Attachment A: Standard Underwriting Assumptions for Affordable Multifamily Rental or Special Needs Project Loans

Rental Income

Minimum Affordability: At least 20% of the City-restricted affordable units must be restricted to households below 50% of area median income and the remaining units must be restricted to households below 60% of area median income. Developers are encouraged to provide lower income targeting where feasible. The City calculation for the required number of City-restricted affordable units per project is based on the HUD HOME Cost Allocation Tool. It is an Excel based tool that assists jurisdictions in determining that the HOME investment in a project is commensurate with the number and type of units designated as HOME-assisted and subject to HOME income and rent restrictions.

City will require all City restricted affordable units in a Low Income Housing Tax Credit (LIHTC) project to be at 50% of AMI if all units in the project are already restricted to 60% of AMI as a condition of the tax credit and other funding requirements. The City may impose varying levels of affordable rents on certain projects based on demonstrated community need.

Affordable Rents: Each unit must have a designated income restriction level. The scheduled rent for each unit must not exceed 30% of the monthly household income at the applicable income restriction level and must exclude the appropriate utility allowance. Refer to the HOME Unit Fact Sheet for current Phoenix HOME rent limits and the Annual Area Median Income Table for income thresholds in determining rents.

Affordability Benefit: To ensure market advantage for income restricted units, restricted unit rents must be at least 10% below the equivalent unrestricted rent for comparable units (considering size, amenities, location, etc.) as determined by the market study and appraisal.

Mixed Use: For underwriting analysis in mixed use properties, the income from the residential portion of a project shall not be used to support any negative cash flow of a commercial portion. Conversely, the commercial income shall not support the residential portion.

Vacancy & Collection Losses

Vacancy and collection loss allowances shall reflect current market conditions and should be at least 10% for all properties except SROs, which shall be at least 12% (allowances are subject to change according to market conditions). If higher economic vacancy rates are indicated by the market study, the Department may utilize the higher rate.

Operating Expenses

Applicants must provide a detailed explanation of proposed operating expenses and the basis upon which each item was estimated (e.g., other similar projects operated by the applicant, market study, appraisal, third party management company estimate, etc.).

Project budgets must utilize operating expenses equal to operating expenses published annually by the Arizona Department of Housing in its Qualified Allocation Plan or such other amount as may be indicated by comparative data approved by the City. This minimum threshold does not include property taxes, replacement reserves, landlord-paid tenant utilities for gas or electric service in master-metered buildings, or the costs of any service amenities provided. Such items must be specifically identified in the budget and estimated as additional expenses. Budgeted expenses should include sufficient detail to enable the Department to evaluate the appropriateness of line items, including proposed staff positions and payroll costs.

At the Department's discretion, and to the extent that the permanent lender(s) and/or equity investor are in place and present evidence to the Department that they have agreed to lesser operating expenses, the operating expenses required by this subsection may be reduced by up to 10%.

Operating Expenses for Special Needs Projects

Given the economic instability of the populations served by Special Needs Housing projects, and therefore, the reduction or unavailability of rental income, the Department requires an Operating Budget that fully itemizes expenses and income to operate the property and to provide support services as required of all Special Needs Housing applications.

Replacement Reserves

New Construction: Replacement reserves for all new construction projects shall be consistent with the per unit per year cap published in the annual Arizona Housing Department Qualified Allocation Plan. This reserve should be reflected in the development budget and itemized on the proforma. Replacement Reserves should be current throughout the Period of Affordability

Rehabilitation: All major rehabilitation projects must obtain a capital needs assessment and reserve study prepared by a qualified, licensed third party property inspector. Replacement reserves must be based on the recommendations of the report but may not be less than the New Construction reserve requirements stated above.

Operating Reserves

An operating reserve equal to six months of operating expense, replacement reserve, and mandatory debt service payments shall be capitalized in the development cost budget. This reserve must remain with the project until such time as the demonstrated DSCR for a continuous 24- month period is at least 1.35. Thereafter, upon the owner's request and Department approval, the reserve may be distributed as surplus cash (and will potentially be subject to sharing with the Department if the project utilizes a surplus cash flow loan.) For projects deemed high risk, the City may impose restricted access to reserves on an "annual only basis" after receipt and review by the City's loan servicing administrator of the project's required Annual Cash Flow Analysis Report.

Budget Trending Assumptions

Out-year calculations shall utilize a 2.5% increase in gross income and a 3.5% increase in operating expenses (including taxes and replacement reserves). Applicants may use more conservative trending assumptions (i.e., a wider spread between income and expense trending rates) if these are warranted for a particular project.

Debt Service Coverage Ratios:

- All debt service with required fixed periodic payments ("Hard Debt") (other than City Cash Flow loans), regardless of lien position, must be included in the calculation of DSCR.

- To ensure that the Department loan is the minimum amount required to make the Project feasible, projected DSCR must be at least 1.15 unless approved by the Department due to unique circumstances (such as small project size, unreliable rental subsidies, etc.) If projected DSCR will exceed this limit, the City's loan will be reduced accordingly.