



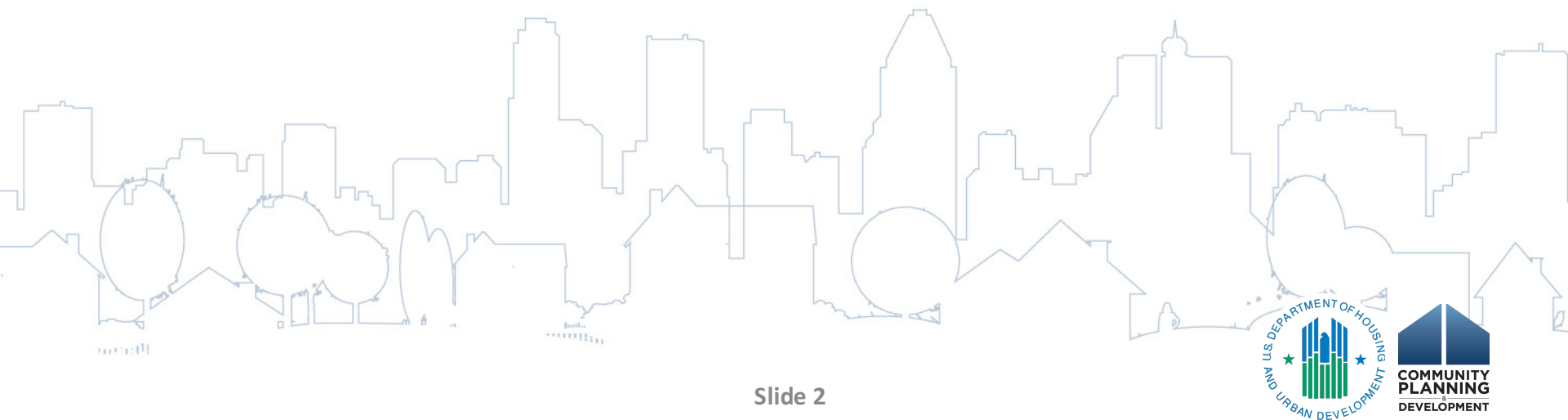
Allocating Costs in the HOME Program CPD Notice 16-15

December 13, 2016



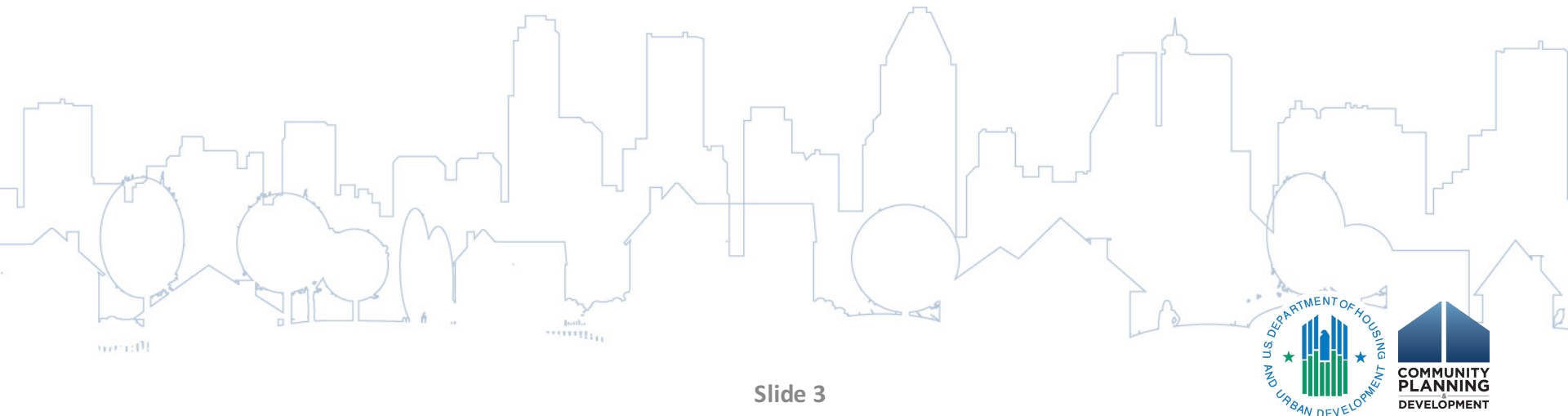
Welcome & Introductions

- Sponsored by:
HUD, Office of Affordable Housing Programs
- Presenters
 - Steve Lathom, TDA Consulting
 - Monte Franke, Franke Consulting Group



Resources

- CPD Notice 16-15, Cost Allocation (PDF)
 - Cost Allocation Process Chart (PDF)
- Cost Allocation Tool (Excel)
- Available on the HUD Exchange



Topics

- Overview
 - Purpose and applicability
 - Linkage to underwriting
- Cost allocation process
 - 5 steps
 - 3 alternative methods
- Implementation
 - Final underwriting, written agreements, disbursement & documentation

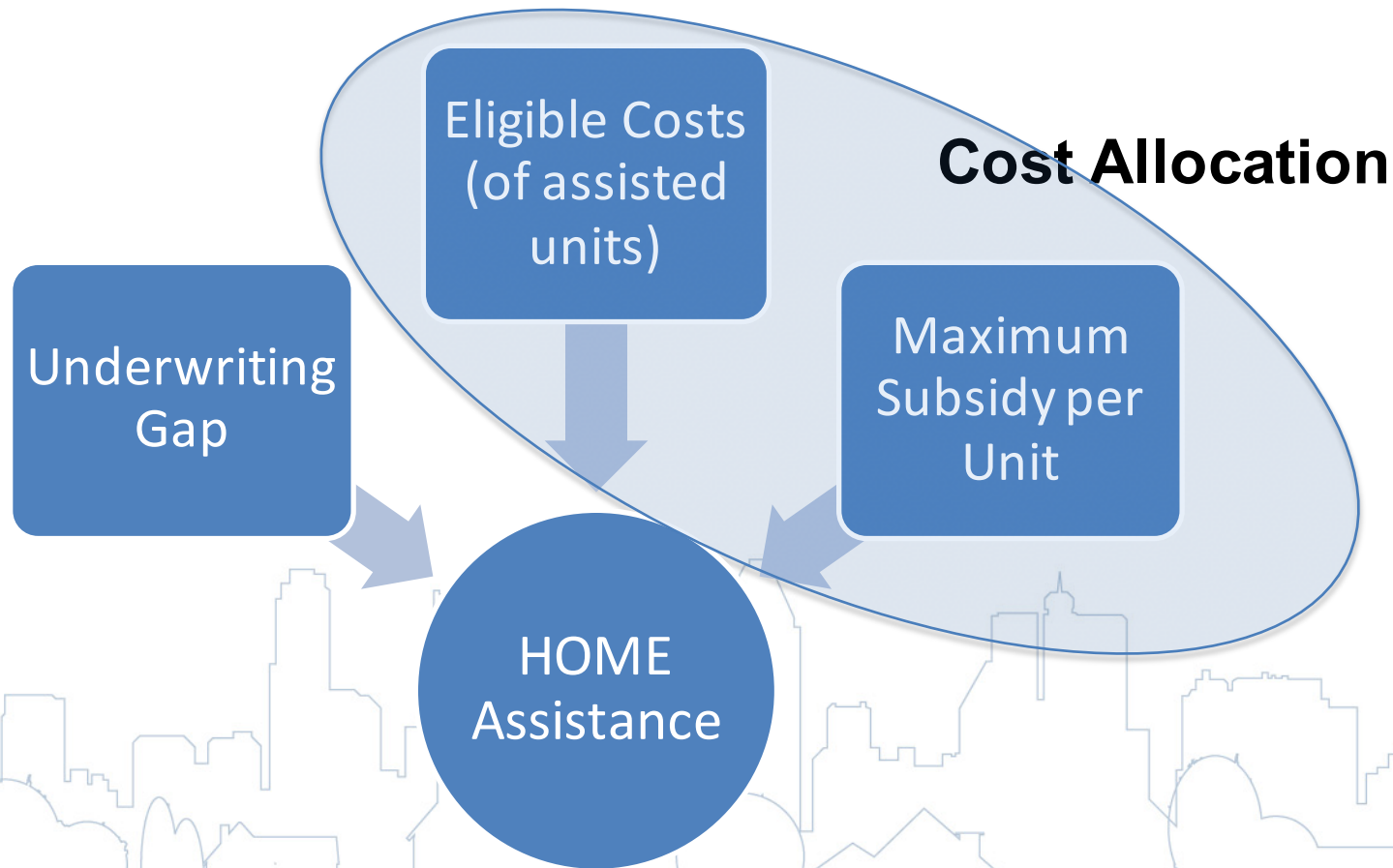
First a Brief Poll

- See lower right portion of WebEx window
- 4 questions on background knowledge
 - Who's on: PJ, state/subrecipient, developer, etc.
 - Cost allocation role: general oversight or “do-er”
 - Read the notice: yes, no
 - General HOME experience: <1, 1-5, 5-10, 10+
- Click “submit” after answering

The Regulatory Context

- HOME can assist specific units w/in larger projects
 - This allows for mixed-income or mixed-use
- The regulatory framework
 - §92.205(d)(1): eligible costs
 - “Only the actual HOME eligible development costs of the assisted units may be charged to the HOME program”
 - Costs “determined based on a method of cost allocation”
 - §92.250(a): maximum per unit subsidy limits
 - See CPD Notice 15-003; consult with Field Office
 - §92.250(b): underwriting
 - Invest no more than “necessary to provide quality affordable housing that is financially viable...”

What Limits HOME Funding?



When Does Cost Allocation Apply?

- Cost allocation is required when a HOME project has units not HOME-assisted or non-residential space
 - Mixed-income – HOME and non-HOME units (e.g., market)
 - Mixed-use – non-residential spaces
 - Mixed-tenure – owner-occupied 2-4 unit project
 - Mixed-finance – HOME & Public Housing
- Not required when all units are HOME-assisted
 - Single-unit homeownership or rental
 - All units designated as HOME in multi-family project
- But all projects are subject to underwriting, eligible costs subsidy limits

What is Cost Allocation?

- Cost allocation assigns actual project costs to individual HOME assisted units
- Method helps PJs determine the required balance of HOME funds & assisted units
 - The minimum number and type of HOME-assisted units for a HOME investment **OR**
 - The maximum HOME investment for a given mix of HOME-assisted units

Dollars → Units

- HOME investment proposed or gap determined
- How many assisted units are required & what mix?



Dollars → Units

- The eligible costs of the assisted unit mix must equal or exceed the HOME \$

HOME \$

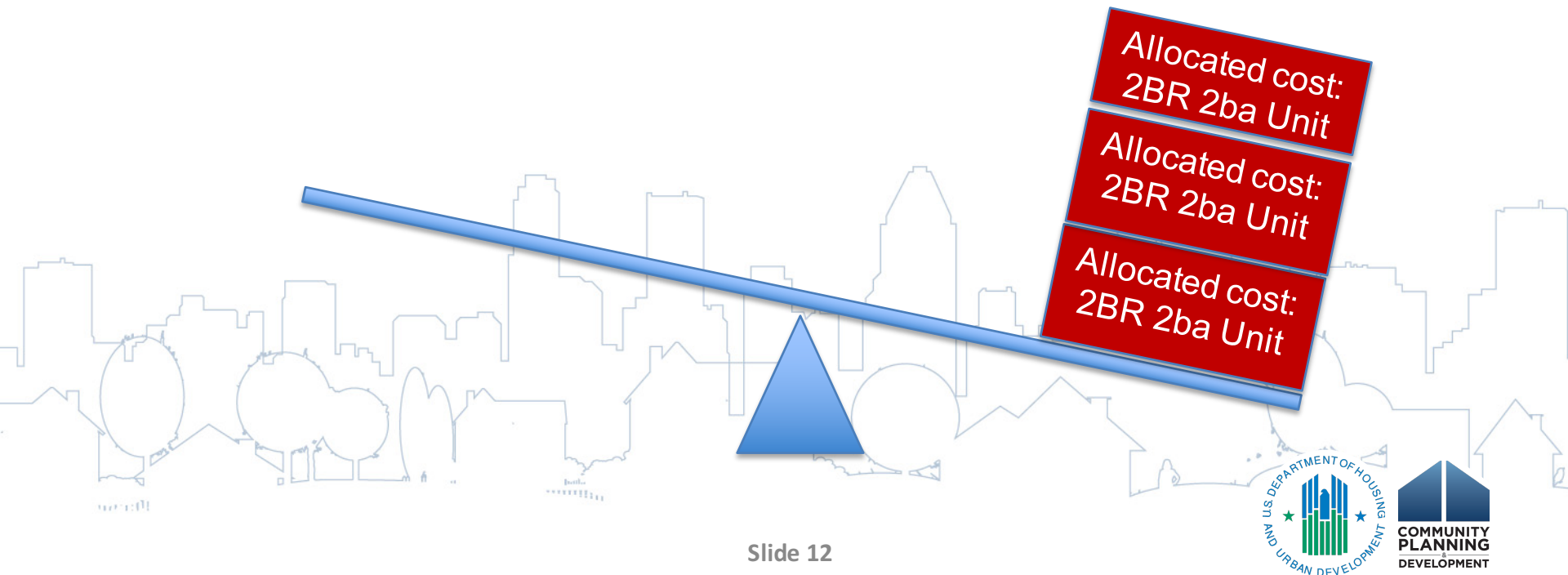
Allocated cost:
3BR 2ba Unit

Allocated cost:
2BR 1ba Unit

Allocated cost:
2BR 2ba Unit

Units → Dollars

- Proposed mix of HOME assisted units: How much HOME can be invested in those units?



Units → Dollars

- HOME funds cannot exceed the eligible costs allocated to the assisted units.

HOME \$

Allocated cost:
3BR 2ba Unit

Allocated cost:
2BR 1ba Unit

Allocated cost:
2BR 2ba Unit

Relationship to Underwriting

Preliminary Underwriting

- **Initial gap** or
- Initial unit designations

Apply to Underwriting

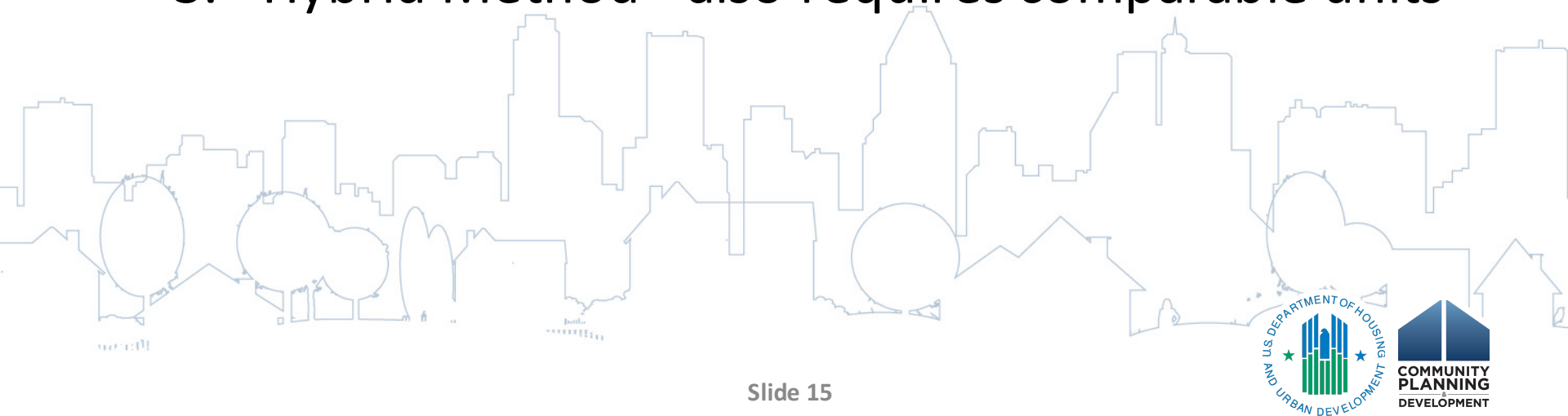
- Apply unit designations (rents)/HOME funds
- Test for impact on gap

Cost Allocation

- **HOME Investment** → **Units** or
- Units → HOME Investment

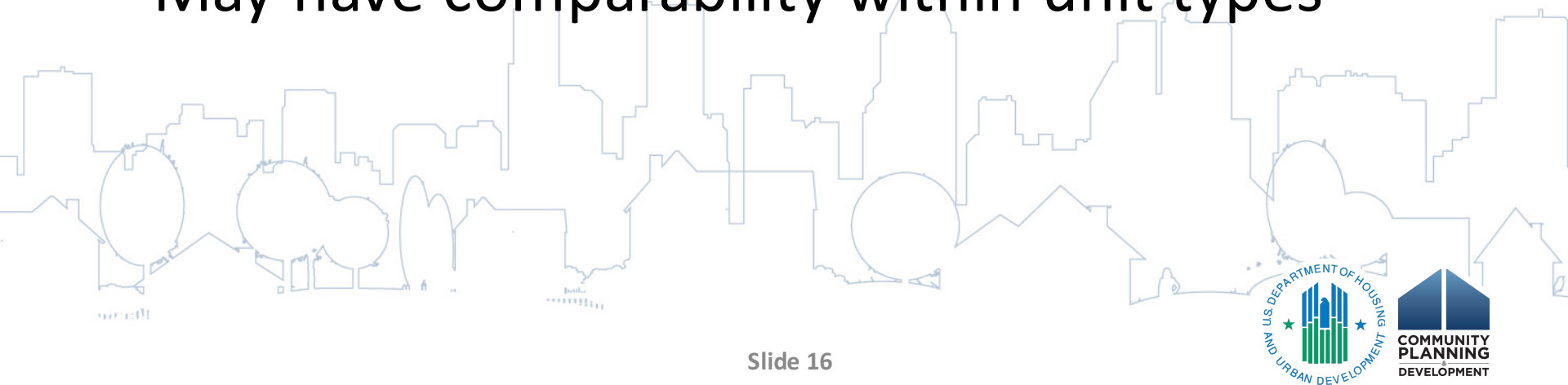
Three Methods to Allocate Costs

- Three methods:
 1. Standard Method - may be used in all projects, always used when units are not comparable
 2. Proration Method - may only be used when units are comparable
 3. Hybrid Method - also requires comparable units



What Are “Comparable” Units?

- Comparable ≠ identical
 - Configuration (# BRs, bathrooms, total rooms)
 - Size (sq. footage)
 - Amenities & finishes (features, fixtures, & finishes)
 - Rents (if unassisted/unrestricted)
- May have comparability within unit types



Questions



To submit a written question:
Click on the **Q&A tool** in the top menu bar.
Type your question in the text box
provided and click “Ask all Panelists”



Process Overview: 6 Steps

1. Determine Unit Comparability & Pick Method



2. Identify Proposed HOME Investment or Units



3. Determine HOME Units & Calculate Cost of HOME Units

Standard Method

Proration Method

Hybrid Method



4. Calculate Maximum Subsidy



5. Determine Maximum HOME Investment, lesser of

Underwritten Gap

Actual Cost of HOME Units

Maximum Project Subsidy



6. Apply Units/Funds to Underwriting

Determine Comparability & Select Cost Allocation Method

- Need: Detailed architectural drawings/specifications
 - Unit layouts and sizes
- Determine if units comparable or comparable within unit types
- Determine method of cost allocation
 - Not comparable: Use Standard Method and fixed units
 - Comparable: May use Proration or Hybrid Method and floating units
- Resource: Cost Allocation Tool

Identify Proposed Investment/Units

- Most proposals identify HOME funds needed/requested (i.e. underwriting gap)
 - May start with a proposed number of HOME units
- Initial underwriting determines
 - Funding gap (or proposed HOME investment)
 - HOME funds cannot exceed the “gap” or “need”
 - Number of HOME units the project can support
 - Project must be sustainable for period of affordability

Identify HOME Units & Calc. Actual Costs

Standard
Method

Proration
Method

Base Cost per
Sq. Ft.

Base Cost per
St. Ft.

Individual Unit Cost

Calc. HOME Share

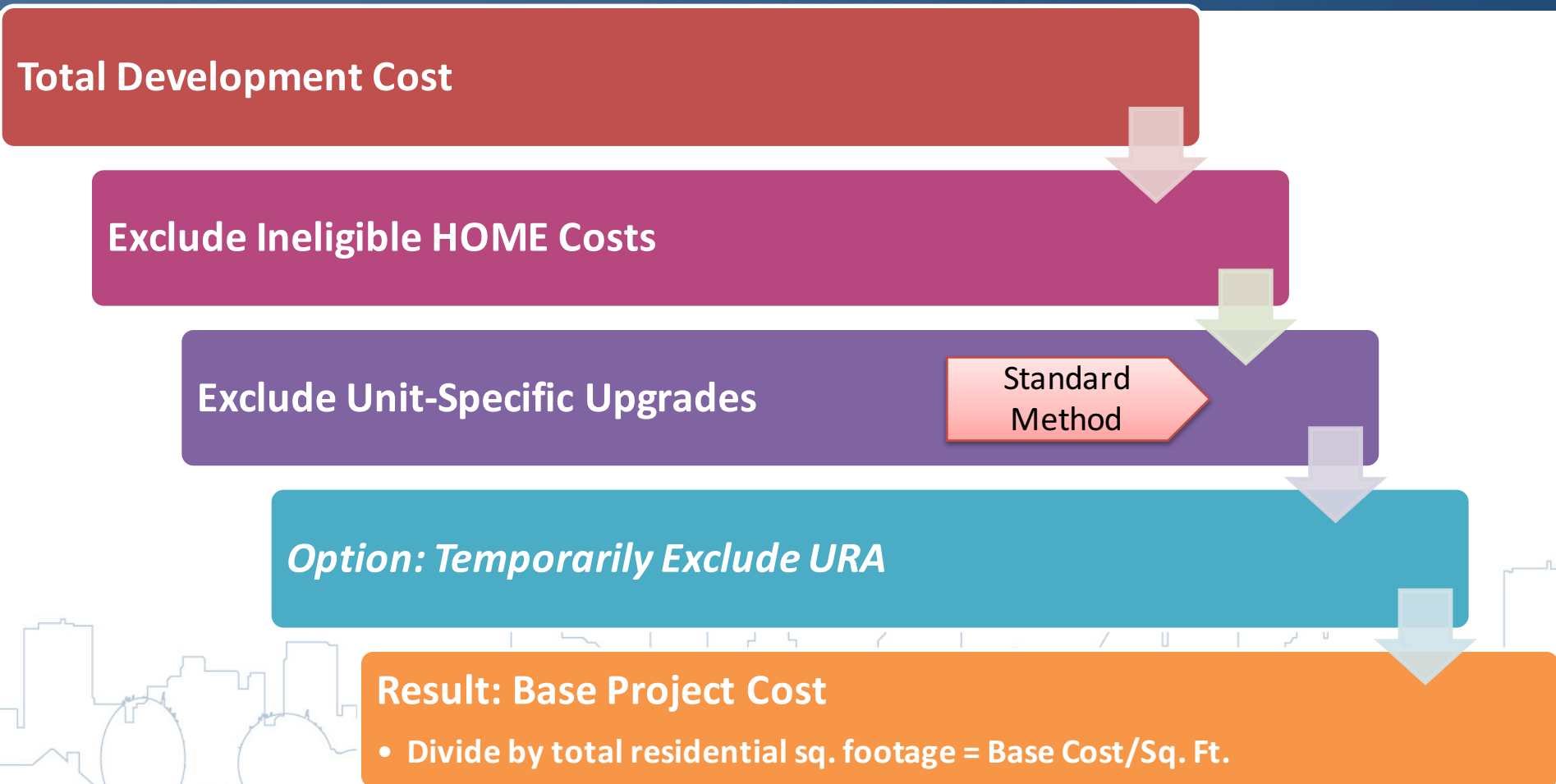
Assign HOME Units

Apply HOME Share to
assign HOME Units

Actual Cost of HOME
Units

Actual Cost of HOME
Units

Calc. Base Project Cost



Individual Unit Cost

Standard
Method

Base Cost
Per Sq.
Ft.



Unit Sq.
Footage



Individual
Unit Cost

Actual Cost of HOME Units

Standard
Method

Sum of
Individual
Cost of
HOME Units



*URA, if
assigned
exc. to
HOME*



Actual
Cost of
HOME
Units

Proration Method

- Permissible only if units comparable
- HOME Share
 - If proposed HOME investment known:
 - $\text{HOME Share} = (\text{HOME} - \text{URA}) \div \text{Base Project Cost}$
 - Apply HOME Share (e.g. 15.7%) to each unit type, then round up to whole number
 - If proposed HOME units (in same ratio across all units types):
 - $\text{HOME Share} = \text{HOME Units} / \text{Total Units}$
 - Apply HOME share to Base Project Cost

Hybrid Method

Hybrid
Method

- Variation on Proration Method
 - Units must be comparable
 - But HOME units not in same proportion across unit types
- Must calculate HOME cost by unit type

Total Units	HOME Units	Unit Type	Avg. Sq. Ft.	HOME Share of Unit Type
10	2	1-Bed/1-Bath	900	20%
20	3	2-Bed/1.5- Bath	1,100	15%
10	2	3-Bed/2-Bath	1,275	20%

- E.g., 2 units (1-bed) x 900 sq. ft. x Base Cost/Sq. Foot

Max. Project Subsidy Limit

- Maximum per unit subsidy by bedroom size
 - CPD Notice 15-003
 - Interim policy calculates based on FHA Section 234 Condo, elevator-type basic mortgage limits
 - PJs should obtain actual limits from Field Office
- Maximum Project Subsidy Limit = Sum of per-unit subsidies of designated HOME units

Unit Size	Per Unit Subsidy	No. of HOME Units	Subtotal
1-bedroom	\$125,000	2	\$250,000
2-bedroom	\$150,000	3	\$450,000
Max. Project Subsidy			\$700,000

Maximum HOME Investment

- Maximum assistance is the lesser of:
 - Need/gap based on underwriting (from Step 2)
 - Actual cost of HOME units (from Step 3)
 - Maximum project subsidy (from Step 4)
- CPD Notice 15-16, Example #2
 - Gap = \$800,000
 - Actual cost of HOME Units = \$938,646
 - Max. Project Subsidy = \$1,155,000

Special Applications of Cost Allocation

- Owner-Occupied with Rental Unit
 - Use Standard Method
 - Determine assisted units: owner, rental or both
- Manager/On-Site Staff Unit
 - Usually a “common” cost; not counted as a “unit” or included in “residential square footage”
- Public Housing Mixed-Finance projects
 - HOME can assist non-public housing units
 - Use Standard Method; designated Fixed Units

Finalize Underwriting

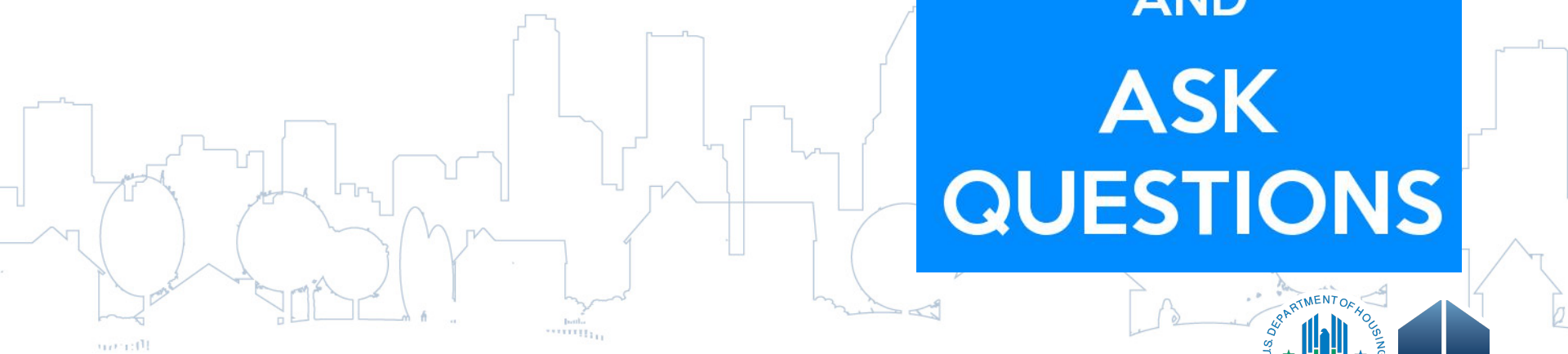
- Apply HOME units/funds determined by cost allocation to initial underwriting
- Cost allocation changes to unit mix & HOME funds might affect:
 - Dev. costs – if assisted units change requirements
 - Revenue – if proposed rents are affected
- Repeat cycle until HOME units and funds work in both cost allocation & underwriting
 - Allocated costs \geq HOME \$

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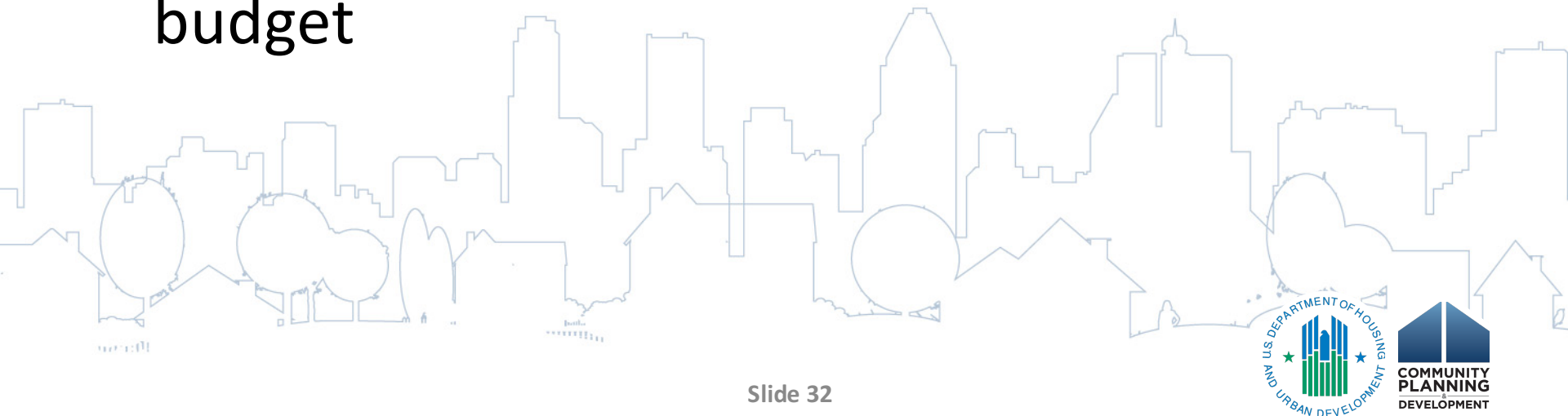


Commitment/Written Agreement

- Transfer final determination of HOME units & funds to the written agreement:
 - HOME Assisted units:
 - Unit mix (by unit type)
 - Initial rents (High/Low)
 - Fixed or floating
 - Total HOME funds:
 - Approved budget (Source & Uses)
 - Line items eligible for HOME disbursements

Disbursement

- Need not disburse in prorated fashion from each invoice
- Can pay any HOME-eligible cost, e.g. HOME could pay for entire acquisition
- Disbursements must be against approved budget



Completion

- Cost allocation (and underwriting) must be updated/documentated for changes in
 - Project costs
 - HOME investment
 - HOME units
- At completion
 - Finalize and update cost allocation per actual final project costs and HOME investment
 - Update unit designations as appropriate

Documenting Cost Allocation

- 92.508(a)(3)(ii) requires “documentation of the actual HOME-eligible development costs of each HOME-assisted unit (through allocation of costs, if permissible...”
- Key documents:
 - Unit types/comparability determination
 - Allocation of costs to assisted units
 - Written agreement (reflecting unit mix & approved HOME funds)

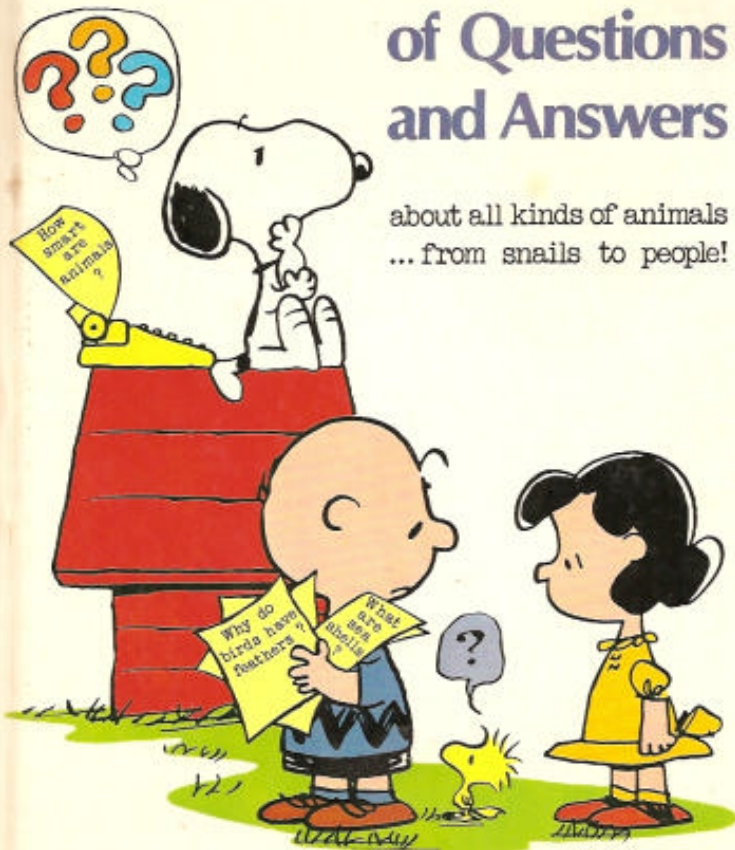
Cost Allocation Tool

- Available on HUD Exchange
 - Recommended, not required
 - Excel workbook, multiple worksheets
- Determine comparability and starting input to select method-specific worksheet
 - Standard Method
 - Proration Method – Dollars to Units
 - Proration Method – Units to Dollars
 - Hybrid Method – Units to Dollars

Questions

Charlie Brown's Super Book of Questions and Answers

about all kinds of animals
...from snails to people!



Random House

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Wrap Up

- Thank you!
- Webinar evaluation
- Recording/transcript posted in +/- 2 weeks

