site has soil and slope conditions that call for special care during construction, the requirement may be a routine measure of "best construction practices." In contrast, project specific measures are tailored to the unique effects of a project. They are measures that are more sensitive and creative to attain environmental protection.

HUD and RECD environmental review procedures

There are different procedures and requirements for HUD and RECD projects.

If both RECD and HUD funds are used in a project, both sets of requirements must be followed. However, there are many over-lapping parts. The State of Alaska resource agencies require various licenses and permits, for certain lands. Both HUD and RECD environmental reviews are concerned with:

- Flooding
- Seasonal occurrences
- Flood plains
- Rivers changing course
- Permafrost
- Wildlife/endangered species
- Wetlands
- Coastal zones
- Farmland protection
- Range land protection

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- ✎ Prime forest protection
- ✎ Air quality
- ✎ Water quality
- ✎ Noise
- ✎ Thermal/explosives
- ✎ Airport clear zones
- ✎ Solid waste disposal
- ✎ Toxic chemicals and radioactive waste
- ✎ Coastal barrier resources
- ✎ Wild and scenic rivers
- ✎ Transportation
- ✎ Historic/archeological concerns
- ✎ Protection of cultural environment
- ✎ Energy demand
- ✎ Construction practices

Environmental review for HUD programs

24 CFR Part 58 contains the environmental review requirements for these HUD programs:

- CDBG
- Emergency shelter grants
- McKinney Act programs
- HOME
- Rental Rehabilitation Program

There are four parts to the HUD environmental review process:

1. Determination of the level of clearance required
2. Exempt

3. Categorically excluded

4. Requires environmental assessment

Every HUD housing project must have an Environmental Review Record (ERR) that is available for public review and contains all required records. Required records vary depending on the level of clearance. Grant recipients that receive funds directly from HUD have ultimate responsibility for environmental reviews. A Certifying Officer (CO) must be designated. The officer makes sure environmental reviews are done for grantee owned projects and any recipients of pass-through funds. They make sure Environmental Impact Statements by others are reviewed.

Recipients that receive pass-through funds from direct grant recipients also have responsibilities for environmental reviews. All environmental review activities must be completed and a Request for Release of Funds (RROF) approved before HUD funds may be committed to a project. If an application has been submitted for federal assistance, owner funds spent prior to approval of RROF may not be able to be reimbursed, unless funds were spent for exempt activities, activities that would not have an adverse environmental impact, or activities that would not limit the choice of reasonable alternatives.

Environmental review process for RECD programs

7 CFR 1940, Subpart G contains the environmental review requirements for RECD programs. The developer/applicant must submit information so a review can be done. RECD does the environmental review. State RECD offices can provide state natural resource management guides. RECD environmental review categories include:

- Categorical Exclusion — no form 1940-20 is required

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- Class I Actions
- Class II Actions
- Form 1940-20 is required for both Class I and Class II Actions

You may find differences among environmental engineers about what they call Class I and Class II reviews. There are four parts to form 1940-20.

First part

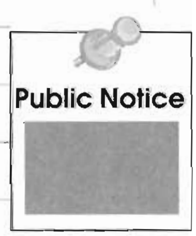
The first part requires submission of either a previously completed EIS or EA, or completion of Exhibit 1 of form 1940-20. For Class I projects only six items of Exhibit 1 must be addressed.

Second part

Contains SHPO requirements.

Third part

This is a checklist of 32 environmental factors. Ten (10) of the items may or may not be present on an acceptable site. You are simply asked to consider the effect of your proposal on the 10 items, and the effect of the 10 items on the future residents that would live in your proposed project. An additional 4 items raise red flags, but may not be reason to stop the project. The presence of any of the remaining 18 items is likely to kill your project.



Fourth part

This part asks for information about any current EPA violations. Public notices are usually required. Class II Actions always require public notices of the agency's assessment determination. Class I and Class II Actions require public notices about:

- Flood plains
- Wetlands

- Important farm lands
- Prime range lands
- Prime forest lands

In addition, RECD may require public information meetings. It is advisable to issue an early public notice so that any detractors that would be inclined to misuse the environmental process will have to step forward early.

State of Alaska requirements

In Alaska, projects financed with state funds must comply with thermal and energy standards.

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Chapter 8

Gaining Community Acceptance

Overview

Community support is necessary for your project's success. Many good projects have been stopped because the community was not consulted early in the development process. While most projects will require some meeting and approval by the governing body, holding one public hearing or meeting will likely not be enough. We encourage community input throughout the development process. In fact, it is important to push for as much citizen participation as possible to make sure that your project is effectively meeting your community's needs. In this chapter we share with you some examples of community-based communication and strategies. We review some of the important considerations that community members have about a project. Finally, we discuss the kind of community resistance referred to as "not in my back yard" (NIMBY).

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Achieving citizen participation through collaboration

Unfortunately, there are few good models for involving citizens in developing, implementing or evaluating a project. What will work in one community may not necessarily work in yours. We suggest using a *collaborative approach.* This approach achieves a balance between community members' rights and responsibilities. Community residents have the right to be a part of decisions that affect their neighborhoods, and at the same time have responsibilities to help people with needs. The *autonomous approach* emphasizes the rights of people who need the housing backed up by regulatory authority. This latter approach can be abrasive in its style and backfire in the long run.

When to obtain citizen input

Ideally, citizens should be involved in all phases of your project, including:

- Creating the project, particularly identifying needs and developing priorities
- Reviewing designs and potential sites
- Monitoring progress and meeting project goals

Community-based strategies

The strategies you use can influence community acceptance from the early planning stages through to the project's completion. Community-based communication is necessary if community acceptance is desired. To get broad support, use a variety of community-based strategies such as (Worksheet 22):

Community education to heighten awareness of the housing needs and your project using TV, radio, print and general mailings. Develop one-page fact sheets describing your proposed project, the sources of funding and how the project would benefit the neighborhood.

Community outreach. Information is shared with the neighborhood where the project will be sited. Conduct your outreach early and frequently. Contact is directed to people in the neighborhood.

Community advisory boards. The boards are made up of prominent local leaders and neighborhood representatives early in the process, before vocal opposition has arisen. Boards can help legitimize your housing proposal from the onset.

Ad hoc or special committees of neighbors of a proposed development site.

Community Housing Development Organization (CHDO) low-income input. If your organization is certified by the Alaska Housing Finance Corporation as a CHDO you must have a process in place for low-income program beneficiaries to advise on project design, location of sites, development and management of your projects.

Public hearings and information meetings. These are meetings about your project that are open to the public. Use existing public forums to meet any public comment or notice requirements. They offer an opportunity for citizens to learn what the project is about and to provide input. Timely notification about the hearing is important for your hearing's effectiveness.

Respond to questions. It's a good idea to follow up on public hearings and outreach meetings with a list of commonly asked questions and answers. These can be mailed to neighborhood residents in the target area.

Concessions and incentives to the community, which may include giving in to some of the needs of the supporters of the proposed project.

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Identify the community-based strategies (using Worksheet 22) that will help your project's acceptance within the community.

An example of community-based communication

The following is a fictitious example of the kinds of community-based communication that can be used:

The Alaska Housing Services (AHS) wanted to obtain citizen input as it planned its housing project. The AHS held meetings with citizen groups in several "focus neighborhoods," sponsored a housing workshop, and mailed a questionnaire to the nonprofit organizations in the community to get their input on the project. In participation with some of the nonprofit organizations who responded, AHS developed a housing strategy. They held an information meeting at a local church to discuss their plans and to answer citizen questions. As the project progressed, AHS mailed to the residents one page updates.

Community concerns about a project

Your project will undoubtedly change the neighborhood. As a result, local residents will share a number of concerns about the impact. The following is a list of the most common concerns about siting a project:

Property values. People fear that the proposed development will result in a decline in their property values. However, study after study have not been able show a link between the siting of any social service facilities and a decline in property values.

Personal safety. Concerns about safety are most often voiced about certain types of facilities, especially those that will serve prior criminals, drug rehabilitation participants and people with AIDS. Concerns are often expressed as questions about management and supervision.

Neighborhood character. Concerns about a decline in the character of the neighborhood are often voiced as a fear of antisocial behavior by the residents, or a fear of loitering people on the neighborhood streets. A concern about increased traffic or crowded parking conditions may also surface. Sometimes a rather sophisticated argument is put forward that the community cannot provide for the clients or residents.

The type of residents that will be served. There is a hierarchy of reaction to different types of residents that will be served. Elderly people and people with mild physical disabilities elicit the lowest level of opposition. Criminals, drug users and people with AIDS elicit the highest level of opposition.

Characteristics of the facility. The size of the proposed development tends to be the characteristic that receives the most comment. The reputation of the project sponsor can be key, as can the physical appearance of the project. A new or renovated building can become a positive asset in many neighborhoods.

Management of the project. People are concerned about neighborhood security and personal safety. They will want to know that the units will be supervised adequately.

Programmatic issues. Saturation of a neighborhood with low-income and special needs housing is the most frequently advanced programmatic complaint.

Proximity is the keenest forecaster for likelihood and level of community resistance. Somewhere between two and six blocks from the proposed development, neighborhood concern wanes.

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Countering community resistance with collaboration

For many years community resistance was countered by emphasizing the rights of people who needed the housing. After many hard lessons and long fought battles lost, the trend swung toward collaborative approaches. The trend in the '90s seems to be a desire for collaboration with the backup authority of legal action (the Fair Housing Act of 1988 and the Americans with Disabilities Act of 1990). The following approaches may be helpful if you get resistance to your housing project:

Anticipate the arguments. Early in your discussions you are likely to come across the arguments against your project. Identify the arguments and provide well thought out answers. You may even find an individual within the opposing camp who you can neutralize.

Meet with the opposition. Arrange joint working sessions that focus on specific aspects of the proposed project. Ask opponents to express their opinions and provide some information. Local communities and boroughs may allow their conference rooms to be used.

Arrange a special forum to provide information about the project. This could be a workshop with a broad range of participants.

Make concessions. Give in to some demands of the project detractors. Often it is easy to make concessions on building design, landscaping or operating procedures and thereby gain support for the project as a whole. It is also important to highlight benefits that the project will bring to the community, e.g., hiring of the staff and local construction contractors.

Use zoning and licensing provisions to move forward with your project.

Not in my back yard attitudes

Sometimes proposals for affordable housing developments elicit a NIMBY (not in my back yard) response from neighborhood residents. NIMBY protests tend to come in waves with multiple disputes, followed by relative quiet. There are usually three phases. The first phase is one of *anger*. There is often a knee jerk response when the plans for a development are first announced. This initial reaction is often led by a small vocal group. The second phase is one of *debate*. As the project progresses, opponents and supporters solidify into groups. Debate usually moves to more public, formal forums. The rhetoric of each side tends to be more rational and objective. The final stage is one of *compromise;* however, the conflict resolution can become drawn out. Formal negotiation may even take place, and victory often goes to the most persistent side.

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Chapter 9

Securing Financing and Working With Lenders

Overview

All three components for determining your project's feasibility are now complete. Your market analysis demonstrates a demand for the number and kind of units you want to build. The site analysis and environmental review show that your property is suitable for the design and concept of the project. And, all the financial data, budgets and statements show that your project can support itself. It is time to bring your project to the lender.

Getting to this point was no easy task; it took a lot of hard work. Unfortunately, many projects are delayed or abandoned due to lack of financing. The nonprofit developer may have forgotten to have assembled *all* the information needed or has provided incomplete

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and inadequate information. In this chapter we will look at what's involved in securing your financing, and review the concerns the private lending industry has with lending to nonprofit organizations. We then provide some guidelines to ensure that you have assembled all the information needed for submitting a basic funding proposal. Finally, we look at what motivates the bank in lending to the nonprofit organization.

How private lenders evaluate loan applications

Because of the nature of the banking industry, private institution lenders want to work with projects that limit their exposure to risk. They want to know that the project will be well managed during and after construction and that the debt will be repaid. If the project was to fail, the lender wants the assurance that the bank's capital is returned. This is why loans are structured with a variety of cushions and conditions, e.g., loan-to-value ratio and debt service coverage ratio, to minimize the level of risk.

Two types of risk

In an article by the Community Development Research Center in New York[6] the authors identify two types of risk that lenders are concerned with:

- Borrower risk
- Project risk

With borrower risk, the lender is concerned about your capacity to successfully complete the project and once complete, manage it. With project risk, the lender wants assurance that the project will complete con-

6 "Factors Used by Lenders to Evaluate Loan Applications." Graduate School of Management and Urban Policy, New School for Social Research, New York.

struction on schedule, within budget and that the debt will be repaid. Although lenders vary by the loan conditions and requirements for a loan, they share a concern about the same risk factors. We will review these factors below:

Organizational risk factors

Your previous development experience. Lenders will want to know what your track record has been in completing similar tasks before this project. Were they completed within budget? On time? Are you committed to finishing a project even when problems arise? If you lack experience in the relevant activity, the lender will want to know that you have successfully performed in other activities. If not, some of your lack of experience can be made up for by assembling a strong development team.

Your current development experience. Your lender will look at your current commitments and workload and even those of your development team. They want to know that the project will be completed on time, with few cash flow problems or cost overruns.

Your financial and management capacity. Lenders like to see a picture of financial stability and performance. Is your organization growing or stable? Is your income diversified? Diversification indicates that your organization is likely to continue operation. Lenders will require financial statements to evaluate your financial stability, credit history, net worth and liquidity.

Project risk factors

Cost overruns. There are many reasons why your project could exceed the cost estimates and contractor's bid amount — delays due to weather, excessive change orders, poor quality work that must be redone, etc. The lender will want to know that you

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have built into the project budget an adequate contingency (5 - 10 percent of the hard costs) for unforeseen costs. Sometimes they will require a fixed price contract so there is no incentive to the contractor for cost increases.

Poor marketing. You must achieve a level of rent or sales price at project completion to guarantee repayment of the construction loan. In addition, the lender will want to know that the project will be managed well. They will expect to see a management plan.

Financial failure. Lenders will want to know if you have lined up your commitments from other sources. They also want assurance that any rental subsidies are secured.

What the lender can offer

Your proposed local lender can be called upon for project support and input as early as the concept phase. They can offer several valuable services:

- Analyzing financial options
- Analyzing the pro forma
- Recommending consultants
- Creating pro bono services

Giving the lender what he wants

Now that you know what the lender is worried about, help him do his job. Have an answer for each of the above risk factors. Then find out what his criteria and conditions are for a loan. Be clear about your organization, your mission and purpose, and the project concept. Now you are ready to put all of the relevant information into a finance package.

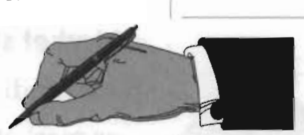
The basic finance package

Specific finance programs and lenders will have their own particular formats and documentation requirements. Follow the guidelines discussed below and in Worksheet 23 to ensure that you have assembled all the information needed[7].

Transmittal letter

The transmittal letter simply says that you are submitting a packet of information and documents. Quite often the transmittal letter and the cover letter are combined. A sample transmittal might read as follows:

> Dear Sir:
>
> Enclosed for your consideration and review is our application and supporting documentation for a (specify type) loan (or grant) for the (project name) Project as we discussed on (date). I look forward to discussing the application and our project with you at your earliest convenience.



Cover letter

The cover letter is an important part of the package. The letter should be short — no more than 1½ to 2 pages — and should provide a summary of the project, the organization and what you are seeking from the reader. It should set a positive tone. The cover letter is simply a quick snapshot for giving the reader a sense of what is to follow.

Project narrative

The project narrative deserves a section all to itself. The project narrative discusses the details of the proposed project — the project's location, what the

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[7] Some particular types of financing will not require all of the information described in this article. Land acquisition loans are a good example. Clearly, the developer will not necessarily have construction budgets, plans, etc, at the time of purchase. It's all a matter of timing.

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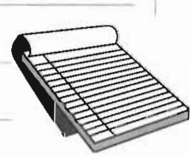

project is (number of units/buildings, rental or for sale, etc.), financing structure, project participants, marketing and management plans, construction methods and materials, unit mix, etc. This is where you explain how you intend to finance your project, who is doing it, why the project is needed, what the current status of the project is, what progress you have made, the level of community support, etc. All the rest of the project proposal is supporting documentation for what is stated in the narrative.

Maps

Include the following maps:

- Area location map
- Local street map
- Plat map of site

All maps should be legible. Indicate the orientation (north). Label the site location.

Market study/needs assessments

All funding sources need to know that there is a need or market for the proposed development. The application package should include a copy of your market study and/or needs assessments. Preface this section with a short narrative describing the need[8] and the market[9] for the housing.

Environmental information and reports

Environmental hazards and conditions are major issues of concern for funding sources. All funding agencies, including institutional lenders, require a Phase I environmental report and proof of compliance with all environmental regulatory requirements. Provide copies of any environmental studies or

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[8] In the case of funding requests from state or federal subsidy funding programs such as HOME.

[9] In the case of financing from institutional lenders.

reports. If there has been a finding of no significant impact on the environment (FONSI) or other "negative declaration" by a governmental agency include copies of the reports or findings.

Zoning and governmental entitlement

All housing developments require one or more governmental approvals. Lenders want to know that the project will be able to go forward if they provide funding. Consequently, you should provide the funding source with information about the status of all required governmental approvals and entitlement. Provide copies of any letters or approvals that you have. If no approvals are in place, describe what approvals need to be obtained and the proposed schedule for obtaining them. In addition, describe any steps you have taken to diffuse the likelihood of opposition to your project.

Budgets and pro formas

All funding sources will be concerned with the feasibility and viability of the proposed project. Whether a governmental funder or an institutional lender, they want assurance that the project can be completed and disposed of, whether through sale of the units or through rental operations. Both will need information about project costs, financing, and rental operations[10] or sales projections in order for them to conduct their own feasibility analyses. These analyses are a central element of the decision to finance the project or not and, if so, how much financing to provide. Prospective funding sources will review the information for a number of factors. These factors include:

- Loan-to-value
- Break-even point

[10] If the project is intended to be operated on a rental basis.

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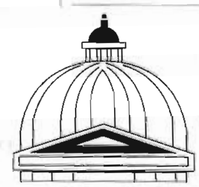

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- Debt service capacity
- Reasonableness of project costs
- Rent or purchase affordability
- Regulatory requirement compliance
- Financing gap
- Subsidy layering

The amount of information needed by the prospective finance source depends to a certain extent on the complexity of the needed finance structure and the type of financing involved. Your package should include, at a minimum, a detailed development budget, a detailed sources and uses statement, a rent schedule and operating statement (for rental projects) or purchase financing detail (for unit sale projects).

Plans

Depending on the type of funding sought, you may or may not have a full set of plans for the proposed project. In most cases[11] though, you should have a site plan showing the proposed project layout. If a preliminary site plan exists include a copy with the package. A site plan is something tangible and helps potential funders to visualize the project.

Photographs

The old cliche that a picture is worth a thousand words is as true for finance proposals as for anything else. Since most lenders will not go to the time and expense of making a site visit in the early stages of evaluating the application, it is helpful for them to be able to see what is being otherwise described. Though pictures may not be a required part of a given lender's

[11] If you are seeking land acquisition financing or very early predevelopment loans, you probably won't even have a site plan.

application, not providing pictures leaves a feeling of incompleteness. When providing pictures be sure that they show all the relevant features. Label them so that the viewer can place them in context. The following is an example of the information that should be included with the picture caption:

Subject:	Subject property line, north boundary
View:	Looking east down north property line
Location of shot:	Northwest corner of property
Date and time:	Saturday, June 30, 2002, 1:00 PM
Salient features:	Drainage ditch along north property line

Appraisals

Most conventional lenders (banks, S&Ls, etc.) will require their own appraisal rather than relying on an appraisal that you may have had done for yourself or some other party. Often you may not even have an appraisal yet. In any event, the financing package should provide some information about the various project values and worth[12]. Do not include copies of any appraisals that you may have. Rather, describe the information and basis in a narrative fashion. If there was an appraisal conducted for a specific purpose (*e.g.*, establishing the purchase price) you could write something like the following:

Borrower commissioned an appraisal of the subject property for purposes of establishing an appropriate and reasonable purchase price. The appraisal was

[12] There are several value points or items. First, the value of the property as in its current condition. Second, their is a construction value — the value of the project as constructed (non-operating) — which is the construction lenders primary concern. Last is the value of the project on an operating basis which is the permanent lender's concern.

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done by Joe Blow and Associates, a licensed appraisal firm, in July, 2002. The appraisal report indicated a value for the subject property of $153,000. This value was accepted by Borrower and Land Seller and established as the purchase price.

Ownership/site control, preliminary title reports

Every lender or funding agency will require information about the ownership or site control of the property. Be sure to include copies of the deed or the purchase agreement/option. If there are encumbrances, e.g., purchase loans or seller carry-back notes, include a copy of the promissory note and trust deed or mortgage. If there are easements, include a copy of the document granting and describing the purpose and conditions of the easement. All these things will save time and provide the lender with a full picture of the state of the title.

Development team information

Your package should include basic resumes and information about the team members, especially about their skills and experience. This is what lenders look to in determining the likelihood that the development will be completed, as agreed, on time and within budget.

Other financing and commitments

If your project will involve multiple funding sources, you should provide information about their status and level of commitment. If a source has made a firm commitment, include a copy of the commitment. If applications are pending, say so. If you propose to seek funding from a source but have not yet applied, say so and explain why.

If there are several funding sources, each lender or funder will likely want to review the specific funding requirements and conditions of the other funders. It is not necessary to include all such information in the original application unless specifically required by the proposed funder.

Marketing plan

A good financing proposal will include a section which discusses the plans for marketing the project, whether for rental or ownership. Though a well-done market study/needs assessment will normally be sufficient for the permanent lender[13], the permanent financing lenders will want to evaluate the adequacy of your marketing plan. Include how you intend to market the project, the marketing schedule and budget. Some programs actually require an Affirmative Fair Housing Marketing Plan, Form HUD 935.2. You will increase the lender's understanding and comfort with more thought put into the marketing.

Organizational information and supporting documents

Your package should include all appropriate organizational information and support documentation. This section includes an organizational chart, a copy of the articles of incorporation and current bylaws, a list of your board of directors with a short biography on each, resumes of key agency personnel involved in the proposed project, a copy of your most recent audit and copies of current financial statements, and a narrative of the agency's mission, background and history.

[13] Some programs require inclusion of actual survey information and/or lists of people interested in participating in the program (the section 502 Mutual Self-Help Housing Program is an excellent example) but, for a conventionally financed project, the permanent lender just requires sufficient information documenting that the product is competitive in the market place.

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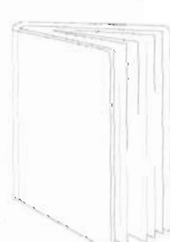

Handling project weaknesses and problems

In every development project there will be some weakness or problem which will seem to threaten or significantly decrease your ability to get the financing you need to build. They range from issues affecting the site, to issues concerning development team members or even your organization, to project need, to project cost and financing. The natural tendency is to gloss over or even hide these difficulties from lenders. *That is the last thing you should ever do.*

If you are dealing with quality lenders who work with due diligence they will discover the problems. When lenders discover that you have withheld information which they subsequently uncover, their natural reaction is to wonder what other problems exist which have not been disclosed. If the project is marginal, withholding negative information which is subsequently discovered is flirting with a proposal denial. At the least, financing approval will be delayed while the lender undertakes a much more intensive due diligence investigation. Of course, your reputation with the lender will now also be affected. We recommend that you be forthright, acknowledging up front those problems that exist and explain how or what you are doing to solve those problems in your favor.

Assembling the package

When assembling the package follow the lender's instructions as to format and layout. However, there are some general rules to follow particularly if the lender does not have a specific format.

- Put things in order
- Tabulate the different sections so that the reader can find things easily

- Provide a table of contents
- Provide cross-references where appropriate
- Put the documents in some sort of folder or binder — do not just give the lender a bunch of loose papers, things will get misplaced or lost
- Provide clear, legible copies

The presentation

If you have the opportunity to meet with the lender's loan officer, do so. Discuss the project proposal, familiarizing the lender with the package contents and discussing particular features or elements of the proposal. Another benefit of your meeting is to establish rapport with the lender. The more the lender connects the proposal with real people as opposed to a thick stack of paper and documents, the more likely that any marginal issues will be resolved in your favor.

A word of caution

The first meeting is definitely *not* the time to seek a commitment. The lender will need time to review the proposal. Pushing for a commitment at this stage will only put the lender on the defensive and, maybe annoy him.

When meeting the lender be prepared. Have a plan or agenda for the meeting in mind, and be clear on what you want to achieve. Keep the meeting short and to the point without being brusque. Say what you need to say and listen to the lender's comments. Be calm, straightforward and positive in your demeanor. Finally, dress appropriately. Remember, you never get a second chance to make a first impression.

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Responding to lender queries and requests

During the course of the lender's underwriting and due diligence you will receive requests for clarification and further information. When asked for more information, take a moment to understand exactly what the lender is asking for, why it is important and how it will help the lender complete the review. For most requests which simply seek a copy of a document, this is very straightforward.

When asked for further information respond directly to the lenders question and *only that question.* Get back to the lender with the requested information in a timely manner. Discuss and agree upon the time needed for responding. Don't leave the lender waiting for the information even if they say that there is no hurry. The timeliness of your response is an indication of how prepared you are and how likely you are to follow through on things during the actual development and construction activity.

Quality

Your ability to obtain project financing depends upon the quality of your financing proposals as much as it does on the quality of and need for your project. Possibly even more since your ability to communicate the quality and need is a necessary prerequisite to obtaining the funding. If you are unable to clearly and concisely convey the required information, funding sources will never know just how good your project really is.

Additionally, lenders and funding sources evaluate, even if only subconsciously, your ability to complete the project successfully by *how* you present your proposal. Well organized, complete proposals leave positive impressions. Disorganized, incomplete proposals start out "behind the eight ball" and often stay there. Even when they don't, the cost in staff time and resources, not to mention delays, to correct the deficiencies is significantly higher than if the job was done adequately the first time. Time is money and sometimes the amount of time delays can make the difference between building the houses or not.

A word about the Community Reinvestment Act

More and more banks are taking a proactive interest in low-income communities within their service area. Some of the interest is due to the Community Reinvestment Act (CRA) and the requirements of banking industry regulators. The Community Reinvestment Act encourages banks to lend to meet the needs of low- and moderate-income communities. In fact, their lending helps contribute to the health of these communities, just as the deposits by the low- and moderate-income community enhances the health of the banks. Keep in mind, however, the CRA does not mean there is a special set-aside of funds for low-income projects or your community.

In the beginning of your project, find out about your bank and develop a relationship with your banker. Make sure he or she understands what your nonprofit organization does for the community. Lastly, don't be afraid to ask. You and your organization are a valuable customer. Your bank may need to show increased CRA activity, and you can help to spread the good word about how responsive your bank is to the low-income community.

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Chapter 10

Project Construction

Overview

While you were planning your project you probably gave some consideration to your role in the project's construction. You can act as the general contractor, managing all of the construction activity yourself, or you can partner with another agency or person with construction management experience to fulfill this role. For larger and more complex projects you will want to hire a general contractor. This chapter will give you some guidelines to manage and coordinate the work if your project is small. We will also discuss marketing your project so that once the construction is complete it will be occupied by your targeted population.

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Construction management tasks

As the general contractor you will be responsible for two sets of responsibilities:

- Managing the construction
- Managing the construction finances

Both areas of management are important for achieving success.

Managing the construction

As the construction manager, you will be responsible for the following tasks:

- ✎ Assembling the bid package
- ✎ Securing bids
- ✎ Selecting the contractor
- ✎ Preconstruction conference
- ✎ Progress inspections
- ✎ Approving change orders

Assembling the bid package and securing bids

The bid package consists of the relevant specifications for building the project and the contract information. It will include all the pertinent information and procedures necessary to submit the bid. Called the Request For Bid (RFB), it describes the required work, the standards and specifications and the anticipated completion time frame. A typical bid package consists of:

Invitation to bid. Description of the site, conditions of the bid, bid bonds, selection process and contract process.

Bid and proposal documentation. Any state agency's requirements for contractors such as licenses, insurance, bonding.

Standard specifications. This specifies the work to be done, standards, materials and required completion date.

Notice to owner. A statement of the regulator body which reviews the license of contractors and suppliers.

Contractor bid review. A formal record of each bid submitted.

Notification of contractors bid review. A formal letter to each contractor who submitted a bid, but was unsuccessful.

Selecting the contractor

Although the award generally is made to the lowest bidder, alternatives to this policy are common. Most public funders will require that you select the "most responsive" bidder. This may not always be the lowest cost bidder, but rather the contractor that is most responsive to the bid requirements.

Preconstruction conference

In this meeting your organization, the contractor and the architect clarify the responsibilities and the roles of each party. You should review the inspection procedures and the contractor's payment schedule. Take the opportunity at this meeting to agree on how problems will be handled such as change orders and delays in construction progress. Use this meeting to communicate that your organization is in charge and ultimately responsible.

Draw schedule

It is common for loan draw-downs to be tied to the completion of specific construction milestones. With the completed phase, you ask the lender to make an inspection and to release funds upon approval. An alternative draw schedule consists of regular monthly

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payments based on invoices and the percentage of work completed. With either schedule, the contractor will submit a progress payment request, and lenders will expect specific supporting documentation (such as lien waivers) before processing payment requests. The lien waiver from the contractor's subcontractor certifies that no liens have been or will be placed on the building or property because of nonpayment.

Progress inspections

Your agency should be responsible for the daily monitoring of the work. In addition, you will need to coordinate with local building officials and funders for the inspection of the project at the completion of certain construction milestones. In Alaska, you must comply with ICBO inspections. These are inspections at five construction milestones.

If all parties are satisfied with the work after an inspection, the contractor can submit a request for payment. It is standard practice to retain 10 to 20 percent of each progress payment. If the contractor does not complete the job, the retained funds can be used for this purpose. A performance bond, generally required by most funders, discourages any contractor from walking off the job if there are problems. They, too, can be used for the needed funds for project completion. The disadvantage of performance bonds is that they discourage some small contractors from participating in local programs because they are hard to obtain or too costly.

Approving change orders

Your contract should not allow for changes in the work write-up without an authorized change order that is signed by all contract parties. The change order describes the exact modifications to the original scope of work and any change in price.

Managing the construction finances

The contract with the contractor stipulates the terms of compensation for completing the scope of work. It will also outline procedures in making periodic payments, called "progress payments" or "draws," to the contractor for work performed. With your lender you will develop a "draw schedule." Payments are made according to the draw schedule. With the draw schedule you can monitor both the quality of work and costs.

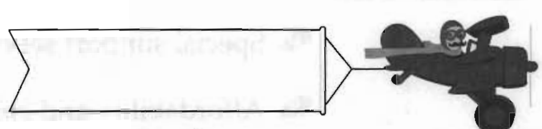
Monitoring invoices

The contractor will submit invoices to you. Check these invoices against the materials put in place and your budget. By comparing them monthly, you can monitor any cost overruns.

Final inspection

When all the work is completed according to the contract terms, you must receive all copies of warranties, releases of liens from subcontractors and suppliers and a release. After a final inspection, you or the architect will issue a certificate of final inspection. After all funds have been disbursed, the lender will provide you with a statement detailing the disposition of the entire loan amount.

Marketing



Your project can only work with people who are eligible to participate under the guidelines of your organization and funders. Your job is to find them. At least two months prior to the completion of construction, marketing of your project begins. Your marketing will include all advertising and promotion activities to rent or sell your units. Your promotion efforts should stress the eligibility criteria and the benefits of the project to the target population. The eligibility criteria

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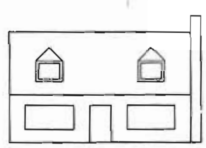
mostly revolve around income level, special needs status and, for first time home buyers, stability, credit rating and personal assets.

Finding eligible, interested residents

Some of your marketing began when you involved the target population in the planning of your project with the focus group, surveys or public meetings. Now, you must get the message out that the project is nearing completion and your organization is accepting applications. In your marketing you want to appeal to the target population and use the media to your advantage in doing so.

Selling your project

Decide which aspects of your project are important to those you are recruiting and incorporate this aspect into your message. To avoid confusing residents with a barrage of benefits in your promotions, it is best to concentrate on your strongest appeal. Take some time to identify the benefits of your project. Some examples are:



- ✎ The appeal of the design
- ✎ Energy efficient features
- ✎ Independence and self-reliance
- ✎ Special support services
- ✎ Affordability and cost savings
- ✎ A safer environment for children

These combined with the benefits to the community will make up the message you want to communicate with the variety of communication channels at your disposal.

Communication channels

There are many modes of communication — media — that you can use to promote your project. Some are free, some are not. Some communication channels will be effective for some groups, others will not. The best form of communication depends on your target group, and may vary from project to project. They include:

Mass media. Because mass media reaches many people at the same time, your media appeal needs to be clear and fairly simple to make sure that a majority of people understand them.

Advertising. While radio and television spots may be economically possible in smaller markets, newspaper ads are the most commonly used.

Signs. A sign promoting your program at each construction site is very valuable. Some billboard companies will donate use of one of their signs for public service.

Posters, brochures and pamphlets. Each of these are useful ways to get the word out. Make a special effort to have them simple, attractive and informative. A little money spent on design is money well spent.

Direct mail. Direct mail campaigns are useful if you have a good mailing list; such a list is not easy to develop. The local housing authority may be willing to share lists of those using or waiting for their services. Supportive service providers may also share their lists. Your direct mail piece might be an overview of your project with a reader-response card attached, or an announcement of a presentation they might attend. Some utilities will allow you to insert mail response cards in their billing statements. Also some employers may let you insert a "payroll stuffer" to their employees' pay envelope.

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Other media coverage. Many organizations have found it useful to capitalize on two construction milestones, breaking ground and completion, to stage an event where the local radio, television and newspapers are invited as well as your funders and local partners in the development. Develop a "press release" to summarize the event. Especially in smaller markets, you should be able to get coverage. Work with your lender, realtor or other partners to get media access.

Waiting lists

The waiting list is the list of persons interested in your project who have filled out a preliminary application. The list is developed on a first-come, first-serve basis to ensure fairness in your recruitment efforts. If you are targeting to two income groups, you may want to consider developing a waiting list for each income level.

Chapter 11

Project Operation

Overview

If you own the project, your most critical concern is, "How are we going to ensure that the property remains financially viable this year and for the long term?" For a rental project, your organization must respond to this issue; for condominium or cooperative home ownership entities, the board of directors is responsible. In this chapter we review several kinds of information. First, we take a look at the management tasks that are a part of any management's responsibilities. Next, we identify the kinds of management concerns for the project's future operations.

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General management tasks

The exact project management tasks will vary, depending upon the size of your project, the condition of your property and other characteristics. Regardless, there are basic tasks that must be carried out. These fall under the categories of resident services and financial management.

Resident services

Resident services include:

- Occupancy — resident screening, rent collection and eviction
- Resident support services
- Security
- Maintenance (daily and preventive)
- Repairs

Occupancy

Under resident occupancy you will be concerned with unit applications and leases, rent collection, qualifying tenants (income verification) and evictions. Your primary goal should be to have full occupancy with tenants who pay their rent on time, take care of their units and help make the project a community. Full occupancy also means there will be more income to maintain the development.

Depending upon your funding sources, you may have to follow specific rules for occupancy. The rules apply to eligibility requirements, selecting residents, calculating annual income, setting the rent amount, utility allowance, lease provisions and terminations.

In addition, you must follow nondiscrimination requirements of federal, state and local laws. You cannot discriminate because of race, color, national origin, religion, creed, sex, age, handicap or familial status.

Rent collection, grievances and evictions

You should have written policies and procedures in a management plan for rent collection, grievances and evictions. Rent collection is a high priority. Your rent collection policy should be firm, fair (apply to all equally and consistently) and known by all (through the leases). Develop a grievance procedure for residents who disagree with a particular decision. It is best to have the policy developed as part of your management plan and before a grievance comes up. Eviction policies must also be developed to take care of nonpayment of rent and persistent behaviors that threaten other residents or affect the property.

Maintenance

The maintenance of the project has a two-fold purpose. First, good maintenance preserves the value and long-term well being of the property. Preventive maintenance is keeping the project in good condition so that big problems in the future are avoided. Second, a well-maintained property enhances the self-respect and dignity of the tenants, and will encourage them to do their part in keeping the property up.

Financial management

Insisting on good management practices is just good common sense. You want access to enough information to safeguard your assets, assist in budgeting and for anticipating financial problems. In addition, you will need to offer an appropriate level of accountability to outside public and private funding sources.

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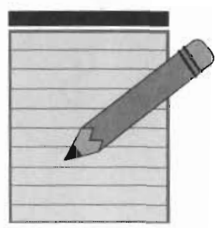

Monthly financial statements

Without exception, your organization must review the monthly management reports, including income and expense statements, from the property every month. We have a number of questions that will be helpful in your review and analysis[15]:

- How much did the project make last month and how much did we spend last month (actual income and expense statement)?
- How much did we expect in income last month and how much did we expect to spend last month (budgeted or projected income and expenses)?
- When the actual income and expenses are compared to those that are budgeted, (line by line) what are the variances and what are the reasons for any variance?
- Is an action or decision needed to remedy the variances?
- Who has paid rent and who has not?
- What actions are necessary to secure payment of current or any past due payments?

Financial management of future operations

There are three functions of managing for the project's future operations. You must:

- Develop an annual budget
- Maintain operating and replacement reserves
- Prepare financial statements regularly

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[14] Developing Affordable Housing, A Practical Guide for Nonprofit Organizations

Develop an annual budget

The process for developing the annual budget is similar to the one you went through when you developed your income and expenses statement in Chapter 6. Begin by reviewing the statement and make adjustments if there are changes due to inflation, changes in services, changes in deposits, tax rates and so on. Thereafter, the prior year's budget is reviewed and adjusted for variances. Develop your budget 30 to 60 days before the end of your fiscal year.

Reserve accounts — operating reserve

Operating reserves are used to pay for unexpected variations from the budgeted income and expenses. As part of the annual budget, the operating reserve account is funded each month as a percentage of the rents collected.

Reserve accounts — replacement reserve

This reserve is set aside to cover any costs of replacing capital items such as the roof, plumbing, etc. With an adequate reserve account the management will not have to increase rents. As with the operating reserve, the replacement reserve is budgeted during the annual budget process and is funded each month as a percentage of the collected rents.

Regular financial statements

Your review of these statements on a monthly basis is critical. Some of the information that you should obtain include:

- Balance sheet — what you own and owe and what other investors have invested in the project
- Income statement — the project income and expenses

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- Monthly income statement — the level income and expenses incurred in the month, how it compares to the budget line items, and the actual income and expenses to date
- Reserve accounts balances — the balance remaining in both the replacement reserve and operating reserve
- Rent roll summary — level of nonpayment from renters

Hiring a management company for day-to-day management

Unless your organization has experience managing property, you may want to consider contracting with a professional management company. You should select the management company early in the development process, at least during the construction phase. Some of the factors you will want to consider include:

Experience of the management company

Interview companies who have experience with the kind of project you are developing. Obtain references from other owners of similar projects.

Reporting

Ask to see the monthly management reports that the company uses. Look for reports that are clear and simple.

Fees

Ask the management company to disclose all the fees associated with their management so you can compare costs between companies. The management fee will be either be a percentage of the rents collected or a per unit charge. The fee covers rent collection, payment of bills, meetings with your organization and monthly income and expense reports.

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Community Development Terms

Provided by the Federal Reserve Bank of Boston

AFFORDABLE: Total monthly housing costs which do not exceed 30 percent of monthly gross household income in the case of rental housing; in the case of ownership housing, the purchase cost of a housing unit is equal to or less than three times a household's annual gross income.

AFFORDABLE HOUSING: Housing where the occupant is paying no more than 30 percent of gross income for gross housing costs, including utility costs.

ASSISTED HOUSING: Multifamily rental housing that receives governmental assistance and is subject to use restrictions.

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CERTIFIED DEVELOPMENT COMPANY (CDC): Also known as a 504 corporation. A nonprofit corporation that provides small businesses with ten and twenty year private Small Business Administration guaranteed financing. The structure and activities of the CDC must meet certain SBA guidelines, including a membership representing public agencies, lenders, businesses and community organizations.

CO-HOUSING: A hybrid form of housing that combines private and communal forms of living. Residents occupy individual, complete housing units and share additional kitchen, dining, and recreational facilities with other residents. Ownership and design may take a variety of forms. Limited equity cooperatives are a common form of urban co-housing.

COMMUNITY ACTION AGENCY (CAA): A publicly and privately funded agency that provides social services to lower-income residents in surrounding communities, such as fuel assistance, day care and education. CAAs may also be involved in the development and management of affordable housing.

COMMUNITY-BASED ORGANIZATION: A nonprofit organization which works to serve the disadvantaged in the community in which it is based. Services provided are varied and can include health education, and employment and training.

COMMUNITY DEVELOPMENT BLOCK GRANTS (CDBG): Flexible federal aid that is intended for use by cities and towns to promote neighborhood revitalization, economic development, and improved community facilities and services. Specific uses of the funds are left to the discretion of local governments. Funds are administered by either state or city offices of economic development depending on the size of the city or town (*see Entitlement Community*).

COMMUNITY DEVELOPMENT CORPORATION (CDC): A community-based organization that is owned and controlled by community residents and is engaged in affordable housing, business and/or commercial development. Although CDCs vary in size and scope, the vast majority are non-profit, tax exempt 501(c)3 organizations. All CDCs have a board of directors comprised of local residents, public officials, funders, bankers, relevant professionals and/or community leaders.

COMMUNITY DEVELOPMENT LOAN FUND (CDLF): A private, nonprofit organization that channels private investment capital to community-based organizations and projects. It may operate independently or as part of a community-based organization. Lenders to the fund may have some control over the term and rate of interest on their loans, which are generally more flexible than conventional financing, as well as the usage of their funds. CDLFs can also provide borrowers with technical assistance to reduce the chance of losses on higher risk loans. Since CDLFs are not chartered or licensed, they have flexibility in their organizational structure, although they may be subject to state laws and regulations. In most cases, they are incorporated as 501(c)3 nonprofits.

COMMUNITY LAND TRUST (CLT): A private non-profit corporation that acquires and holds land in perpetuity to be developed for specific community uses, primarily affordable housing. CLTs control the terms of sale of all properties and improvements on the land to maintain long-term interests,

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while allowing leaseholders to retain general ownership rights of their properties. CLTs are run by local residents, including leaseholders on CLT-owned land.

CONGREGATE HOUSING: Also known as single room occupancy housing. A residence in which tenants have private rooms but share common areas, such as kitchen, dining room, living room and bathroom.

CONDOMINIUM: A housing unit in a multifamily building owned by an individual who also owns a partial interest in the common areas of the building or complex.

COOPERATIVE: A form of housing in which residents form a corporation for the purpose of owning and managing the property collectively. Membership in the cooperative gives them the right to occupy a unit and take part in the management and operation of the building. Residents own shares in the corporation proportional to their share of the mortgage, rather than owning individual units. If a resident leaves, the new resident purchases her share(s) and thus assumes responsibility for part of the mortgage.

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT (HUD): A federal agency that funds numerous programs designed to promote economic development and affordable housing. Among the programs offered that can be used in tandem with private money include home mortgage insurance and Community Development Block Grants.

DEPARTMENT OF VETERANS AFFAIRS (VA): A federal agency that provides, among other services, guaranteed home loans for veterans. The terms and rates of such loans are usually more favorable than those of conventional home loans.

DETERIORATED UNIT: A substandard dwelling, though structurally sound, which can be raised to standard conditions with rehabilitation.

DILAPIDATED UNIT: A substandard dwelling that has deteriorated to the extent that it is unsafe, unsanitary or dangerous to human life, and rehabilitation is not feasible.

ENTITLEMENT COMMUNITY: A city or urban borough with a population of 50,000 or more which, because of its size, receives Community Development Block Grant funds directly from the federal government. Nonentitlement communities receive CDBG funds through the state office of economic development.

EQUITY GRANT: A grant generally provided by a government agency which reduces upfront acquisition costs to a housing or commercial development project. The grant can take a variety of forms, such as a direct cash contribution, or the contribution or reduced price sale of publicly-owned land or property.

EXPIRING USE RESTRICTIONS: The contractual right which owners of low- and moderate-income rental housing have to prepay their publicly-assisted mortgage and convert their property to market rate housing

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FAMILY: A household composed of one or more individuals.

FEDERAL HOUSING ADMINISTRATION (FHA): An agency of the U.S. Department of Housing and Urban Development that insures home mortgage loans originated by approved lenders to borrowers who do not meet conventional underwriting criteria.

FEDERAL NATIONAL MORTGAGE ASSOCIATION (FANNIE MAE): A congressionally chartered private agency that purchases home mortgage loans not insured by the FHA or guaranteed by the VA from originating financial institutions. The loans are either kept in portfolio or packaged and sold as securities. Fannie Mae also offers programs for lower-income home buyers that have more flexible underwriting guidelines.

501(C)(3): Internal Revenue Service status as a nonprofit corporation. Entitles organizations to receive tax-exempt status and tax-deductible donations.

GOVERNMENT NATIONAL MORTGAGE ASSOCIATION (GINNIE MAE): A part of the U.S. Department of Housing and Urban Development that guarantees mortgage-backed securities and manages a portfolio of federally owned mortgages. Ginnie Mae does not purchase loans.

GROUP QUARTERS: Facilities providing living quarters that are not classified as housing units, such as prisons, nursing homes, dormitories, military barracks and shelters.

HOME: The Home Investment and Affordable Housing Partnership Act, or HOME, is intended as a means to increase the supply of affordable housing, particularly rental housing, to very-low and low-income families and individuals. HOME provides grants (termed "investment trust fund" monies) to states and localities for a variety of specific programs, replacing a number of small categorical programs. Targeted exclusively to households with incomes below 80 percent of median (of which 90 percent must be below 60 percent of median), the program is designed to augment state and local programs and resources. It is intended to provide flexible support for local project decisions tailored to local markets. HOME funds may be used to help non-profit or for-profit developers acquire, construct or rehabilitate affordable rental housing; in some cases it can also be used for rental assistance.

HOMELESS: A person whose nighttime residence is in public or private emergency shelters; in facilities, such as hotels, apartments or boarding homes where temporary vouchers are provided by private and public agencies; or in street, parks, subways, bus terminals, railroad stations, airports, under bridges, abandoned buildings, cars, trucks or any other public or private space that is not designated for shelter.

HOMESTEADING: A process whereby residents of municipally-owned properties are allowed to purchase their units at a nominal price.

HOUSEHOLD: One or more related or unrelated individuals occupying a housing unit.

HOUSING PARTNERSHIP (HPS): A nonprofit organization that brings together the interests, resources, and financial support of public agencies, local businesses, banks and community organizations to increase the supply of affordable housing in a particular city or state. HPS generally work

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with local CDCs to design and implement projects, and assume responsibility for securing financing and providing technical assistance to the project.

HOUSING TRUST FUND (HTF): A fund established by state legislation or a city ordinance that uses public capital to finance the construction or renovation of affordable housing. The fund is designed to have an ongoing source of revenue, usually from tax or program generated revenue, or from development ordinance requirements. HTFs are typically administered by a public agency.

INCLUSIONARY ZONING: A zoning ordinance that requires a developer to include affordable housing or its funding as part of the development. Typically, a developer makes a certain percentage of the units affordable in exchange for a density bonus.

INTEREST SUBSIDY: A subsidy, usually government sponsored, which reduces the interest a borrower is required to pay on a loan. The subsidy can take one of three forms: a direct cash grant to a lending institution to write-down the bank's interest rate on a business or housing loan; a government sponsored, low interest loan subordinated to a participating lender; or a lower than market-rate loan to a qualified borrower as a result of an advance or pass-through provision from a public entity. Projects which qualify for such subsidies are deemed to provide some public benefit.

LAND BANK: A public agency which provides below-market financing for the purchase of refinancing of undeveloped land for the purpose of developing affordable housing and economic revitalization projects.

LARGE FAMILIES: Families of five or more persons.

LIMITED APPRECIATION: A restriction on the amount of appreciation that a property owner can realize at the point of sale.

LIHPRHA: The Low-Income Housing Preservation and Resident Homeownership Act of 1990 (LIHPRHA) is designed to preserve existing assisted housing for permanent low-income use. It provides incentives for current owners of assisted-housing projects to retain ownership for low-income use or to sell them to new owners who will agree to maintain the housing for low-income occupants for the remainder of its useful life.

LOAN GUARANTEE: A program offered by state and federal agencies which decreases a lender's risk by guaranteeing a portion of a debt against default. Loan guarantees apply to both business and housing loans, and target projects which offer a public benefit, but are considered too risky to finance privately without the guarantee.

LOAN CONSORTIUM: A collaboration among financial institutions that pools capital to lend to affordable housing and community economic development projects. The consortium can be structured as an independent nonprofit corporation or an informal lending agreement. The former has paid staff who are responsible for all aspects of the lending process, while the latter relies on collaboration among participating institutions to select and service the loans. An institution's participation in each loan may be predetermined or done on a case-by-case basis.

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LOCAL DEVELOPMENT CORPORATION (LDC): An investment company formed to help finance small businesses that has been certified by the U.S. Small Business Administration. An LDC can obtain special financing from the SBA that enables it to extend long-term, fixed-asset financing to local small businesses.

LOW-INCOME: Households whose income does not exceed 80 percent of the median income for the area, as determined by HUD.

LIMITED EQUITY HOMEOWNERSHIP (LEH): Multifamily residences owned and controlled by tenants in which resale values are restricted in order to maintain the long-term affordability of the units. LEH residences are often developed with public assistance in the form of relaxed zoning regulations or the discounted sale of publicly-owned land in order to reduce development costs. LEH can take the form of a cooperative or a condominium.

MANUFACTURED HOMES: Also known as prefabricated housing. Factory built housing which is assembled on site. It offers a less expensive alternative to conventionally built housing.

MODERATE INCOME: Households whose income is between 80 percent and 95 percent of the median income for the area, as determined by HUD.

MIDDLE INCOME: Households whose income is between 95 percent and 120 percent of the median income of the area, as determined by HUD.

MUTUAL HOUSING: Housing that is developed, owned and managed by a nonprofit association and is designed for long-term affordability. Residents pay a one-time refundable membership fee and a monthly percentage of their incomes to the association. In turn, they are given a lifetime right of occupancy and a voice in the management of the property through residents councils and property management committees. Residents also have majority representation on the association's board of directors, whose other members include community and business leaders, and public officials.

NEIGHBORHOOD HOUSING SERVICES (NHS): A national network of neighborhood-based service organizations that are locally operated and funded. An NHS focuses on a specific community or communities to increase the supply of affordable housing and promote neighborhood stability by providing below-market construction and rehabilitation financing, technical assistance and support for resident activism. Board members include local residents, business leaders, public officials and community representatives. All NHSs receive assistance form, and are monitored by the Neighborhood Reinvestment Corporation.

NEIGHBORHOOD HOUSING SERVICES OF AMERICA (NHS): A private nonprofit tax-exempt corporation which acts as a secondary market to purchase nonbankable loans from local NHS revolving loan funds.

NEIGHBORHOOD REINVESTMENT CORPORATION (NRC): A congressionally chartered, federally funded, public nonprofit corporation established in 1978 whose mission is to assist in the revitalization of lower-income neighborhoods and in the provision of affordable housing in these neighborhoods. NRC works mainly through local NHSs, providing training, operational grants, and technical assistance.

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OVERCROWDING: More than one person per room.

RENT SUPPLEMENT: Payments to owners of private housing by a government agency which support low-income tenants. The owner receives the difference between a share of the tenant's monthly income (usually 30 percent) and an amount established by the agency to be a fair market rent. Supplements can either be project-based or tenant-based. Project-based supplements stay in effect as long as qualified tenants occupy designated units; tenant-based supplements are given to qualified individuals and apply to a unit as long as that individual resides there.

REVOLVING LOAN FUND (RLF): In general, a fund structured so that repayments are used to make more loans. The term RLF is often used interchangeably with Community Development Loan Fund (CDLF). The term is also used specifically to describe a nonprofit loan fund which depends primarily on public money to make housing and small business loans. In this instance, an RLF is distinct from a CDLF in that the RLF focuses on larger scale development: Loans are generally larger and focus on less risky enterprises than a CDLF is willing to finance. Terms and rates are typically more favorable than conventional financing. An RLF can be administered by a nonprofit or a public agency, and is not overseen by any regulatory agency.

RIGHT OF FIRST REFUSAL: A right given to nonprofits that allows them to purchase a property before it goes up for sale to the general public. Used with expiring use restriction properties and properties owned by the Resolution Trust Corporation.

SECTION 8: A program of the Department of Housing and Urban Development (HUD) that provides rental assistance to low-and very-low income families. HUD pays the difference between the market rent of a unit and the amount that the tenant is able to pay.

SINGLE ROOM OCCUPANCY HOUSING (SRO): *See Congregate Housing.*

SPECIAL NEEDS POPULATIONS: Individuals or families who require supportive social services in order to live independently or semi-independently.

SOFT-SECOND MORTGAGE: A second mortgage which offers reduced interest and flexible repayment terms, minimizes the debt of the borrower and reduces the primary lender's risk. Soft seconds are typically provided through government programs to both housing and business development projects. Housing programs primarily target lower-income households. Business programs usually attach job creation criteria that may also benefit lower-income persons or neighborhoods.

SUBSTANDARD DWELLING: A dwelling unit that does not meet the criteria for an acceptable standard of living, through lack of maintenance, age of unit, neglect, lack of (part or all) plumbing facilities, kitchen facilities or crowded conditions.

SWEAT EQUITY: The equity that is added to a property through the labor put into its improvement. A method used to help reduce the cost of a home for moderate and low-income homebuyers.

n o t e s

notes

SYNDICATED COOPERATIVE: Also known as a leasehold cooperative. A cooperative that is owned in part by outside investors. Becoming a more popular method of development in high cost housing areas. Investors are able to take advantage of federal tax credits while reducing costs for the cooperative members. In return, residents share control over the property and may have to buy out the investors' shares after a certain period of time. A leasehold cooperative also refers to a cooperative that does not actually own the property, but instead signs a long-term lease with the owner, usually an investor partnership.

TAX ABATEMENT: The temporary suspension of property tax payments on improvements to private redevelopments. The tax may be abated up to 100 percent on improvements for a specified time, and are offered as a redevelopment tool in areas designated as blighted, such as urban renewal, or an enterprise zone.

TAX CREDIT: A credit against the amount of tax owned by owners and developers of affordable housing properties or businesses which make new investments or support job creation/retention for lower-income persons. The credit reduces the overall tax payments and, in the case of tax-exempt nonprofits, may be sold to investors in return for upfront equity investments.

TRANSITIONAL HOUSING: Temporary housing for families or individuals who have not yet found permanent housing, but require more stability than an emergency shelter. Residents usually stay for several months.

Resource Guide

Rural Community Assistance Corporation

The RCAC Loan Fund

The Rural Community Assistance Corporation (RCAC) Loan Fund was established in 1988 to assist in increasing the supply of housing for low- and very-low income families, to leverage public and private funding for rural housing and to improve the capabilities of rural housing agencies. As of June 1995, the loan fund has successfully leveraged over $126 million in financing for the development of 1,753 units of low- and very-low income housing throughout the rural west.

RCAC's revolving loan fund is comprised of grants and investments from a variety of sources including banks, foundations, religious groups and government agencies. The loan fund offers short-term financing (maximum three-year term) to nonprofit low-income housing developers or units of local government for the following purposes:

Purchase of raw land to be developed into building sites

Predevelopment costs

Cost of on-site and off-site improvements

Purchase of developed building sites

Construction

Rehabilitation of housing units

All RCAC loans must be fully secured by real estate. Eligible projects include both single-family and multifamily housing and must be in areas with populations of 50,000 or less. RCAC will lend a maximum of $500,000 to any one project; however actual loan amounts are contingent on the availability of funds. RCAC is presently offering loans at a 6.50 interest rate plus a two point loan origination fee for a maximum of 36 months.

RCAC also offers 15-year fixed rate loans and bridge loans for low-income housing tax credit projects. For further information on the availability of short- and long-term financing and current interest rates, please contact RCAC's loan officer or loan fund manager at 916/447-2854.

Low-Income Housing Tax Credit

The Low-Income Housing Tax Credit (LIHTC) program helps taxpayers reduce their federal income tax bills in exchange for developing low-income housing.

The Alaska Housing Finance Corporation (AHFC) administers the program on behalf of the Internal Revenue Service.

The amount of credit AHFC has available each year is equal to $1.25 multiplied by the state's population.

Who Can Use the Tax Credits?

Individual taxpayers, for-profit organizations, corporate investors, tax-exempt entities, estates and trusts are all eligible. Individuals may use LIHTC up to a deduction equivalent of $25,000 per year at the individual's marginal tax rate (28% = $7,000, 31% = $7,750). Most corporations are not subject to a limit on the amount of credit they can use.

What Types of Projects Qualify for Tax Credits?

New construction, rehabilitation of existing buildings, and acquisition of existing buildings coupled with rehabilitation are all LIHTC eligible activities.

To qualify for rehabilitation tax credits, the lesser of $3,000 per unit or 10 percent of the building's adjusted cost must be spent, whether or not acquisition of an existing building occurs. The improvements must be more than cosmetic.

Generally, an existing building must have had the same owner for the previous 10 years to be eligible for acquisition credit. Waivers may be obtained for some federally-owned properties.

How Much Credit Can You Apply For?

The amount of credit a taxpayer can apply for is based on the number of units of low-income housing produced and the cost of the development. The credits are received over a 10-year period.

The amount of credit that can be applied for is equal to a percentage of the allowable project costs, or "qualified basis." A 9 percent credit is allowed for new construction or substantial rehabilitation of low-income housing units, provided they are not financed with tax-exempt bonds, below-market-rate federal loans or other federally subsidized loans.

A 4 percent credit is allowed for new construction or substantial rehabilitation of low-income housing financed with tax-exempt bonds, below-market-rate federal loans or other federally-subsidized loans, or the acquisition of existing low-income housing, provided the rehabilitation expenditure test is met.

How Do the Credits Benefit the Taxpayer?

A taxpayer can use the credit to offset federal income tax liability (subject to limitations), or sell the credits to an investor. This can be a direct sale to a large investor or an indirect sale through an intermediary called a "syndicator."

Only "owners" of a property can use the tax credits. If a developer wants to sell the tax credits, the "investors" must join a partnership that is created to "own" the property. The proceeds from the sale of the credits are not tied to the property and may be used for any purpose.

Continued on back page

Alaska Housing FINANCE CORPORATION

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What's the Catch?

The IRS places three main restrictions on the properties for which a tax credit is received:

- Up to 40 percent of the units must be reserved for low-income families. "Low-income" means families at or below 60 percent of area median gross income.
- The rent that an owner is able to charge is restricted to 30 percent of the median monthly income adjusted for unit size. The rent must include utilities and any mandatory service fees.
- The number of units reserved for low-income families and the rent restrictions must remain in effect for 30 years. This "extended-use provision" is a legaliy binding agreement and can be broken in only a few instances.

How Does a Taxpayer Know How Much Credit to Apply for?

The following example outlines the method used to calculate the amount of credit an owner can apply for:

Eligible Basis (Allowable construction, rehab., &/or development costs)	=	$1,000,000
Applicable Fraction (lesser of percentage of low-income units or percentage of low-income-unit floor space)	=	x .8
Qualified Basis	=	$ 800,000
Annual Credit Percentage (No Federal Subsidies)		x .09
Number of Years of Credit		x 10
10-Year Tax Credit (applied for)*	=	$ 720,000
Market Rate for Credits		x .52
Return from Sale of Credits	=	$ 374,400

* The amount applied for is not necessarily the amount allocated to the project.

How Does a Taxpayer Apply for the Credits?

Taxpayers may apply for credits during one of the annual application rounds. When AHFC receives an application, it is reviewed, and the appropriate amount of credit is determined to insure the project's "financial feasibility and viability."

AHFC looks at the difference between the financing available and the total cost of the project to determine the "appropriate" amount of credit. This amount may be more or less than the amount applied for.

Projects located in "difficult to develop areas" or "qualified census tracts" may receive an additional 30 percent credit, where necessary to ensure financial feasibility and viability. A list of these areas is available from AHFC.

Applications are evaluated based on criteria contained in the state's qualified allocation plan. Successful applications will receive a "reservation" of tax credit; but the credit cannot be used by the taxpayer until the property is completed and available for occupancy.

How Do I Obtain More Information?

For more information on the program, contact AHFC's Planning & Program Development Department, (907) 561-1900, or 1-800-478-AHFC in Alaska.

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Senior Housing Office

The Senior Housing Office exists to help Alaska's senior citizens obtain adequate, accessible, secure and affordable housing.

To increase awareness of seniors' housing needs, the Senior Housing Office makes the following information and assistance available to the public:

- An up-to-date inventory of senior housing available within Alaska. This includes various types of housing, from independent apartments to housing that provides supportive or medical assistance to senior residents.
- Information on home modifications and repairs that can make an existing home safer and more accessible to senior residents.
- Housing product, accessibility and design information that can make the normal activities of daily living easier for senior citizens.
- Information on funding sources specifically tailored to meet the housing needs of senior citizens.
- Information on the various types of home-based assistance available to senior citizens that might allow them to maintain a more independent lifestyle.
- Public education programs to various groups to increase the awareness of senior housing alternatives.
- Information to help senior citizens understand the cost of various housing alternatives.
- Information to help senior citizens coordinate with other senior citizens in finding housing alternatives.
- Demographic information concerning the senior population within the State of Alaska.
- Information to the construction industry regarding appropriate housing design which can help meet the needs of senior citizens for accessible and secure housing.

The Senior Housing Office also works with other public and private agencies in an attempt to respond better to the housing needs of senior citizens and to pursue various sources of financing for the development of housing alternatives.

Questions?

For more information, contact AHFC's Senior Housing Office.

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Senior Housing Loan Program

Through this program, AHFC provides affordable, accessible housing for senior citizens. Specifically, individuals, partnerships, joint ventures, for-profit corporations, regional housing authorities, non-profit corporations or local governments can apply for financing to purchase, construct, rehabilitate or improve various types of housing that would meet the special needs of persons 60 years of age or older.

The proposed senior housing facility must meet both the present and future geriatric needs of senior citizens. Types of housing that could qualify for financing include conventional housing, housing for the frail elderly, group homes, congregate housing, adult foster homes, and adult residential housing facilities.

Loan Features

- The term of the loan may not exceed 30 years or the estimated economic life of the facility as determined by the Corporation, whichever is less. The term may not exceed 24 months, if the loan is a construction loan.
- The maximum loan amounts shall be limited to an amount that the Corporation determines as an acceptable risk by an analysis of the facility's current and forecasted cash flows in relationship to covering the facility's expenses, reserves and debt servicing.
- The Corporation will establish the interest rate based on the source of funds used to finance the senior housing facility and will include an additional one-half of one percent for a permanent loan and two percent for a construction loan.

Other Features

The loan may be secured by a mortgage that is a first lien on real property in fee simple or on an acceptable leasehold estate. Secondary financing can be considered under certain conditions.

Other Requirements

- Applicants will be required to provide professional building design plans to prove that the proposed housing will: 1) meet both the present and future geriatric needs of seniors for independent living; and 2) be barrier-free, or capable of low-cost retrofitting, to allow for increased accessibility at a future date.
- A covenant will be placed on the real estate to ensure that the property will be devoted to senior housing for a minimum of 30 years.
- Escrows for taxes, assessments and other charges or liens, as well as operating and maintenance reserves may be required.
- Annual audited financial statements may be required.

How To Apply

Potential borrowers can obtain a loan application by contacting AHFC's Senior Housing Office or Mortgage Department.

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Loans To Sponsors

AHFC provides loans to sponsors of affordable housing for persons of low- to moderate-income or living in remote, underdeveloped, or blighted areas of the state.

Under this program, AHFC provides a loan to a sponsor who, in turn, under their own program, uses the funds to make loans to borrowers (recipients) within AHFC guidelines for the purposes of (1) providing housing loans and loans to improve the quality of housing for persons of lower- and moderate-income, or living in remote, underdeveloped, or blighted areas of the state and (2) paying the sponsor's program administration costs.

Loan Features

- Flexible loan terms up to 35 years
- Flexible loan guidelines to meet the various needs of the sponsor's loan programs
- Maximum loan based on funds available and sponsor's need
- Interest rate established at below market rates
- Variable-payment loan which structures the sponsor's payment based on its recipient's payments
- Recourse to the sponsor
- Loan collateralized by the assignment of the loan documentation between the sponsor and its recipient
- Fees for loans (Check with AHFC for specific loan fee information)

Eligible Properties

Single-family residences up to fourplexes are eligible for this program.

Eligible Borrowers

Eligible borrowers include non-profits, regional housing authorities, municipalities and agencies of the state or municipalities.

How to Apply

Potential borrowers may make application for this program by contacting AHFC's Mortgage Department.

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Multi-Family Loan Program

Through this program, AHFC provides affordable housing for low- to moderate-income Alaskans including special needs and congregate housing.

As money is available, the Alaska Housing Finance Corporation will make loans to individuals, partnerships, joint ventures, for-profit and non-profit corporations, regional housing authorities or state or municipal agencies for multi-family, special needs or congregate housing, provided the housing is for low- to moderate-income Alaskans or located in remote, underveloped, or blighted areas of the state.

Loan Features

- In general, the maximum loan amount that is an acceptable risk to the Corporation is determined by an analysis of the housing's current and forecasted cash flows. For-profits, when acquiring a property, are limited to a maximum of the lesser of 85% of the acquisition price or 85% of the appraised value of the property. For construction, rehabilitation or improvement loans, for-profits are restricted to the lesser of 80% of appraised value or 80% of the allowable costs to construct. Loan-to-values on acquisitions for other eligible borrowers may exceed the 85% limit. Check with AHFC for specific details.
- The term of the loan may not exceed 30 years or the estimated useful life expectancy of the housing, whichever is less.
- Loans will accrue interest at a rate established by the Corporation.
- There are fees for loans under this program. Check with AHFC for a specific loan fee schedule.

Eligible Properties

Properties may be located on contiguous, non-contiguous or scattered sites; housing may be multi-family, congregate (provides sharing of kitchen and/or sanitation facilities and at least one support service to the occupants) or special needs, such as transitional, emergency, or for the elderly or persons with mental or physical disabilities.

How to Apply

Potential borrowers may make application for this program by directly contacting AHFC's Mortgage Department.

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Research and Information Center

The Research and Information Center (RIC) is a library of information on building construction, energy efficiency and conservation, appropriate technology and alternative energy sources, especially as they relate to residential construction in Alaska.

AHFC invites the public to visit and explore the publications, slide shows, videos, computer software and energy product literature. All information can be checked out.

The public can call a toll-free hotline for answers to their housing efficiency questions.

RIC, located at AHFC main office at 520 East 34th Avenue in Anchorage, is open Monday through Friday from 8:30 a.m. to 5:00 p.m.

The toll-free hotline is (800)478-INFO. In Anchorage call 564-9170.

SELECTED HOUSING RELATED TOPICS in RIC

- Affordable & Manufactured Housing
- Air Infiltration & Ventilation
- Appliances
- Appropriate Technology
- Building & Energy Standards
- Building Materials & Design
- Community Planning
- Energy Education
- Energy-Efficient Buildings
- Energy Policy
- Energy Programs
- Energy Use & Environment
- Financing Energy Efficiency
- Fuels
- Heat Recovery Ventilators
- Heating
- Home Energy Conservation and Production
- Indoor Air Quality and Insulation
- Lighting
- Micro-Hydro
- Retrofits
- Roofs & Foundations
- Solar Energy and Solar Homes
- Superinsulated & Energy Efficient Building Manuals
- Transportation
- Underground Homes
- Vapor Retarders & Walls
- Wind Power
- Windows & Doors
- Periodicals
- Videos

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Worksheets

Worksheet #1

Training Organizations

The following is a list of organizations that train nonprofit housing developers on a variety of housing development topics:

Housing Assistance Council
1025 Vermont Avenue, N.W., Suite 606
Washington D.C. 20005
202/842-8600

Rural Community Assistance Corporation — Headquarters
2125 19th Street, Suite 203
Sacramento, California 95818
916/447-2854

Neighborhood Reinvestment Training Institute
1325 G Street NW, Suite 800
Washington D.C. 20005
202/376-2642 or 800/438-5547

National Development Council
Training Division
211 East Fourth Street
Covington, Kentucky 41011
606/291-0220

The Enterprise Foundaiton
500 American City Building
Columbia, Maryland 21044
301/964-1234

Development Training Institute
2500 Maryland Avenue
Baltimore, Maryland 21218
410/338-2512

SWOT Analysis

The SWOT Analysis consists of several questions to help you analyze your current situation within your organization and external to it. Strengths and weaknesses generally refer to your organization internally; the opportunities and threats exist in the external environment.

1. **STRENGTHS**

What are our internal strengths for developing housing? Please check the strengths that apply to your situation and add others that you may have.

- Solid funding base for operations ❑
- Skilled staff ❑
- Land or buildings for the project ❑
- Good community relations ❑
- Prior success in obtaining funding ❑
- Anticipate and resolve organizational problems ❑
- Commitment to our mission/clear mission statement ❑
- We have a good reputation ❑
- Our board of directors has housing development experience ❑
- Target population or consitituents with incomes to support rental rates or sales price of housing ❑
- Other ______________________ ❑
- Other ______________________ ❑
- Other ______________________ ❑
- Other ______________________ ❑

2. **WEAKNESSES**

What internal weaknesses keep us from our full potential as housing developers? Please check the weaknesses that apply to your organization and add any others on the blank lines.

- Small staff ❑
- Limited expertise in housing ❑
- Limited technical capacity (computers, software) ❑
- Need more community support ❑

Staff turnover ❑

Other ______________________________ ❑

Other ______________________________ ❑

Other ______________________________ ❑

Other ______________________________ ❑

3. **OPPORTUNITIES**

What opportunities are available to us? Please check the opportunities that apply to your situation.

Affordable housing is fundable now (new programs) ❑

We have been approached by other groups to do housing ❑

Working with new lenders ❑

Using local media about our efforts ❑

Using local support ❑

Community planning we can take part in ❑

Local government expertise we can obtain ❑

Taking advantage of community awareness ❑

Other ______________________________ ❑

Other ______________________________ ❑

Other ______________________________ ❑

Other ______________________________ ❑

4. **THREATS**

What external issues are negatively impacting our present success in housing development or in the future may negatively impact it? Please check the threats which apply to your situation.

Lack of local resources ❑

Pereception that we're a "grants" only or "services" only organization ❑

Resistance by the real estate community ❑

Changes in federal or state funding ❑

Other ______________________________ ❑

Other ______________________________ ❑

Other ______________________________ ❑

Other ______________________________ ❑

Assessing Your Capacity

Complete the following assessment to determine your capacity in four areas: people, project, management and fiscal.

	Yes	No
1. **Do we have the *right people*?**		
Do our staff have . . .		
The technical knowledge?	☐	☐
Communication skills?	☐	☐
Coordination skills?	☐	☐
Dedicated time?	☐	☐
Does our board of directors have *skills* in . . .		
Accounting?	☐	☐
Real estate?	☐	☐
Property management?	☐	☐
Public relations?	☐	☐
Are they *connected to the community* in ways that will lend support to our project?	☐	☐
Does our organization have . . . *Strong partnerships and business relationships in the community*, with local government agencies, associations and networks?	☐	☐
2. **Do we have the *right project?***		
Do we have a project concept that's a *good match* for our organization? Is it consistent with our mission, our values and long range goals?	☐	☐
Do we have a clear understanding about our *role* (developer? owner? manager?)? Chapter 4 discusses these. Assess your role in terms of the skills you have and the skills you will need.	☐	☐
Is the *size and scale* of the project we want appropriate for our capacity? If you are just starting out, we recommend choosing a small, simple project that will be achievable. This also applies if your organization is burdened by other priorities.	☐	☐

3. **Do we have the *right management capability*?**

Are our *administrative systems and policies* adequate and appropriate?	❑	❑
Do we have technical capability (computers and software)?	❑	❑
Can we store and retrieve information?	❑	❑
Do we have a personnel plan?	❑	❑
Do we carry out *planning*? Short term? Long term?	❑	❑
Can we commit to planning our housing activity goals?	❑	❑
Are we capable of making *quick decisions*?	❑	❑
Are our decisions based on adequate information and reported in a way that produces consistent actions?	❑	❑
Have we thought of ways to *delegate* to improve our decision-making?	❑	❑

4. **Do we have the *right fiscal capability*?**

Do we have an *adequate accounting system*?	❑	❑
Can we develop a spreadsheet?	❑	❑
If we act as the construction manager, can we develop an invoice/purchase order system for purchasing materials?	❑	❑
Do we have *internal controls* in place to prevent mismanagement?	❑	❑
Do we have a plan for developing an *unrestricted fund base*?	❑	❑
Have we thought of ways to obtain *program-related income* (income from your project which you use for the next project)?	❑	❑
Can we meet *business feasibility and traditional grant programs criteria* when we apply for funds?	❑	❑
Are we able to deal with *financial risk*? (*Risk is due to*: development money coming in stages, coming too slow, coming with additional requirements, the project falling through,producing less income than expenses during project operation.)	❑	❑

Worksheet #4

Organization Skills Assessment

1. What skills, technical assistance and expertise do we need to carry out our housing activities? For each of the categories below, determine what skills and expertise are needed. For example, your board may have skills in accounting and social services, but have no skills in real estate or housing development. Your staff may have skills in support services, but need training or technical assistance in putting together funding proposals. Next, identify the resource for obtaining these skills.

a. Board	**Skills needed**	**Resources**

b. Staff	**Skills needed**	**Resources**

c. Volunteers	**Skills needed**	**Resources**

d. Partnership	**Skills needed**	**Resources**

e. Other	**Skills needed**	**Resources**

2. How do we plan to fill deficiencies in skills and expertise, e.g., training for board and staff?

Worksheet #5

Information Sources for a Needs Assessment

Use the checklist below of existing data sources in preparing your needs assessment.

Libraries

- Local libraries ❑
- University libraries ❑
- State libraries ❑
- Federal depository libraries ❑
- Agency libraries ❑
- Inter-library loans ❑

Federal agencies

- Census Bureau ❑
- Department of Commerce ❑
- Department of Health and Human Services ❑
- Department of Housing and Urban Development ❑
- Bureau of Labor Statistics ❑
- Internal Revenue Service ❑
- Social Security Administration ❑
- Bureau of Indian Affairs ❑

State agencies

- Department of Community and Regional Affairs ❑
- Department of Labor ❑
- Department of Health and Social Services ❑
- State Commission on Aging ❑
- Governor's Council on Disabilities and Special Education ❑
- Alaska Mental Health Board ❑
- Alaska Housing Finance Corporation ❑

Local agencies/Tribal governments

- Local agencies ❑
- Departments of public works, building inspection, zoning, etc. ❑
- City and borough assessors' offices ❑
- University of Alaska Extension Service ❑
- Social service agencies ❑
- RurALCAP ❑
- School districts ❑
- Regional housing authorities ❑
- Native corporations, subsidiaries ❑

Other public and quasi-public bodies

- Gas, electric and other utilities ❑
- Telephone companies ❑
- Economic development districts ❑

Survey research organizations

- University-affiliated organizations ❑
- Private firms ❑
- Radio and television stations ❑
- Newspapers ❑

Private organizations

- Chambers of commerce ❑
- Board of realtors ❑
- Multiple listing services ❑
- Federal Home Loan Bank ❑
- Banks ❑
- Home builders ❑
- Voter's leagues ❑

- News media organizations ❑
- Dodge Division of McGraw-Hill Information Systems Company ❑
- Rand McNally ❑
- Sanborn Map Company ❑
- R.L. Polk Company ❑
- Donnelly Marketing Information Services ❑
- Consulting firms ❑

The Census Bureau is generally the most prolific and important source of data for housing needs assessments. An enormous amount of information is available from the 1990 Census.

Types of Data to Collect for a Needs Assessment

In order to build a demographic profile of the study area, collect data about the following:

Population

Population by age

Population by sex

Population by race

Households

Persons per household

Households by size

Households by owner, renter

Households by income

Number of housing units

Worksheet #7

Resource Allocation

You must make decisions about how to spend your resources. Will you spend them:

	Yes	No
To help the most people? (look at a production approach emphasizing larger projects)	❑	❑
To fix the most severe problems helping those who are poorest and most in need?	❑	❑
To make positive changes that will last the longest?	❑	❑
To complement other community development efforts?	❑	❑
To help a specific population segment (e.g., seniors, handicapped, substance abusers)	❑	❑
For other reasons? (explain below)	❑	❑

Worksheet #8

Our Organizational Values

List your organization's values — what you value and find important in carrying out your organization's mission and activities. Some examples include: quality of work, our staff as the most important resource, the dignity and respect of all persons.

To carry out our mission and our housing activities, we value:

Goals

1. For each housing area important to your organization, brainstorm goals for up to 5 years and then prioritize by voting. Here is one way to prioritize. Divide the number of goals you have identified by three (3). The answer is the number of votes you may have for the most important goals. For example, if you have identified 12 goals, you may have 4 votes for the top priority goals. Do this in small groups if your planning group is larger than ten people.

2. Each group should report out their results to the planning group.

3. Each group should discuss the goals the organization should meet the next year. Select three and report out.

Housing Area: ____________________

Goals:

____

____

____

____

Housing Area: ____________________

Goals:

____

____

____

____

Housing Area: ____________________

Goals:

____

____

____

____

Worksheet #10

Determining Affordability

1. **Example**

   If rent for a 1-bedroom apartment is $325 with a $50 utility allowance, the minimum annual income needed to pay the bill and still spend less than 30 percent of total income would be:

   $375 divided by .30 X 12 = minimum income of $15,000

2. **Calculate:**

   Rent for 1 Bedroom _____ + ______ utility allowance =

   ______ (rent) divided by .30 X 12 = minimum income needed

Demand Analysis

Use this worksheet to calculate the demand for your project by a specific group of people in a specific market. Multiply the total number of households in your target population by the percentqage of renters. Multiply this by the percentage of income eligible. Subtract the number of competitive housing units to get the demand for the rental units.

Total households		000
x Percentage of renters		x .00
	=	
x Percentage of income eligible		x .00
	=	000
- No. of competitive units		- 000
= Demand for rental units	=	000

Community Market Report

Housing program: ______________________________

Community for which this Market Report is being completed:

____

Team members: ______________________________

Date: ______________________________

I. Real estate market characteristics

A. Property ownership

- What is the level of home ownership?
- What kinds of investor properties are there?
- How have they come to own them?
- How long has a typical home owner owned his/her home?
- Where are new buyers coming from?
- Profile the typical home owner (age, income, length of ownership, family size, etc.)

____
____
____
____
____
____
____
____

B. Sales

- What are current sales prices for a well-maintained home?
- What are current sales prices for a poorly-maintained home?
- Can this information be differentiated by number of units in structure?
- What are the typical financing types and sources used for home owner purchase?

- What are the typical financing types and sources used for investor purchases?
- Profile typical buyer, seller.

C. Cost vs. income

- Is there evidence of under-investing relative to income capability?
- Does the housing stock coincide with the needs and financial capabilities of the residents?

D. Rental

- What percentage of units are in owner-occupied structures?
- For investor properties, does the typical investor live in the neighborhood? In the community? Outside the community?
- Who rents and how does rent vary by building or unit type?
- Profile the typical investor, renter.

E. Neighborhood areas

- Does the program service area contain several geographically distinct neighborhoods? Socially distinct? Economically distinct? Ethnically distinct?
- What are the distinct housing types in each sub-neighborhood?
- Are these features based on time of construction or other factors?
- How do these small neighborhoods interact with each other?

F. Market position

- How does this neighborhood compare to others within the community with similar housing stock? Which is more desirable?
- What is the comparison of listing times and sales prices?
- How do the kinds of improvements in this neighborhood compare with other neighborhoods? Compare both money invested and type of improvement made.
- How does the neighborhood compare to its adjacent neighborhoods? How do they interact, complement or compete?
- Where do people go to live after this neighborhood?

G. External market factors

- What are the overall market trends in the community/state/region (depressed, stable, growing)?
- What unique real estate trends are indicated (preservation, gentrification, continuing racial/ethnic polarization, dislocation, migration). Use a map to outline migration patterns, location of gentrification patterns, areas of different affordabilities, where people want to live, don't want to live, etc.
- What implications do you expect these specific trends to have on the neighborhood?

II. Physical environment

A. Housing/neighborhood characteristics

What are the . . .

- Types of dwellings
- Types of conditions
- Major building materials used
- Style(s)
- Condition of landscaping around homes
- Uunusual features
- Age
- Vacant/abandoned
- Amount of heterogeneity of the housing
- Describe the physical features of the neighborhood environment (i.e., harsh physical environment, lack of landscaping, hills, etc.) in comparison to other neighborhoods in the community.

B. What kind of infrastructure facilities do you usually find for your community?

Identify below the infrastructure and condition.

Item	In place	Condition
Streets		
Curbs		
Sidewalks		
Sanitary sewers		
Storm sewers		
Street signs		
Other		

C. Institutions

- What universities, hospitals, churches, schools or other community institutions are within or near the neighborhood?
- In what ways do they contribute to the neighborhood?
- In what ways do the have a negative influence?
- Are they active in community affairs?
- Are they active in real estate?

D. Locational factors

- What natural boundaries are present?
- What factors detract or improve the neighborhood's location (near water, railroad, highway, industries, trash, junk, etc.)
- What unusual transportation characteristics affect the neighborhood?

E. Commercial/industrial

- Is there any commercial intrusion in the neighborhood? If so, of what nature? What is the amount of vacancies?
- Is there any industrial intrusion in the neighborhood? If so, of what nature? What is the amount of vacancies?

F. Other land use

- Note the amount of vacant lots, undeveloped lands
- Note any restrictions for these lands (environmental, regulatory)
- Note open space use or any mixed use areas

III. Neighborhood image

A. Self-perceptions

- Interview a small sample of residents, asking
  - — What their images of the neighborhood are?
  - — What are the best features?
  - — What are the problems (note most important)?
  - — What changes would they like to see?

B. Outside Images

- Interview a small sample of non-residents using the same questions as in A. Be sure to include:
  - — Lender
  - — Realtor
  - — Community
  - — Business

C. Community Standards

- Are there examples of community standard-setting in the neighborhood?
- Are the patterns and standards of reinvestment and maintenance widely understood and accepted?

Adapted from materials provided by Neighborhood Reinvestment Corporation.

Local Sources of Market Information

Government

City or Borough Planning Commission

Zoning Board

Department of Labor

Federal Bureau of Labor Statistics

Economic Development Districts

Tribal Governments

Quasi-Government Organizations

Associations of Government

Alaska Native Corporations

Special Purpose Quasi-Government Bodies

Regional Housing Authorities

Local Research Groups

Nonprofits

Special Councils

Institute for Social and Economic Research, University of Alaska, Anchorage

Other

Chambers of Commerce

RurALCAP

Local Health Clinics

Mixed-Use Group

Real Estate Boards

Lobbying Associations

Promotional Associations

Information Sources for Affordable Housing Market Research

● Primary Source
▲ Other Possible Source

Source of Data	Current Population	Past Growth	Population Projections	# of Dwelling Units	Past Income in D.U.'s	Population per D.U.	New Homes Planned	New Streets/Roadways	Traffic Patterns	Income Levels	Aerial Photos	Maps
Chamber of Commerce	●	▲	▲			●	▲					●
Planning Department, Borough & Community	●	●	●	●	●	●	●	●	▲	▲	▲	▲
Newspapers							▲					
Post Office	●			●			▲					
Real Estate Brokers & Developers							●			▲		▲
Utility Companies	▲		▲	●			▲					
Banks, Savings & Loans										▲		▲
Community or Borough Clerks	▲			▲								
University Business Research Bureaus	▲	▲	▲			▲						
Highway or Street Department			▲				▲					
School Department												
Outdoor Advertising Companies									●			
Military Public Information Office	▲			▲			▲					
Aerial Photographers											●	
Department of Motor Vehicles	▲			▲								
Telephone Book												▲
Auto Clubs												●
Community Building Department		▲		▲	●		●					
Community Zoning Department			●				●					

Project Development Budget

List all your costs for your development project on this form.

Item	Cost	
Acquisition	$	
Transfer taxes	$	
Title and escrow fees	$	
Predevelopment	$	
Soil testing, environmental	$	
Governmental fees	$	
Construction/Rehab	$	
Building permits/fees	$	
On-site improvements	$	
Off-site improvements	$	
Developer's fee	$	
Construction contingency	$	
Insurance	$	
Interest reserve	$	
Title, escrow, recording fees	$	
Construction interest reserve	$	
Contractor's general requirements	$	
Marketing	$	
Initial operating costs	$	
Loan fee	$	
Points	$	
Legal fees	$	
Appraisal	$	
Title, escrow	$	
Total Development Costs		$

Washington State Department of Community Trade and Economic Development — Housing Trust Fund Application.

Determining the Construction Interest Reserve Amount

The simple, "quickie" method of determining the reserve amount is based on the proposition that not all of the construction financing is outstanding all of the time. The basic formula for determining the amount of needed interest reserve is:

Construction $$ times 65% times %/12 times construction period (in months)

The second method requires a fairly accurate estimate of the timing of disbursements. Under this approach you actually create a cash disbursement time line and calculate the amount of interest owed for each month of the construction and lease up period based on the amount of funds outstanding for each such month.

Sources and Uses Worksheets

Use this form to identify all your sources of funds. If you have several sources for one use, be careful to identify the exact amount that each source will provide in funding.

Sources of Financing — All Fund Sources

Fund Sources	Committed*	Conditional*	Proposed
State HTF	$	$	$
Other State ________	$	$	$
________	$	$	$
	$	$	$
Federal ________	$	$	$
________	$	$	$
	$	$	$
Local Government ________	$	$	$
________	$	$	$
	$	$	$
Applicant	$	$	$
Private ________	$	$	$
________	$	$	$
	$	$	$
Subtotals	$	$	$

Total Fund Sources	$

* Identify each agency and program commitment. Include the amount, proposed uses, terms and conditions of the commitment.

Adapted from Washington State Department of Community Trade and Economic Development — Housing Trust Fund Application.

Sources and Uses Worksheet

Use this form to identify all your sources of funds for the uses in the far left column. If you have several sources for one use, be careful to identify the exact amount that each source will provide in funding.

Sources and Uses of Funds

Description of work	Total cost	Source	Source	Source
Construction	$	$	$	$
Architect	$	$	$	
Legal (financing)	$	$		
Marketing	$	$		
Real estate tax (construction)	$	$	$	
Insurance	$	$	$	
Financing fee	$	$		
Title and recording	$	$	$	
Land and buildings	$	$	$	
Construction interest	$	$		
Other	$		$	
City administrative costs	$			$
Relocation	$			$
Deficit escrow	$		$	
Total	**$**	**$**	**$**	**$**

Pro forma Income and Expenses

Name of organization and project ______________________________

	Year 1	Year 5	Year 10
Residential Income	______	______	______
Unit type/number/rent x 12 You must provide annual household income and percentage of median.	______	______	______
Gross Potential Income	______	______	______
Less Vacancy Rate (%)	______	______	______
Other Revenue (describe)	______	______	______
______________	______	______	______
______________	______	______	______
Effective Gross Income	______	______	______
Operating Expenses	______	______	______
Insurance	______	______	______
Heat	______	______	______
Electric	______	______	______
Water and Sewer	______	______	______
Garbage Removal	______	______	______
Repairs	______	______	______
Maintenance	______	______	______
Replacement Reserve	______	______	______
Operating Reserve	______	______	______
Management	______	______	______
Services	______	______	______
Other	______	______	______
Total Operating Costs	______	______	______
Real Estate Taxes	______	______	______
Net Operating Income	______	______	______
Debt Service	______	______	______
$ _____@ __ % for _____ years	______	______	______
$ _____@ __ % for _____ years	______	______	______
Cash Flow Per Year	______	______	______

Adapted from Washington State Department of Community Trade and Economic Development — Housing Trust Fund Application Form.

Calculating Replacement Reserve Amounts

There are two methods for deriving the replacement reserve amount. Both are valid, both have their pros and cons. Probably the most widely used method is to apply a certain percentage to the effective gross income of the project, such as 3 percent. This method is simple and straight-forward. The other approach is more complex since it involves the costing out of individual items.

This second approach is more precise and, consequently, requires a higher level of detail. The first step is to determine all the individual items for which the reserve is established. As mentioned above, typical items include basic project components such as washers and dryers. Other items to consider include water heaters, cooking ranges, floor coverings and painting (inside and out). Next, determine the per unit cost for each item, then multiple the per unit cost by the number of units to derive a total replacement cost. Divide the replacement cost for each item by the useful life (in months) to derive the amount needed to be funded every month. An example follows:

Item	Cost/unit	# of units	Total cost	Useful life	Amt/month
washers	$350	4	$1,400	84	$16.67
dryers	$275	2	$550	84	$6.55
fencing	$10	600	$6,000	84	$71.43
paint, ext.	$1400	25	$35,000	60	$583.33
Total			**$42,950**		**$677.98**

An important element of this approach is estimating the probable useful life for each component. Selecting too short of a life will result in inordinantly high reserve amounts, too long of a life will leave the account under-funded.

Should we attempt to adjust for price increases for the different line items? Generally, for simplicity's sake, do not attempt to guesstimate future costs for the different items. To guess how much a washer or dryer will cost seven years from now is just too speculative to be of any value. The fact that different items will wear out at different times, plus the interest earned on the deposited funds, should generally be sufficient for accumulating enough funds to cover the majority of the replacement costs.

These replacement reserve amounts will be aggregated in one account. Thus, over time, there will be additions to and subtractions from the reserve account.

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Worksheet #20

Site Selection Checklist

Use the following checklist to review potential sites.

Mapping
- ❑ Legal Description
- ❑ Topography
- ❑ Regional/site location
- ❑ Boundary survey/assessor's plat site plan
- ❑ Rights-of-way and easements

Topography
- ❑ Slopes
- ❑ Elevations
- ❑ Views and special features
- ❑ Ridges and drainages

Soils
- ❑ Types and characteristics
- ❑ Subsoil conditions
- ❑ Soil depths (topsoil, bedrock, groundwater)

Drainage
- ❑ Surface drainage features
- ❑ Ground water table
- ❑ Floodplains, wetlands, marshes
- ❑ Location of wells
- ❑ Sources of on- and off-site pollution, contaminants
- ❑ Depth to ground water

Vegetation
- ❑ Special features/habitats
- ❑ Woodlands, fence rows, vegetation masses
- ❑ Species present on site
- ❑ Location, size of specimen trees

Land Use
- ❑ Existing on-site uses (structures and activities)
- ❑ Historical site uses
- ❑ Surrounding uses
- ❑ Growth, development patterns
- ❑ Adjacent plats
- ❑ Open space, vacant land
- ❑ Qualitative assessment of neighborhood

Transportation
- ❑ Existing traffic patterns and transportation systems
- ❑ Access, entry points
- ❑ Planned, proposed transportation system improvements
- ❑ Proximity, accessibility to transportation systems

(continued on following page)

Utilities

- ❑ Sanitary sewer
- ❑ Storm sewer
- ❑ Water
- ❑ Electricity
- ❑ Natural gas
- ❑ Telephone
- ❑ Cable television
- ❑ Energy efficiency features
- ❑ Fuel oil and storage
- ❑ Describe location, design, availability, tie-in/connection fees and distance from site, developer fees, line extension cost, cost responsibility (developer or utility).

Public Services/Amenities

- ❑ Schools
- ❑ Parks and recreational facilities
- ❑ Emergency services (fire, police, ambulance, hospitals)
- ❑ Public transportation, transit
- ❑ Commercial services and shopping
- ❑ Employment services
- ❑ Non-emergency governmental services

Regulations

- ❑ Governmental authorities
- ❑ Master/general plan policies
- ❑ Existing zoning (site and adjacent parcels)
- ❑ Subdivision ordinance
- ❑ Special assessments
- ❑ Development fees

Other Features

- ❑ Climate
- ❑ Prevailing wind direction
- ❑ Archaeological sites
- ❑ Wildlife (species and habitats)
- ❑ Noise sources
- ❑ Aesthetic quality of site and environs

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Worksheet #21

Request for Environmental Information

Name of Project ____________________ Location ____________________

Item 1a. Has a Federal, State or Local Environmental Impact Statement or Analysis been prepared for this project?

❑ Yes ❑ No ❑ Copy attached as Exhibit 1-A

1b. If "No," provide the information requested in Instructions as Exhibit 1.

Item 2. The State Historic Preservation Officer (SHPO) has been provided a detailed project description and has been requested to submit comments to the appropriate RECD Office. ❑ Yes ❑ No
Date description submitted to SHPO ____________

Item 3. Are any of the following land uses or environmental resources either to be affected by the proposal or located within or adjacent to the project site(s)? *(Check appropriate box for every item of the following checklist).*

	Yes	No	Unknown
1. Industrial	❑	❑	❑
2. Commercial	❑	❑	❑
3. Residential	❑	❑	❑
4. Agricultural	❑	❑	❑
5. Grazing	❑	❑	❑
6. Mining, Quarrying	❑	❑	❑
7. Forests	❑	❑	❑
8. Recreational	❑	❑	❑
9. Transportation	❑	❑	❑
10. Parks	❑	❑	❑
11. Hospitals	❑	❑	❑
12. Schools	❑	❑	❑
13. Open spaces	❑	❑	❑
14. Aquifer Recharge Area	❑	❑	❑
15. Steep Slopes	❑	❑	❑
16. Wildlife Refuge	❑	❑	❑
17. Shoreline	❑	❑	❑
18. Beaches	❑	❑	❑
19. Dunes	❑	❑	❑

	Yes	No	Unknown
20. Estuary	❑	❑	❑
21. Wetlands	❑	❑	❑
22. Floodplain	❑	❑	❑
23. Wilderness *(designated or proposed under the Wilderness Act)*	❑	❑	❑
24. Wild or Scenic River *(proposed or designated under the Wild and Scenic Rivers Act)*	❑	❑	❑
25. Historical, Archeological Sites *(listed on the National Register of Historic Places or which may be eligible for listing)*	❑	❑	❑
26. Critical Habitats *(endangered/threatened species)*	❑	❑	❑
27. Wildlife	❑	❑	❑
28. Air Quality	❑	❑	❑
29. Solid Waste Management	❑	❑	❑
30. Energy Supplies	❑	❑	❑
31. Natural Landmark *(listed on National Registry of Natural Landmarks)*	❑	❑	❑
32. Coastal Barrier Resources System	❑	❑	❑

Item 4. Are any facilities under your ownership, lease or supervision to be utilized in the accomplishment of this project, either listed or under consideration for listing on the Environmental Protection Agency's List of Violating Facilities? ❑ Yes ❑ No

Adapted from USDA RECD Form FmHA 1940-20

Worksheet #22

Community-Based Strategies

Determine which of the following community-based strategies will help you gain acceptance for your housing project. Use the lines below to decribe how you will apply them to your situation.

Community education (TV, radio, print, general mailings, one-page fact sheets describing your proposed project, the sources of funding and how the project would benefit the neighborhood).

Community outreach (Information is shared with the neighborhood where the project will be sited. Conduct your outreach early and frequently).

Community advisory boards (The boards are made up of prominent local leaders and neighborhood representatives early in the process, before vocal opposition has arisen).

Ad hoc or special committees of neighbors of a proposed development site.

Community Housing Development Organization (CHDO) low-income input (If your organization is certified by the Alaska Housing Finance Commission as a CHDO, you must have a process in place for low-income program beneficiaries to advise on project design, location of sites, development and management of your projects). ______

Public hearings and information meetings (These are meetings about your project that are open to the public). ______

Respond to questions (It's a good idea to follow-up on public hearings and outreach meetings with a list of commonly asked questions and answers. These can be mailed to neighborhood residents in the target area). ______

Concessions and incentives to the community (Giving in to some of the needs of the supporters of the proposed project). ______

Other forms of community based communication. ______

The Basic Finance Package

Specific finance programs and lenders will have their own particular formats and documentation requirements. Use the checklist below to ensure that you have assembled all the information needed.

Item	Yes	No
Transmittal letter	❑	❑
Cover letter	❑	❑
Project narrative	❑	❑
Maps	❑	❑
Include the following maps:		
• Area location map	❑	❑
• Local street map	❑	❑
• Plat map of site	❑	❑
Market study/needs assessments	❑	❑
Environmental information and reports	❑	❑
Zoning and governmental entitlements	❑	❑
Budgets and pro formas		
• Loan-to-value	❑	❑
• Break even point	❑	❑
• Debt service capacity	❑	❑
• Reasonableness of project costs	❑	❑
• Rent or purchase affordability	❑	❑
• Regulatory requirement compliance	❑	❑
• Financing gap	❑	❑
• Subsidy layering	❑	❑

Item	Yes	No
Plans	❑	❑
Photographs	❑	❑
Appraisals	❑	❑
Ownership/site control, preliminary title reports	❑	❑
Development team information	❑	❑
Other financing and commitments	❑	❑
Marketing plan	❑	❑
Organizational information and supporting documents	❑	❑
______________________	❑	❑
______________________	❑	❑
______________________	❑	❑
______________________	❑	❑
______________________	❑	❑
______________________	❑	❑

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