




GOVERNMENT OF PUERTO RICO
PUERTO RICO HOUSING FINANCE AUTHORITY



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HOME/HTF Underwriting and Subsidy Layering Guidelines

HOME/HTF Multifamily Rental Projects

Puerto Rico Housing Finance Authority
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These Policies and Procedures supersede any previously adopted Policies.

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I. Puerto Rico Housing Finance Authority (PRHFA)

A. General Information

The Puerto Rico Housing Finance Authority (**Authority** or **PRHFA**) administers the HOME Investment Partnerships Program (**HOME**) and the National Housing Trust Program (**HTF**) for the Government of Puerto Rico. It has the responsibility to define the methods for distributing these funds to the municipalities, developers, community housing development organizations (**CHDO**), and individuals throughout Puerto Rico.

II. HOME/HTF Underwriting and Subsidy Layering Guidelines

A. Purpose & Background

For purposes of the HOME/HTF Programs, underwriting involves the analysis of project assumptions and risks to determine if the public investment is reasonable and the project can be expected to meet all applicable programs requirements, during the period of affordability.

Subsidy layering is a component of the project's underwriting, which involves assessing whether the proposed level of HOME/HTF assistance is appropriate given the level of project investment by other financing sources. These guidelines cover both the HOME/HTF underwriting requirements and the subsidy layering analysis, which form the basis for the detailed evaluation of the prudent investment of HOME/HTF funds.

B. Applicability

The underwriting and subsidy layering requirements at 24 CFR §92.250 & 24 CFR §92.300(b) are applicable to projects for which HOME/HTF funds are committed on or after this document is approved and signed by PRHFA Executive Director.

These guidelines are applicable to all rental projects developed in whole or in part with HOME/HTF assistance. For projects which are only partially funded by HOME/HTF, the PJ must assess the financial viability of the entire project, not just the HOME-assisted units, according to the applicable guidelines of each program.

These guidelines are also applicable to HOME/HTF-assisted projects which seek to develop units in scattered sites or within a designated subdivision or target area. The regulations at 24 CFR §92.2 define a HOME "project" (definition also use for HTF) as a site or sites together with any building under common ownership, management, financing and assisted as a single undertaking. The project includes all the activities associated with the site and building.

C. HOME/HTF Application Process

PRHFA activity of New Construction and Rehabilitation of Rental Housing units/projects under the HOME/HTF programs will fulfill the following application process:

1. **Announcement and application** – HOME/HTF will publish in a general circulation newspaper the amount of funds to be released and the proposal submission deadline. The announcement could be made jointly with other funding programs according to PRHFA's Annual Plan.

- a. Interested applicants could obtain the HOME/HTF programs information and application forms according to the instructions establish in the Notification of Funds Availability (NOFA).

Please note that it should be at the sole discretion of PRHFA to award HOME/HTF funds to any participant (which has requested or not HOME/HTF funds), based, among other things, on the merits of the project, available funds, specific needs of the cycle in order to promote the construction/rehabilitation of low-income housing affordable projects.

- b. The proponents submit their applications according to the method and deadline established.

2. **Basic Threshold and evaluation (Point Ranking System)** - PRHFA will verify the completeness of the application according to the threshold requirements and evaluation of provided documents. HOME/HTF Program will not accept incomplete applications. The Authority retains the sole and absolute right to determine that an application is substantially incomplete and ineligible for further review. The Authority may choose to allow for the immediate correction of minor/immaterial defects in an application. Should the Authority choose to allow a correction, applicants will be given a pre-defined 5-day cure period (excluding weekends and legal holidays) from the time of the Authority notification to cure defects within their application. If the Authority allows an applicant to cure minor defects, that does not constitute approval or acceptance of the application and is not an assurance that the application, upon further review, will be deemed acceptable. The items that will be considered as "curable" are:

- a. The applicant may provide a required signature that has been omitted unless the application was deemed substantially incomplete by the Authority; and
 - b. The applicant may provide missing pages of incomplete documents.

The Authority shall notify the applicant of any curable defects it discovers by telephone and/or by electronic mail (e-mail). If an applicant fails to respond to the Authority's notification of curable defects within the 5-day cure period, or if an applicant's is non-responsive to the question asked, a negative conclusion shall be drawn. Failure to respond to an item in a cure notification will result in the denial of the points in the category or the application may be deemed to not meet threshold.

Complete applications will be reviewed for compliance with the basic threshold requirements and evaluated under the point ranking system. PRHFA evaluates applicant's self-evaluation, adjusts the points, accordingly, establishes final points for the application and ranks the projects with higher points to least scored points. The Self-Point Ranking form will be included as part of the application package.

3. **Selection and notification (conditional)** – PRHFA will evaluate the projects according to their specifications, available funds, and their best use. A written notice will be sent to all proponents indicating whether they were selected or not, the results of the threshold evaluation and the score assigned to their proposals. The notification will not confirm the assistance amount and **MUST** be considered **conditional** in nature and pending the determinations of the underwriting and subsidy layering, among other reviews of the project.
4. **Reviews and Subsidy Layering** –HOME/HTF will review the applicant's capacity and experience, regulatory compliance history, the market needs assessment, the project's feasibility, and alignment of each proposal with PRHFA goals and housing strategy.

Also, HOME/HTF will complete a subsidy layering review of the funds expected for the construction of the project and to ensure that the proposed construction costs are reasonable and eligible under each program involved. Also, it will evaluate that the expected operational revenue and expenses are reasonable and within the prescribed standards.

5. **Recommendations for Assistance** - HOME/HTF will recommend projects for assistance after the underwriting and subsidy layering review is complete. If PRHFA recommends the project for HOME/HTF Assistance, PRHFA will send a written notification to each applicant indicating the award and the necessary steps to formalize the written agreement.
6. **Written agreement and commitment of source/IDIS Certification** - A written agreement between the OWNER entity- and PRHFA HOME/HTF will be executed. The agreement will describe all the requirements of the HOME/HTF programs that owner must comply. After its execution, and as soon as the agreement is received from PRHFA's legal division, HOME/HTF sets up the activity in the *Integrated Disbursement and Information System (IDIS)*, certifies the evaluation and commits the funds to IDIS.

To enter all project specifics in IDIS, Home/HTF Program must certify that it has conducted an underwriting review, assessed the developer/owner capacity and fiscal soundness, examined neighborhood market conditions to ensure adequate need for the project, among other requirements

PRHFA may commit HOME/HTF funds to a new construction or rehabilitation project once:

- a. all necessary financing is secured;
- b. a budget and production schedule is established;
- c. underwriting and subsidy layering review is completed;
- d. construction is expected to start within 12 months;
- e. submittal of commitment letters, copy of partnership/operating agreement with cash contributions, and any other documents HOME/HTF may reasonable required.

D. Project Readiness to Proceed Documents

PRHFA requires the following information to validate the readiness to proceed with the construction of the project:

- Percentage of construction completion certified by project construction manager and lending institution inspector (both reports required), in case project is under construction.
- Unexpired evidence of site control. This may be in the form of: a) a current deed evidencing fee simple ownership; b) a lease agreement with a term of not less than the period set forth in the extended low-income housing commitment executed by and between the Developer and the Authority, as it appears in the Developer's LIHTC Application; c) a contract of sale; d) a lease option with a term of not less than the period set forth in the extended low-income housing commitment executed by and between the Developer and the Authority, as it appears in the Developer's LIHTC Application; e) an option to purchase agreement, among others.
- Recommendations of infrastructure issued by the Puerto Rico Permits Management Office (OGPe by its Spanish acronym) and construction permit filed with competent permits office.
- Zoning Certification, prepared by project's designer, stating that the proposed/current use of the property is permitted under applicable Zoning and Land Use laws and regulations, and that the applicable zoning authority is not aware of any zoning or land use violations with respect to the property.

- Pursuant to Section 106 - 36 C.F.R. Part 800, State Historic Preservation Office's (SHPO) Technical Assistance or Final Determination Letter. The Technical Assistance letter shall indicate that there are no historic properties or that no adverse effect on historic properties is associated with the undertaking or the agreed-to measures if such adverse effect is determined.
 - Applicants interested in furthering an application for assistance under the 2022-QAP, must submit their request for technical assistance and related documentation through PRDOH or PRHFA.
For a detailed list of requirements refer to Exhibit W and:
<http://www.oech.pr.gov/ProgramaConservacionHistorica/Pages/Seccion-106.aspx>
- Wetland Inventory Map from the US Fish and Wildlife Service (**USFWS**) demonstrating project's location outside of any wetland, or a Wetland Preliminary Jurisdictional determination from the Corps of Engineers; indicating that the project does not affect wetland.
- Project location must be identified in the NFIP Map (**FEMA Map**) to demonstrate compliance with the Floodplain Management Act – 24 CFR 55, Executive Order 11988. The project must be located outside the 100-year floodplain, coastal high hazard areas and if the project is located inside the 100-year floodplain, FEMA's approval letter of Map Amendment (**LOMA**) or Letter of Map Revision (**LOMR**) will be submitted.
- Project location must be identified in the USFWS map to demonstrate compliance with the Coastal Barrier Resources Act of (**CBRA**) –24 C.F.R. §58.6(b). Federal assistance may not be used in the CBRA system.
- Pursuant to Sections 307(c) and (d) of the Coastal Zone Management Act, Certification of Consistency filed with the State Coastal Management Program, if required.
- Pursuant to the Endangered Species Act – 50 CFR 402, technical assistance or final determination letter issued by the U.S. Fish & Wildlife Service (**USFWS**) of the Department of the Interior; it must indicate that the project does not affect endangered species.
- Any project located within 1,000 feet of a major noise source, road, or highway, 3,000 feet of a railroad, or 5 miles of a civil airport, must provide a Noise Study as per the requirements set forth in the American National Standard Method for the Physical Measurement for Sound. Resulting noise level must comply with the acceptable level of 65 decibels established in 24 CFR 51.100 – Noise Abatement and Control.

- Field studies:
 - Soil survey, if project is for new construction or substantial rehabilitation requiring addition or expansion to structures.
 - Archeological, if required by the SHPO pursuant to its review under Section 106, or if required by the Institute of Puerto Rican Culture (**ICP**, by its Spanish acronym) or copy of the recommendation issued by the ICP as part of the construction permit consultancy process evidencing that the study is not required.
 - Hydraulic/Hydrologic, if the project meets the conditions established under the Puerto Rico Department of Natural and Environmental Resources' (DRNA, by its Spanish acronym) Administrative Order No. 2013-12, or a certification issued by a Professional Engineer (PE) attesting that the study is not required.
- Letter of intent from interim and/or permanent financing source specifying terms of available financing.
- Projects with permanent financing other than the Authority's will need a letter of intent from the financial institution. Applicant must submit a permanent and interim financing firm commitment letter prior to the execution of HOME/HTF commitment. This letter should detail:
 - amount and term of the loan;
 - fixed interest rate;
 - non-recourse nature of the loan; amortization period;
 - pre-payment penalties; and collateral requirements.
- All projects applying for HOME/HTF- and financing from the Authority must present the loan application to the Authority on or prior to the HOME/HTF-application's submittal deadline.
- Development team in place: architect/designer, general contractor, construction manager, resident inspector, management agent, accessibility coordinator, consultants, must submit; their resumes, their contracts with applicable parties.
- Proof of professional liability insurance covering the Project's designer/architect for an amount not less than ten percent (10%) of the estimated construction cost, in case of negligence. The insurance coverage must include negligent acts, accessibility errors and/or omissions under the Fair Housing Act (**FHAct**) and, wherever applicable, the 2010 American with Disabilities Act (**ADA**) standards and the Uniform Federal Accessibility Standards (**UFAS**) [with the application must file, at least, a pro-forma or commitment letter from an insurance company and present the fully paid policy at closing].

- Proof of performance or surety bond for one hundred percent (100%) of the construction contract, or as determined by the Authority. Also, coverage must include accessibility errors and/or omissions under the FHAct and, wherever applicable, the 2010 ADA standards and UFAS. [with the application must file proof of bondable capacity from an insurance company and present the fully paid bonds at closing]
- Architectural drawings of the proposed new construction and/or rehabilitation, including, but not limited, site plan, building elevations, and unit floor plans. The designated architect/designer, duly licensed in Puerto Rico, and accessibility coordinator shall certify that the development will comply with the *Oversight & Quality Assurance Program-Accessibility Standards Manual* (Annex F), pursuant to the Conciliation Agreements and Voluntary Compliance Agreements (**VCA**) filed on July 21, 2016 and April 26, 2021, among others that might apply; by the submission of:
- Accessibility Standards checklists provided on the *Oversight & Quality Assurance Program-Accessibility Standards* duly completed, certified and signed by the project's designer/architect **and** proposed Accessibility Coordinator (as defined and required by the *Oversight & Quality Assurance Program-Accessibility Standards Manual*):
 - Appendix A: ADA Accessibility Verification Checklist
 - Appendix B: Fair Housing Act Accessibility Checklist
 - Appendix C: Uniform Federal Accessibility Standards

These checklists must be supported with initial evaluation and comments on preliminary drawings/plans indicating in which part of the design PRHFA can found compliance with the applicable requirements.

- The project designer/architect and the accessibility coordinator shall certify the reading and comprehension of the Oversight and Quality Assurance Program (Annex F). Also, certify that quality control procedures will be properly followed.
- Proof of professional liability insurance covering the Project's designer/architect for an amount not less than ten percent (10%) of the estimated construction cost, in case of negligence.
- Proof of performance or surety bond for one hundred percent (100%) of the construction contract, or as determined by the Authority.
- Implementation of Green Building Standards: As required by Federal Register Vol. 83, No. 28 (February 09, 2018), 83 FR 5844 and amended by Federal Notice Vol. 84, No. 33 (February 19, 2019), 84 FR 4836, all new construction of residential buildings and all replacement of substantially damaged residential buildings must comply with a HUD-approved Green Building Standard. PRHFA has extended this requirement to every applicant under this 2023 cycle.

- Therefore, Applicants that meet criteria for new construction or replacement of substantially damaged buildings are required to obtain a minimum of one of the listed certifications:
 - ENERGY STAR® (Certified Homes or Multifamily High-Rise);
 - Enterprise Green Communities;
 - Leadership in Energy and Environmental Design (**LEED**) (New Construction, Homes, Midrise, Existing Buildings Operations and Maintenance, or Neighborhood Development);
 - ICC–700 National Green Building Standard;
 - Environmental Protection Agency (**EPA**) Indoor Air Plus (ENERGY STAR® a prerequisite); or
 - Any other equivalent comprehensive green building Program acceptable to HUD (such as the *Permiso Verde* issued by the applicable permits office).

- The Applicant shall provide the following documentation to demonstrate compliance:
 - Project narrative plans and specifications (updated) with the Green Building Standard requirements. Description of the design parameters, strategies, and the implementation process to ensure compliance with the selected Standard(s). Includes statement of the projects overall green development goals and expected intended outcomes of addressing those goals.
 - Notification of which Green Building Standard(s) is being pursued.
 - Certification of Compliance certifying that the project complies with the selected Standard(s).¹
 - Provide a checklist, or other suitable documentation, which demonstrates adherence to the selected Standard(s).
 - Notification of the Person/Team in charge of the implementation of the Green Building Standard(s) at the Project.
 - For those cases pursuing the *Permiso Verde*, submit the following:
 - A valid prequalification certification from the *Oficina de Gerencia de Permisos (Certificado de Pre-Cualificación de Proyecto Verde-OGPe)*.
 - Notification of the Green Design Guides under *Permiso Verde* that will be pursued.
 - Register the Project with the organization or entity in charge of providing the certification of the project from the selected Green Building Standard.
 - Provide application or registration confirmation evidence.

¹ The Certification of Compliance does not replace the Final Green Building Standard Certification in the case of new construction/replacement of substantially damaged residential buildings.

- Supporting documentation as deemed necessary or requested by the Authority during the process of the application evaluation and throughout the duration of the project.
- For rehabilitation of non-substantially damaged structures, Developers shall adhere to the guidelines specified in the HUD Community Planning and Development (CPD) Green Building Retrofit Checklist², to the extent applicable, of the rehabilitation work undertaken, including the use of mold resistant products when replacing surfaces such as drywall (*see Annex V*). When rehabilitation work includes replacing older or obsolete products, the Developer must use ENERGY STAR®-labeled, Water Sense-labeled, or Federal Energy Management Program (FEMP) designated products and appliances.
- The Applicant shall provide the following documentation to demonstrate compliance:
 - Project narrative, plans and specifications updated with the HUD CPD Green Building Retrofit Checklist requirements. Describe the design parameters, strategies, and the implementation process to ensure compliance with such Checklist. Include statement of the projects overall green development goals and expected intended outcomes of addressing does goals.
 - Certification of Compliance certifying that the project complies with the HUD CPD Green Building Retrofit Checklist.³
 - Provide the HUD CPD Green Building Retrofit Checklist with the project's implementation measures.
 - Notification of the Person/Team in charge of the implementation of the HUD CPD Checklist requirements at the Project.
 - Supporting documentation as deemed necessary or requested by the Authority during the process of the application evaluation and throughout the duration of the project.
- **Broadband Infrastructure** Requirements, under Federal Register Vol. 83, No. 28 (February 09, 2018), 83 FR 5844: Projects are required to include installation of broadband infrastructure requirements, into the Project plans and specifications, at the time of new construction or substantial rehabilitation for multi-family rental housing that is funded or supported by HUD. PRHFA has extended this requirement to every applicant under this cycle. The project's designer/engineer must certify the compliance with this requirement.

² On February 20, 2020, HUD approved exceptions (waivers) for Puerto Rico to the HUD Community Planning and Development (CPD) Green Building Retrofit Checklist for non-substantially damaged residential buildings funded with CDBG-DR, as requested by PRDOH. The HUD CPD Green Building Retrofit Checklist updated version can be accessed at: <https://www.cdbg-dr.pr.gov/en/lihtc/>.

³ The Certification of compliance does not replace the final certification of compliance for the rehabilitation of non-substantially damaged structures.

The project's designer/engineer must certify the compliance with this requirement.

- Projects are excluded from this requirement only if one of the below exclusions can be documented and validated by the Authority:
 - The location of the new construction or substantial rehabilitation makes installation of broadband infeasible.
 - The cost of installing broadband infrastructure would result in a fundamental alteration in nature of its Program, or activity, or in an undue financial burden; or
 - The structure of housing, to be substantially rehabilitated, makes installation of broadband infrastructure infeasible.

The HOME/HTF Programs will verify the compliance with the broadband requirements and/or exclusions as part of the Technical Review, which is required as a prerequisite to any reservation and/or award

- **Accessibility Requirements:**

- Pursuant the VCAs⁴, all Applicants must comply with the following accessibility requirements:
 - **Twelve percent (12%)** of the total ground floor and/or elevator-serviced units' inventory must be made fully mobility-accessible and scattered distributed under the 2010 ADA Standards and, wherever applicable, the UFAS; and
 - **Three percent (3%)** of the units' inventory must be made sensory-accessible and scattered distributed under the 2010 ADA Standards and, wherever applicable, the UFAS.
- Prior to start construction, the Applicant shall provide the following:
 - Final drawings of the proposed new construction and/or rehabilitation, including a site plan, building elevations, and unit floor plans, must be provided. The project designer and accessibility coordinator shall certify that the development will comply with the accessibility requirements of the FHA and, wherever applicable, the 2010 ADA Standards and UFAS, and applicable accessibility standards checklists (Annex F)

⁴ Conciliation Agreement and Voluntary Compliance Agreement between HUD and Alicea Cruz, Wanda L. and Égida Vistas del Río, *et. al.*, Section 18(a) (2016) and Voluntary Compliance Agreement between HUD, Office of Fair Housing and Equal Opportunity and M.J. Consulting & Development, Inc., Rio Plata Housing, LLC, Desarrollador Rio Plata, Inc Rio Plata Development, Puerto Rico Housing Finance Authority Section V.H.43 (2021)

- Proof of professional liability insurance covering the project's designer for an amount not less than ten percent (**10%**) of the estimated construction cost, in case of negligence.
 - Proof of payment and performance or surety bond for one hundred percent (**100%**) of the construction contract.
 - Designer's Preliminary Certification (Annex J) and PRHFA-Oversight & Quality Assurance Program-Accessibility Standards Checklists on appendixes A, B, and C (Annex F) must be provided as verification that all units and project common areas comply with the structural accessibility mandates of the Oversight & Quality Assurance Program-Accessibility Standards.
- The Authority will verify the project applications for compliance with accessibility requirements as part of the Technical Review, which is required as a prerequisite to any reservation and/or award. The Authority will also cause the Applicant to comply with:
 - (a) Davis- Bacon and related acts (40 U.S.C. §§ 276a-276a-7;
 - (b) Contract Work Hours and Safety Standards Act (40 U.S.C. §§ 327-333);
 - (c) Copeland (Anti-Kickback) Act (18 U.S.C. § 874/40 U.S.C. § 276c);
 - (d) Fair Labor Standards Act of 1938, as amended (29 U.S.C. § 201, *et seq.*); and
 - (e) Section 3 of the Housing and Urban Development Act of 1968, as amended, 12 U.S.C. §1701u.
- Every project that receives HOME/HTF funds will have the drawings and Accessibility Standards checklists reviewed and validated by PRHFA's NAC and his/her findings and recommendations must be addressed and incorporated in the project's drawings prior to initiate construction.
 - Prior to the commitment of HOME/HTF funds the project's drawings and Accessibility Standards checklists will be reviewed and validated by PRHFA's NAC and his/her findings and recommendations must be addressed and incorporated in the project's drawings prior to initiate construction.
 - During construction the Developer/Owner must:
 - Certify compliance with the Accessibility Standards on a monthly basis. A final certification of compliance regarding Accessibility Standards must be completed prior to project delivery.

- After construction/rehabilitation is completed the Developer/Owner must provide:
 - Proof of training certifications. The Project's Team staff shall complete, at a minimum, eight (8) hours of disability-related training annually.
 - Proof of on-site accessibility survey conducted by NAC.
 - Proof of NAC final verification and certification of compliance.
- Further, the Authority shall comply and cause all its employees, including contractors, sub-contractors, project owners, and management agents to comply with PRHFA's Civil Rights and Fair Housing Compliance Policy and all applicable measures provided for in the VCA.
- Environmental Requirements (Environmental Review):

Environmental Review is the process of reviewing a project and its potential environmental impacts to determine whether it meets federal, state, and local environmental standards. Every project undertaken with Federal funds, and all activities associated with such projects, are subject to the provisions of the National Environmental Policy Act of 1969 (**NEPA**), as well as to the HUD environmental review regulations at 24 C.F.R. Part 58 on Environmental Review Procedures for Entities Assuming HUD Environmental Responsibilities.

Applications under HOME, and HTF Programs will be subject to a level of environmental determination for project activity. This review and determination (based on project Application) will be required prior to the development of any HUD- program Agreement HOME, HTF, etc.). The Environmental Review (based upon that level of environmental determination) will then be required prior to receiving funding.

Unlike some other HUD statutes, the HTF statute does not include a provision for Environmental Review. HUD is committed to the principles of NEPA and ensuring decent, safe, sanitary, and affordable housing for extremely low and very low-income families. Consequently, HUD has developed HTF Environmental Provisions under the HTF Property Standards at 24 CFR § 93.301(f) for new construction and rehabilitation. The state, state-designated entity, or sub grantee administering HTF is responsible for ensuring that projects funded by HTF meet the property standards at the time of project completion.

The federal funds agreement (HOME, HTF, etc.) will contain a provision prohibiting the State recipient, subrecipient, or project owner from undertaking or committing any funds (not limited to HOME funds) to physical or choice-

limiting actions. Physical or choice-limiting actions include entering into contracts (including conditional contracts) for property acquisition, demolition, movement, rehabilitation, conversion, repair or construction prior to the environmental clearance. The violation of this provision may result in the denial of any funds under the agreement. Finally, the agreement to provide funds to the project will be conditioned to proceed with, modify or cancel the project based on the results of the environmental review.

No work may start on a proposed project before the environmental review process is completed, even if that work is being done using non-HUD funds. **All program recipients must comply with all applicable Federal, State, and local environmental laws and regulations. A violation of this requirement may jeopardize federal funding to a project and disallow all costs that were incurred before the completion of the Environmental Review.**

PRHFA is the Responsible Entity (**RE**) for environmental review and compliance for all projects that receive HOME/HTF. funds, PRHFA will maintain a written Environmental Review Record (**ERR**) of the environmental review process meeting the legal requirements and documenting PRHFA's review and compliance with the related federal authorities listed in 24 C.F.R. Part 58. (24 CFR Part 93.301(f) applies to HTF grants)

Be advised that if the project only applies for Tax Credits the Environmental Review explained in this section is not required. **Nevertheless, after construction begins the project will not be eligible for any federal fund without the Environmental Review HOME, HTF, HOPWA, ESG, NSP, among others).**

- Technical specifications certified by the project's architect/engineer.
- Architectural drawings should also include a Certification from a qualified architect/engineer, retained for the accessibility inspection of the new construction and/or project rehabilitation and duly licensed in Puerto Rico., as verification that covered units and project common areas comply with the structural accessibility mandates of the FHA and, wherever applicable, the 2010 ADA standards and UFAS.
- Cost breakdown certified by the proposed general contractor or project designer.
- Letter of intent from syndicator or direct investor evidencing available private equity and indicating the credit price.
- Pro-forma financial statements certified by the project's proposed management agent.

- Organizational documents for all entities specified in items 3, 4, 5 and 7 of pages 1 through 3 of the Application worksheets. (Please refer to *Basic Threshold Review* checklist made part of the application package for applicable documents).
- IRS Form SS-4 (application for Employer Identification Number) or other evidence of the taxpayer identification number for all entities specified in the previous item.
- If applying for LIHTC, owner must demonstrate its commitment to extend the initial 15-year period of compliance with the Tax Credit program's income and rent restriction requirements for a minimum of 15 additional years. (See Annex K)
- Phase I environmental site assessment report and/or any other applicable environmental report. Must comply with ASTM E 1527-13 or any updated version as ASTM promulgates which meets the requirements of EPA's AAI regulations.

E. Market Conditions Review

PRHFA requires a professional market assessment for all project to be developed A market analysis study or assessment is required for projects that will receive HOME funding (updated within six months of the application). A market analysis is an evaluation of the economic conditions of supply, demand, and rental rates for the type of low-income housing development being proposed as well as the rent levels proposed for the project. The analysis must determine the feasibility of the subject property rental rates and state conclusions as to the impact of the property with respect to the determined housing needs.

All data presented should reflect the most current information available and the report must provide source data. All steps leading to the calculated figures must be presented.

1. **A market assessment is required for all project development (updated within six months of the application)** - The market assessment must include, at least, the following information:
 - A statement of the competence of the market study provider, detailing education and experience of primary author and including statement of non-interest.

The professional should attest that there is no affiliation with the applicant, developer, lender and/or syndicator.

- A complete description of the project, detailing proposed unit mix (number of bedrooms, bathrooms, square footage, proposed rents, Area Median Income (AMI) level, utility allowances, and any utilities included in rent), proposed units features and community amenities, and target population including age restriction and/or special needs populations.
- A description of the proposed site and neighborhood, including physical attributes of site, surrounding land uses, and proximity to community amenities or neighborhood features including shopping, healthcare, schools, and transportation.
- A map and photos of the subject site and surroundings showing location of community services.
- An overview of local economic conditions, including employment by sector, list of major employers, and labor force employment and unemployment trends over past 5-10 years.
- Evaluate general demographic, economic, and housing conditions in the community. Local economic conditions, including employment by sector, list of major employers, and labor force employment and unemployment trends.
- A description of the proposed development, detailing proposed unit mix (number of bedrooms, bathrooms, square footage, proposed rents, AMI level, utility allowances, and any utilities included in rent), proposed unit features and community amenities, and target population including age restrictions and/or special needs populations.
- Demographic analysis of the number of households in the market area that are part of the target market (i.e., family, senior, etc.), income-eligible, and can afford to pay the rent, including a projected household base at placed in service date.
- Geographic definition and analysis of the market area, including description of methodology used to define market area and map of market area including proposed site.
- Analysis of household sizes and types in the market area, including households by tenure, income, and persons per household. Quantify the pool of eligible tenants in terms of household size, age, income, and other relevant factors.

Not all residents of the market area are potential or likely tenants or buyers of any given project

- A description of comparable developments in the market area, including any rental concessions these developments presently offer.
- A description of rent levels and vacancy rates of comparable properties in the market area, segmented by property type (market rate, Tax Credit, deep subsidy) and with rents adjusted to account for utility differences and concessions or other incentives. Such description should include all existing Tax Credit developments in the primary market area, any planned additions to rental stock including recently approved Tax Credit developments and certify that the proposed Tax Credit units will not have a negative impact in any existing Tax Credit project in the market area.
- Expected market absorption of the proposed rental housing, including capture/penetration rate analysis of target populations. Evaluate the effective demand and the capture rate, usually expressed as a percentage (the project's units divided by the applicant pool). The capture rate is the percentage of likely eligible and interested households living within a reasonable distance from the project site who will probably need to rent units within the area. Also, expected market capture or absorption rate of the proposed rental housing, including capture/penetration rate analysis of target population; the maximum capture or absorption rate should be 10%.
- A description of the effect on the market area, including the impact on Tax Credit and other existing affordable rental housing.
- A statement on how the proposed project would address housing needs experienced as part of the Hurricanes Irma and María, Storm Isaias, Earthquakes of 2019 & 2020; and any other major disaster, as declared by the President of the United States, and how they would benefit the community in the situation of a natural disaster.
- A statement indicating that the proposed development - will not have a negative impact on the occupancy and operations of existing projects (Tax Credit, HOME, HTF, among others)- in the proposed project's municipality and market area.
- Assess the market for the planned units and determine if there is sufficient demand to rent the HOME-assisted housing within 12 months of project completion.

- Estimate the absorption period. Plan how many units can be successfully leased or sold each month and how long it will take to achieve initial occupancy of the HOME units and stabilized occupancy for the project as a whole; estimate time to occupy the proposed units.
 - Estimated the expected vacancy rates of the project.
 - THE AUTHORITY WILL CONSIDER THE MARKET STUDY, THE MARKET, MARKETABILITY FACTORS, AND ANY ADDITIONAL INFORMATION AVAILABLE TO DETERMINE IF AN ACCEPTABLE MARKET EXISTS FOR THE PROPOSED DEVELOPMENT. THE AUTHORITY WILL NOT BE BOUND BY THE CONCLUSIONS OR RECOMMENDATIONS OF THE MARKET REPORT AND RESERVES THE RIGHT TO DISQUALIFY ANY APPLICANT IN THE COMPETITION IF IT DETERMINES THAT AN ACCEPTABLE MARKET DOES NOT EXIST.
 - Appraisal report of site and property prepared by an approved and licensed appraiser within six months of the application.
2. **Standards for the market evaluation** – HOME/HTF will evaluate and determine if an acceptable market exists for the proposed development. Therefore, HOME/HTF has the right to disqualify any applicant if it determines that an acceptable market for the type of project to be constructed does not exist. Occupancy rate **(In any case, the estimated occupancy period of the units should not be more than 12 months):**

F. Development Experience and Capacity

The HOME Rule (Applicable to HTF for this purpose) specifies two elements of underwriting analysis related to the developer – (1) the experience and the capacity of the developer (including the entity staff and project organization) to implement the project and (2) the fiscal soundness of the developer to meet its financial obligations and risks of the project.

PRHFA will evaluate the financial and technical capacity of the developer to demonstrate if it could successfully complete the proposed project. PRHFA assessment will vary according to the project size, scope, complexity, type of development entity (CHDO, non-profit, for profit), new entities and/or established developers.

Developer experience and capacity will be evaluated based on the documentation provided in the PRHFA application.

HOME/HTF has the right to disqualify any applicant if it determines that the developer does not have the required experience and/or capacity.

PRHFA adopts the following parameters to evaluate the development capacity and fiscal soundness under the HOME/HTF Program:

1. **Experience** – PRHFA will assess the experience of the developer by determining whether they have the technical and managerial experience, knowledge, and skills to successfully complete the proposed development.

a. Non-profits and CHDOs - will be evaluated using the **Guide for Review of Community Housing Development Organization (CHDO) - Certification and Activities**.

b. Developers'

1) Developer **legal** organization (corporation, LLC, LLP, LP) - certification of incorporation, good standing, and authorization to do business in Puerto Rico.

2) Development **Organization (Capacity and Experience)** – PRHFA will consider, but not limited to, the following capacity/experience of the developer and its development organization:

- a. recent and similar successful experience;
- b. years of experience developing affordable housing;
- c. years of experience managing affordable rental projects;
- d. use of multiple funding sources in their projects;
- e. staffing and resumes;
- f. previous working history with the PRHFA.

3) **Skills** - PRHFA will consider, but not limited to, the following skills of the developer and its development organization and/or team:

- a. property/project management
- b. market analysis
- c. special financing skills
- d. asset management
- e. planning and construction
- f. design, architecture, engineering
- g. federal funding rules
- h. others, according to project.

Current workload - evaluate list of activities planned and/or in process and their current status.

4) **Organizational** charts of the owner and developer entity – validate the members and personnel in the organization. Charts must clearly show all principals down to individuals involved in the ownership and development of the project.

- 5) **Compliance** - evaluate the federal debarment lists, legal claims, and governmental claims or default projects. Project participants that are deemed ineligible because of PRHFA's suspension and debarment policy **may not participate in any project that receives PRFHA resources**:
 - a. Certification of Compliance and *Good Standing* from PRHFA's Compliance Division and other PRHFA departments - The certification must establish the compliance with all applicable requirements and that there is no outstanding finding of noncompliance (including any fees due to the Authority) in another project that received HOME or any other funds managed by the Authority, and in which they have an interest, participation, ownership or management.
 - b. Office of the Inspector General claims (open) and www.SAM.gov.
 - c. Puerto Rico Justice Department and PRFHA Legal Office
2. **Financial Capacity**- PRFHA will examine whether the developer has the financial capacity necessary to complete the proposed project.
 - A. **Developer financial management systems and practices** – PRFHA will evaluate the management system and practices of the developer, general partners, managing members, owners, and sponsors of each entity.
 - B. **Sufficient financial resources to carry the project to completion** or through initial lease-up, as the case may be. Evaluate the combined net worth of developer, applicant, owner or other person or organization responsible of project development.
 - C. **Audited Financial Statements** (updated within six (6) months of the application; only applicable to juridical persons) of the developer, general partners, managing members, owners, and sponsors of each entity. If it is an entity of new creation, a CPA certification stating it is a new entity without financial activity, and most recent statements, if created within six (6) months of the application.
 - D. **Compiled or Revised Financial Statements** (updated within six (6) months of the application; only applicable to natural persons) of the shareholders, directors, principals, officers, members, and partners of the owner, developer, managing member, and general partner. This requirement does not apply nonprofit applicants.

- E. **Standards for the developer's financial capacity** evaluation - The analysis of the requirements will be made as part of the project evaluation. The evidence of the analysis of each parameter is included in the application file of each project.
1. In terms of Developer Liquid Assets use standard and definition established in the QAP.
 2. Developer Net Worth
 - Use standard and definition established in the current QAP.
 - Pre-development funding is not considered as part of the Developer Net Worth. Therefore, if the developer has pre-development funding it will be excluded from the capital analysis.
 - As a minimum, the combined net worth of all entities and natural persons involved in the ownership structure of the project (excluding actual or future limited partners and/or Tax Credit equity providers) must be equal to or greater than one million dollars \$1,000,000.00.
 - No minimum net worth amount will be required for non-profit owner/developer proponents if compliance with non-profit status requirements is met according to the current QAP.
 3. Development portfolio (risk) –HOME/HTF will verify the number of developments in process and/or being submitted to a HOME/HTF cycle.
 - **THE AUTHORITY WILL CONSIDER THE OVERALL PORTFOLIO RISK INVOLVED ON A CASE-BY-CASE BASIS TO DETERMINE IF ACCEPTABLE. THE AUTHORITY WILL HAVE THE RIGHT TO DISQUALIFY ANY APPLICANT IN THE COMPETITION IF IT DETERMINES THAT THE RISK TO BE ASSUMED IS UNACCEPTABLE.**
 4. Entities and/or developer audited financial statements with a disclaimer as to their going concern cannot be considered for PRHFA HOME funding.

G. Other Compliance Requirements

Pursuant to Act No. 237-2004, as amended, 3 L.P.R.A. § 8611 , *et seq.*, known as Establishment of Uniform Parameters in the Process of Contracting Professional and Consulting Services for Puerto Rico Government Agencies and Entities, Act No. 1-2012, as amended, 3 L.P.R.A. § 1854, *et seq.*, known as the Puerto Rico Government Ethics Code of 2011, and/or Act No. 2-2018, 3 L.P.R.A. § 1881 *et seq.*, known as the Anti-Corruption Code for the New Puerto Rico, Applicants will be required to certify that no officer, agent, or employee of the Government of Puerto Rico, or its Government Entities and Instrumentalities, has a monetary interest in the Application or has participated in contract negotiations on behalf of the Government of Puerto Rico; that the Application is made in good faith without fraud, collusion, or connection of any kind with any other Applicants; that the Applicant is competing solely on its own behalf without connection with, or obligation to, any undisclosed person or firm; and that the Applicant has not been convicted or plead guilty in a state of federal court or any other jurisdiction of the United States of America, of the crimes described in Act 2-2018. For compliance with this mandatory requirement, the Applicant shall submit the following forms with the Application:

- Non-Conflict of Interest Certification (Form provided by the Program)
- Non-Conflict of Interest on Existing or Pending Contracts Certification (Form provided by the Program)
- Limited Denial of Participation Affidavit (Form provided by the Program)
- Certification Regarding Debarment Suspension, Ineligibility, and Voluntary Exclusion duly completed and notarized (Form provided by the Program).
- Certification Regarding Debarment Suspension, Ineligibility, and Voluntary Exclusion) duly completed and notarized (Form provided by the Program).
- Anti-Lobbying Certification (Form provided by the Program).
- Authorization for Background and Financial Information (Form provided by the Program).
- Entity Prior Performance Certification (Form provided by the Program).
- Certification of No Benefits Received (Form provided by the Program).

All documents authorized by a Notary Public outside of Puerto Rican jurisdiction, shall be authenticated and include an official certificate or apostille from the Secretary of State, County Clerk, or corresponding entity of the State government.

H. Subsidy Layering Review

HOME/HTF evaluates the proposed project to make sure that funds are properly invested and therefore the project is likely to succeed over time. To verify this, PRHFA evaluates all available sources of funds approved or expected to be made available to that project.

HOME/HTF considers all the factors relevant to project feasibility, which may include, but are not limited to:

- total development costs and available funds;
- impacts of HOME/HTF restrictions such as eligible costs, maximum subsidy limits, cost allocation, and rent/utility allowance limitations;
- financial returns; and
- the long-term needs of rental projects and tenants.

The analysis may change according to certain factors that PRHFA could modify such as: level of physical improvements, rent levels and affordability, income level being served, and payments terms of each funding.

In addition to conducting the subsidy layering review described above, PRHFA will also evaluate the following:

- **Debt Capacity.** PRHFA assures that the lender's financing terms are reasonable and comparable to those available from other lenders.
- **Evaluate Equity Contributions.** Refer to Section IV-Funds Uses Review, where we establish the project limits, including the development profit limits of related entities.

If the total amount of HOME assistance and other sources exceeds the amount that PRHFA determines is necessary to make the project feasible and viable for at least the affordability period, PRHFA may consider:

- reducing the amount of HOME/HTF assistance by decreasing the development budget accordingly or increasing the non-public funding of the project;
- increasing the number of HOME/HTF assisted units in the project or lowering the target income levels and rents to be charged;
- imposing loan terms that bring the rate of return in-line with applicable standards;

- deny HOME/HTF assistance if the applicant refuses to make reasonable adjustments, or to limit its return/costs, or if it appears that HOME/HTF funds are not needed to close a financing gap.

There are two types of documents which PRHFA/HOME/HTF reviews to assess and underwrite the project:

- development sources and uses statement; and
- operating pro-forma.

As part of the underwriting process, HOME/HTF conducts a subsidy layering review to ensure that the construction sources and uses of funds and the operating costs for the project are reasonable and that only the necessary amount of program funds are invested.

The reasonableness of the project's costs is determined by reviewing the project's quality, construction costs, architectural and engineering fees, consulting fees, among others. The reasonableness of the applicant's equity investment will be assessed through a review of the operating pro forma during the underwriting process as established in the latest approved QAP.

HOME/HTF reviews the cost estimates, costs of comparable projects in the same geographic area, qualifications of the cost estimates for various budget line items, comparable costs of comparable proposals obtained.

- 1. Development Funds - Sources and Uses** - The PRHFA will evaluate the proposed development budget to ensure that the construction and other costs set forth for the project are eligible, customary, reasonable and conform to PRHFA parameters.

The Authority will evaluate the proposed detail of sources and uses of funds schedule and construction cash-flow to ensure that all costs set forth for the project are reasonable and within the Authority's underwriting parameters. . Projected pro-forma income and expense cash flow showing a feasible operation, prepared according to the Underwriting Standards described herein, and certified by the proposed management agent. The Authority will use its parameters and resulting numbers to review project feasibility, determine needs, and allocate Tax Credits, HOME/HTF funds and any other available gap funding and/or financing.

Applicants for HOME/HTF must disclose all federal funds obtained from any source from the date of a disaster until the date of the application. Each project will undergo Duplication of Benefits (DOB) review prior to issuing an award to ensure that duplicative assistance is not provided. As part of this review PRHFA will verify that

submitted documentation is accurate and current at the time of the award, to the extent possible. Any assistance determined to be duplicative assistance must be deducted from the Program's calculation of the Applicant's total need prior to awarding federal assistance.

To address any potential duplication of benefits, the federal funds agreements will include provisions requiring repayment of any assistance later received for the same purpose as the federal funds. If a DOB is identified, PRHFA will recapture funds to the extent in which they are in excess. The recapture method and timeframe will be consistent with 2 C.F.R. Part 200 or other applicable cost principles. Complete recapture provisions will be included in the federal grant agreement.

Projects claiming and/or receiving (or not) tax exemptions (e.g., property tax waivers, rental income exemptions, etc.) must present written evidence.

Projects requiring funds other than HOME/HTF programs must comply to the corresponding subsidy layering review to determine the appropriate level of funding under each program.

A. Funding Sources Documents - PRHFA will evaluate the sources of funds documentations such as:

- Firm commitment letters with all terms and conditions for all mortgages, grants, subordination agreements, interim loans and investment tax credits (historical, low-income, if applicable)
- A commitment letter indicating available funding issued by the Rural Development Housing Service of the US Department of Agriculture (**USDA-RD**) for projects that are financed or sponsored by the entity.
- if applicant is a limited liability partnership (LLP) or a limited liability corporation (LLC), a copy of the reference agreement indicating the cash contribution invested;
- Sworn statement from applicant as to federal, state, or local subsidies received or expected to be received for the development and operation of the project. If available, copies of subsidy/grant contracts or commitment letters must be submitted with the application.
- if equity is committed by the developer or owner(s), evidence of available equity funds must be submitted.

B. **Funding Sources Review** – PRHFA will review and assure that:

- total funding sources are adequate and timely in their availability to cover development costs at all phases of the development – acquisition, construction/rehabilitation, and permanent loan.
- total funding sources are compatible with HOME/HTF, and do not contain different requirements that affect the structure of the project, including unit mix, and any differences are accommodated in the project plan.
- total funding sources are firmly committed.

C. **Funding Uses Documents** - PRHFA will evaluate the uses and its assumptions in the supporting documents:

- acquisition documentation, such as purchase agreement, option or closing statement for land and/or building(s) and appraisal or other documentation of value;
- construction cost estimate, construction contract or preliminary bid(s);
- contracts, quotes or other agreements substantiating key professional costs and the basis for estimating other soft costs and working capital items, including capitalized reserves;
- agreements governing the various reserves which are capitalized at closing (to verify that the reserves cannot be withdrawn later as fees or distributions);
- appraisal to substantiate the value of the land and the value of the property after rehabilitation or the structure is built; and
- if LIHTCs are used, documentation of the syndication costs (legal, accounting, tax opinion, etc.) from the syndicator. PRHFA is to confirm that the said costs are reasonable and necessary to develop the project.

D. **Funding Uses Review** - PRHFA will review and assure that:

- total proposed costs of development are **necessary and reasonable** in compliance with OMB cost principles contained in 2 CFR part 200. Costs are considered **necessary** if they are required to complete the project in full compliance with all program standards. To determine if it is a reasonable cost, it should include the following factors, if available:

- costs of comparable projects in the same geographical area;
- comparable costs published by recognized industry cost index services;
- other alternatives determine by PRHFA
- total proposed costs are sufficient to achieve all program requirements, including compliance with local construction codes, to provide quality housing for at least the affordability period;
- the proposed costs to be paid with HOME funds are eligible and needed under the HOME rule.

2. Developer Fees & Identity of Interest Limitations:

a. Developer Fee

The developer's fee includes the developer's overhead, profit, and consultants other than the types of professional fees discussed above, and all other fees paid in connection with the project for services that would ordinarily be performed by a developer.

The Applicant must submit a copy of each consultant contract that itemizes the services to be performed by such consultant and the fees to be charged for each service or group of services.

- For new construction projects the Developer Fees will be restricted to:

Project Size	Maximum Developer Fee
First 75 Units	15%
Units 76 and over	8%

For purposes of this calculation, development costs include all budgeted costs except the Land and Total Developer's Fees (overhead, profit, real estate attorney, consultant, and any other identified party), as defined above.

- For rehabilitation projects the Developer Fee will be restricted to:
 1. The **acquisition portion** will be limited to 4% of the acquisition costs (not including developer's fees assigned to acquisition, land and the rehabilitation portion); plus

2. The **rehabilitation portion** will be restricted to:

Project Size	Maximum Developer Fee
First 75 Units	15%
Units 76 and over	8%

For purposes of this calculation, development costs include all budgeted costs except the acquisition portion, Land and Developer's Fees assigned to the rehabilitation portion (overhead, profit, real estate attorney, consultant, and any other identified party), as defined by HUD's Management Agent handbook (4381.5) cited above.

Notwithstanding, the Authority reserves the right, in its sole discretion, to adjust the timing of payment of the developer's fee at any time to achieve or maintain a project's feasibility and long-term viability.

b. Identity-of-Interest Limitations:

The applicant will be required to disclose to PRHFA whether an identity-of-interest exists between or among the parties participating in the development and operation of the project. This disclosure shall be made when the Application is filed and at such other times during the development and operation of the project.

The identity-of-interest definition that PRHFA will follow is the one provided by HUD's Management Agent handbook 4381.5):

"An identity-of-interest relationship exists if any officer, director, board member, or authorized agent of any development of any development team member (consultant, general contractor, attorney, management agent, seller of the land, etc.):

(a) Is also an officer, director, board member or authorized agent of any other development team member;

(b) Has any financial interest in any other development team member's firm or corporation;

(c) Is a business partner⁵ of an officer, director, board member or authorized agent of any other development team member;

(d) Has a family relationship through blood, marriage or adoption with an officer, director, board member, or authorized agent of any other development team member; or

(e) Advances any funds or items of value to the sponsor/borrower.”

- Identity-of-interest Limitations: PRHFA will impose restrictions on the amount of certain fees in the following Identity of Interest situations
- An identity-of-interest between the seller and buyer of real estate, on Rehabilitation developments, results in a developer fee limitation
 - a. The developer fee for the **acquisition portion** is limited to 3% of the acquisition costs or a minimum of \$5,000 (not including land).
 - b. The developer fee for the **acquisition portion** for preservation projects involving HUD/RD and PR-Law 173 will be limited to 5% of the acquisition costs or a minimum of \$15,000 (not including land).
 - c. The developer fee for the **rehabilitation portion** will be restricted to:

Project Size	Maximum Developer Fee
First 75 Units	13%
Units 76 and over	6%

For purposes of this calculation, the rehabilitation portion includes all budgeted costs except the acquisition portion, Land and Developer’s Fees assigned to the rehabilitation portion (overhead, profit, real estate attorney, consultant, and any other identified party), as defined by HUD’s Management Agent handbook (4381.5) cited above.

- When an identity-of-interest exists between the developer, owner, and general contractor the following limitations will be applied:
 - For projects with 50 units or less, the combined total of the general requirements, contractor's profit and overhead, consultant's fee, real estate attorney’s fee, developer's fee, and developer's overhead will be limited to 25% of the total development costs.
 - For projects over 51 units the combined total of the general requirements, contractor's profit and overhead, consultant's fee, real estate attorney’s fee, developer's fee, and developer's overhead will be limited to 20%.

3. **Operating Pro Forma Review** – The PRHFA will evaluate the proposed operating pro-forma statements to ensure that the underwriting parameters conform to PRHFA parameters. The PRHFA will use its parameters and resulting numbers to review project feasibility, determine need, and allocate HOME/HTF funds.

A. Projected Income – PRHFA will evaluate that projected operating revenues are based on achievable rent levels, reasonable vacancy and collection loss, and conservative estimates of non-residential sources of incomes.

B. Projected expenses evaluation– PRHFA requires that all operating expenses must be in sufficient detail to compare line items against properties that are similar in physical type and size, so that PRHFA may determine whether the planned expenditures are sufficient and reasonable. The operating budget should include general management expenses, maintenance and operating expenses, any project paid utilities, taxes, insurance premiums, and adequate deposits to replacement reserves. In most cases, evaluation of total operating expenses should be summarized in “per unit per year” amounts rather than as a percentage of projected revenue. PRHFA evaluates that all costs are eligible.

a. **Property Management Fees.** Shall be 5-7 percent of gross rents.

b. **Per Unit Cost Review** - PRHFA may appoint an independent consultant to validate construction or rehabilitation costs in projects that passed the basic threshold requirements. The consultant may evaluate:

- site, including demolition, earthwork, drainage, pavement, curbs, sidewalks, parking, landscaping, water, sewer, storm drainage, gas and electric utilities and lines;
- structural, plumbing, electrical, fire protection, and vertical transportation systems;
- building envelope, thermal insulation, and air infiltration control systems;
- interiors, including units, common area finishes, and disabled persons accessibility improvements;
- energy efficiency and green technologies;
- construction methods, value engineering assumptions, cost index factors and sources and documentation of itemized costs submitted; and

- construction insurance and general and special conditions.
- and any other factors the PRHFA deems necessary.
- PRHFA will limit the maximum overall project cost (Hard Cost & Soft Cost) to Section 234 limits and/or other HUD's limits and its updates.
- PRHFA will ensure that total does not exceed the maximum per unit subsidy limits assign:
- The ***Minimum amount of assistance*** to the Project: The minimum amount of HOME funds that must be invested in a project involving rental housing or homeownership is \$1,000 times the number of HOME-assisted units in the project per unit. [24 CFR §92.205(c)].
- HOME funds to the Project HOME funded units, less or equal to the maximum per unit subsidy [24 CFR 92.250 (a)].
- The total amount of HOME funds on a per-unit basis in affordable **housing** may not exceed the per-unit dollar limitations established under Section 234.

C. Underwriting Parameters

HOME/HTF will review that the parameters calculated comply with the ones established by HOME/HTF, QAP and the PRHFA standards and guidelines.

- A. **Acquisition Costs** - The acquisition price will be limited to the lesser of the sale price or the appraised value of the land and the property.

B. General Contractor Maximum Charges

1. **Builder's overhead:** 2% of construction contract amount
2. **Builder's profit:** 6% of construction contract amount.
3. **General Conditions** 6% of construction contract amount.
4. The total allowed percentages for General Conditions, Overhead, and Builder's Profit are based on hard construction costs and the maximum combined costs shall not exceed fourteen percent (14%) of the hard construction costs stated on the AIA construction contract.

C. **Debt service coverage ratio minimum.**

Minimum 1.15 coverage, and, in the case of Section 8, a maximum of 1.45 coverage, for the term of the permanent debt financing. Equals the proportion of the development's net operating income (operating income less operating expenses and reserve payments) to foreclosable, currently amortizing debt service obligations.

The development must at least maintain a break-even cash flow after all expenses and reserves for a minimum of 30 years on a pro-forma basis.

D. **Operating Expenses** - PRHFA will consider the reasonableness of project's operating expenses as an additional factor in determining the proper amount of HOME/HTF Funds.

In sizing its funding awards, PRHFA reserves the right to adjust the proposed operating expense numbers based upon the information supplied, specified development type, circumstances and/or significant changes to the economics of the development's current marketplace. PRHFA could also use the income approach prepared by the appraisal or the operating expenses from previous projects to compare projected expenses with audit data from comparable property types.

E. **Income** - 3% annual growth in rents, other income, and reserve for replacement.

F. **Operating Expenses Growth** – 3.5% annual growth. Any variance from this parameter must be authorized by the HOME Program Director.

G. **Replacement reserve** - Replacement reserve of \$250 per unit per year for new construction projects with 100% project-based assistance (elderly or non-elderly).

H. **Replacement reserve without project-based assistance** - New construction non-elderly and rehabilitation: \$300 per unit per year.

I. **Rent-up reserve** - The rent-up reserve shall be reasonable based upon projected rent-up time according to market and target population, but in no event shall be less than \$250 per unit. In the case of HUD's Section 202 Program Projects, the HOME Program will use the rent-up reserve established by HUD Section 202 Program, if any.

J. **Operating Reserve** - Four (4) months of: (a) projected operating expenses, (b) debt service, and (c) replacement reserve payment. It must be maintained

throughout the term of the HOME compliance period. **In the case of HUD Section 202 Program Projects, the HOME Program will use the operating reserve establish by HUD Section 202 Program, if any.** Neither interest income earned on any type of reserve funds nor the release of any type of reserve funds will be considered as a source of revenue for a project.

- K. Tax Credit Letter of Intent (If applicable)** - Obtain a letter of intent from LIHTC investor.
- L. Profit and Returns to Developer** - The HOME regulations at §92.250(b) require that any profit or return on the owner's or developer's investment will not exceed PRFHA established standards. This analysis includes profit that is projected to flow to the developer as operating cash flow from rental projects, sales proceeds from homebuyer units (if not considered as program income by the PJ) and any other professional fees being paid to the developer or related entities. Project net cash flow after the payments of operational expenses and replacement reserve could be near 10% of the project operating expenses, depending on each project's circumstances.

I. Capital Needs Assessment (Only for Rehabilitation)

HOME/HTF underwrites all projects to ensure that each one is financially sustainable over its affordability period. Capital needs for rehabilitation projects will be evaluated during underwriting to plan for major systems repairs. The scope of rehabilitation work and replacement reserves deposits must be sufficient to ensure the useful life of essential building components throughout the affordability period [HOME §92.251(b)(ii) and (viii)] [NHTF §93.301].

For rehabilitation and acquisition/ rehabilitation projects, a comprehensive Capital Needs Assessment (CNA) report from a competent Registered Architect (RA) or Professional Engineer (PE), duly licensed in Puerto Rico, prepares, including an opinion of proposed construction budget. The assessment should examine and analyze, among other things:

- site;
- structural systems (roof, bearing walls and columns, foundations);
- plumbing systems;
- electrical systems;
- fire protection systems;

- building envelope and insulation;
- interiors (including units and common areas); and mechanical systems.
- Certification from a qualified Registered Architect or Professional Engineer, retained for the accessibility inspection, duly licensed in Puerto Rico, of the project rehabilitation, as verification of the CNA Report and that covered units and project common areas will comply with the structural accessibility mandates of the FHAct and, wherever applicable, the 2010 ADA standards and UFAS