Welcome to ….

Subsidy Layering in HOME-Funded Projects

A Little About Us

- Training under CPD Training Institute
- Developed by HUD and ICF Consulting
- Who are we?
  - HUD Office of Affordable Housing
  - ICF Consulting

How About You ….

- **Type of organization**
  - City or County
  - Consortia
  - State
  - Nonprofit
  - Other
- **Years of experience with HOME**

  <1 yr 1-5 yr 5-10 yr 10+ yr
- **Expertise in reviewing the financing of housing deals**
  - Novice
  - Some experience
  - Have reviewed dozens of projects

Course Objectives

- Explain subsidy layering requirements
- Understand how to develop and apply subsidy layering guidelines
- Share techniques and experiences
- Course is not:
  - Detailed underwriting review
  - Overview of all HOME regs

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Course Structure

- Agenda
- Exercises and breaks
- Training manual
- Training manual appendices

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Rules!!!!

- Ask questions
- Share techniques
- Sticky questions board
- Parking lot
- Training amnesty
- No cell phones that ring, please

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Logistics

- Timing of breaks and lunch
- Telephones
- Restrooms
- Hey, where's the coffee??

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Module 1:
The Basic Requirements

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Subsidy Layering Requirements

- Required under Section 212(f) of statute
  - Also under Con Plan rule at 24 CFR Part 91
- In HOME regs at 92.250(b)
- Notice CPD 98-01 provides guidance

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What is Subsidy Layering?

- Must conduct analysis prior to committing $$$ to project
- Analysis conducted according to written guidelines established by PJ
- Involves looking at project financing and ensuring does not invest more HOME funds than necessary
- Can also help to ensure PJ is making sound investments over long term

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Subsidy Layering: Top 5 Myths

1. Subsidy layering is too hard to do for mere mortals
2. You must underwrite the project with absolute smallest amount of HOME funds possible
3. As long as the PJ does not exceed the 221(d)(3) max subsidy limit, any amount of HOME investment is OK
4. It is OK to just rely on a developer's analysis of the project
5. HUD doesn't really look at the layering reviews

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Subsidy Layering: When?

- **Required** for projects using HOME funds with other *governmental assistance*
- Can rely on other layering evaluations when:
  - LIHTC project may rely on State allocating agency
  - HUD funding where HUD evaluates the project (e.g., FHA Multifamily Insurance or public housing)
  - Still should obtain copy of that layering review

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Subsidy Layering: When?

- ***Other governmental assistance* defined broadly:**
  - Loan
  - Guarantee
  - Payment
  - Subsidy
  - Tax benefit
  - Any other form of direct or indirect assistance from the Federal, State or local government for use in, or in connection with, a specific housing project
  - Grant
  - Insurance
  - Rebate
  - Credit

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Subsidy Layering: What Types of Projects

- **All** where multiple government sources involved
  - Includes multi family AND single family projects
- **Recommended** even when no other governmental assistance
- Before investing, PJ must assess whether other government assistance *has been* or *will be* involved

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Subsidy Layering: Areas of Review

- PJs will assess:
  - Project feasibility
  - Rates of return for developer
  - Long term needs of project & tenants
  - Usual and customary costs and fees
- Consider in context of common costs in area
  - Take into account intended beneficiaries
- No one “right” answer but looking to ensure HOME funds are used effectively

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Subsidy Layering Process

Establish Local Layering Guidelines
↓
Obtain Certification of Federal Assistance
↓
Review Sources and Uses
↓
Review Development Budget
↓
Analyze Operating Budget
↓
Determine Appropriate Financing
↓
Document Compliance

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Getting Started: A Few Key Terms

- Sources and Uses Statement
- Development Budget
- Operating Pro-Forma and Budget
- Developer Returns
  - Return on investment
- Sustainable Underwriting

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Module 2: Establishing Guidelines & Obtaining Certificate

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Developing Guidelines

- Starting points:
  - State QAP
  - Criteria of other co-funders
  - Your experience from past projects
  - The experiences of your regional peers

Developing Guidelines

- Develop layering criteria (<u>in writing</u>)
  - Include criteria in application form
  - Specify a standard format for submission of financial information
  - Ideally an electronic application

Steps in Implementing Guidelines

- Develop subsidy layering policy and file it
- Share guidelines with staff, developers, subrecipients, CHDOs
- As projects are received, determine if other government assistance used
  - Obtain Certification of Federal Assistance
  - Applicant certifies whether governmental assistance used
  - Applicant also certifies that if circumstances change, PJ will be notified

Steps in Implementing Guidelines

- If yes, conduct subsidy layering review before committing to project
  - Document review content and assessment
- If review acceptable, determine assistance
- If not acceptable, work with developer to adjust project or do not fund

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Module 3: Reviewing the Sources and Uses Statement

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Sources And Uses

- PJs need to obtain Sources and Uses statement from developer
- Costs and funds to complete the project
- Helps determine how much funding needed to develop property
- Sources = funds to pay costs
- Uses = one time costs

SOURCES = USES

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Sources And Uses Example

Uses	
Land	$500,000
Construction	$1,750,000
Soft Costs	$300,000
Fee	$140,000
TOTAL	$2,690,000

Sources	
Bank Loan	$750,000
HOME	$750,000
Tax Credit Equity	$1,000,000
State Funds	$190,000
TOTAL	$2,690,000

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Sources & Uses In Subsidy Layering

- Review projects from four perspectives:
  - Are all uses verified?
  - Are all uses eligible and reasonable?
  - Are all sources committed?
  - Has developer maximized available resources?
- Total proposed funding, including HOME $$, cannot exceed total development costs

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Verifying Uses

- Need to ensure that all stated costs are documented
- Get copies of:
  - Earnest money agreement, option, closing statement
  - Construction cost estimate
  - Construction contract or bid
  - Agreements on reserves
  - Appraisal
  - If LIHTC, documentation on syndication
- Request additional information if costs not documented

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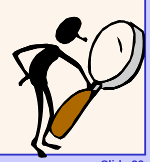
Commitment Of Sources

- Assess whether other sources are firmly committed
- Obtain documentation:
  - Commitment letters
  - Copy of partnership agreement with cash contributions
- For LIHTC, proceeds of credit sale must be listed as source of $$

Using LTV To Determine Loan Amount

- One indicator lenders look at:
  - Loan to value (LTV)
  - Loan amount/fair market value
  - Usually no more than 60 -80%
    - ✓ Should be at higher end of this range for affordable housing



LTV

First position loans:

$$\text{LTV} = \frac{\text{LOAN AMOUNT}}{\text{FAIR MARKET VALUE}}$$

Example:

$$\text{LTV} = \frac{\$100{,}000}{\$140{,}000} = 71\%$$

Also:

$$80\% = \frac{\text{Loan Amount}}{\$140{,}000} = \$112{,}000$$

LTV (2)
Also Known As "TLTV"

Second position loans:

$$\text{LTV} = \frac{\text{LOAN AMOUNT1 + LOAN AMOUNT 2}}{\text{FAIR MARKET VALUE}}$$

Example:

$$\text{LTV} = \frac{\$100{,}000 + \$25{,}000}{\$140{,}000} = 89\%$$

Also:

$$80\% = \frac{\$100{,}000 + 2^{nd}\text{ Loan}}{\$140{,}000} = \$12{,}000$$

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Maximizing Resources

- Review LTV calculation to assess level of project debt
  - Can project value take additional private debt within the lender's criteria?
  - Compare to operating pro-forma to see if added debt could reasonably be paid
  - What will be the LTV after the HOME investment?
  - PJs can establish local guidelines for TLTV
- Has the owner invested a reasonable amount of equity?
  - Look at what is typical locally
  - Consider risk, type of project
  - May wish to establish local guidelines for owner investment

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Module 4: Evaluating The Development Budget

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Development Budget

- Classifies and estimates costs
  - Site acquisition & prep
  - Construction/rehab
  - Soft costs
  - Developer payment
- Helps determine if project concept makes sense
- Watch for *ineligible* or *unreasonable* costs

DEVELOPMENT BUDGET

	Amount	Month
A. Acquisition Costs		
1. Land		
2. Existing Structures		
B. Site Work *(not included in construction contract)*		
1. Demolition/Clearance		
2. Site Remediation		
3. Improvements		
C. Construction/Rehabilitation		
1. Other Site Work		
2. New Construction		
3. Rehabilitation		
4. General Requirements		
5. Builder's Overhead		
6. Builder Profit		
7. Performance Bond Premium		
8. Construction Contingency		

DEVELOPMENT BUDGET

	Amount	Month
D. Architectural and Engineering Fees		
1. Architect Fee – Design		
2. Architect Fee – Construction Supervision		
3. Engineering Fees		
E. Other Owner Costs		
1. Project Consultant		
2. Legal & Organizational Expenses		
3. Syndication Fees		
4. Market Study		
5. Survey		
6. Appraisal		
7. Soil Boring/Environmental Survey		
8. Tap Fees & Impact Fees		
9. Permitting		
10. Real Estate Attorney		
11. Construction Loan Legal		

DEVELOPMENT BUDGET	Amount	Month
F. Interim Costs		
1. Construction Insurance		
2. Construction Interest		
3. Construction Loan Origination Fee		
4. Title and Recording Fees		
G. Permanent Financing Fees and Expenses		
1. Credit Report		
2. Permanent Loan Origination Fee		
3. Mortgage Broker Fees		
4. Title and Recording		
5. Counsel's Fee		
6. Lender's Counsel Fee		
H. Developer's Fee		

DEVELOPMENT BUDGET	Amount	Month
I. Initial Project Reserves		
1. Rent-up Reserves		
2. Operating Reserves		
3. Replacement Reserves		
J. Tenant Relocation		
K. Project Administration & Management *(during construction only)*		
1. Marketing/Management		
2. Operating expenses		
3. Taxes		
4. Insurance		
5. Interim Income [subtract from uses]		
L. TOTAL		

Reviewing The Development Budget

- Consider:
  - HOME eligibility
  - Project needs
  - Cost reasonableness & necessity
- PJ must determine all costs are eligible, customary and reasonable
- To document, obtain copies of:
  - Detailed development budget
  - Supporting documentation

Reviewing Development Costs

- HOME costs
  - Ensure all costs eligible under 92.206
  - Ensure total does not exceed max per unit subsidy limits
  - Review cost allocation to be sure costs correctly allocated to HOME units
    - ✓See CPD 98-02
- Project needs
  - Consider what project needs for long term viability
  - Consider a sustainability approach

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Cost Reasonableness & Necessity

- Two tests for reasonable:
  1) OMB Circulars
  2) Prevailing costs in region
     - ✓ Use cost databases/guides, local experts, comparable projects
     - ✓ Adjust benchmarks to your project
- Cost necessity based on type of project
- PJs may wish to establish local standards for types of cost
- Consider creating a cost review team
  - Local lenders, appraisers, architects, contractors, state/local staff

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Module 5: The Operating Budget

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Evaluating Operating Costs

- For rental housing, need to evaluate the operating budget
  - Analysis over time is called the pro-forma
  - Usually evaluated over long period of time
    - ✓ Not less than affordability period
    - ✓ For LIHTC should at least cover the compliance period
- For homebuyer housing, need to evaluate buyer assistance levels (more later)

Operating Budgets & Pro-forma

- PJ should request operating budget and affordability period pro-forma from developer
- May permit any format or establish standard across all applicants
  - See HUD website http://www.hud.gov/offices/cpd/affordablehousing/training/underwriting/index.cfm
- At minimum should cover:
  - Income (rents)
  - Vacancies
  - Operating expenses
  - Debt service
  - Assumptions for tax benefit and cash flow

SIMPLIFIED OPERATING BUDGET		
Gross Potential Rent	$	180,000
Rent Loss (7%)	$	(12,600)
Other Income	$	1,800
Effective Gross Income	$	169,200
Marketing	$	3,000
Payroll	$	45,000
Property Management	$	10,152
Other Administrative Costs	$	4,500
Utilities	$	6,000
Security	$	-
Maintenance	$	9,750
Taxes	$	15,000
Insurance	$	6,000
Reserves for Replacement	$	12,000
OPERATING COSTS	$	111,402
NOI (EGI-Expenses)	$	57,798

Income - Summary

- Gross Potential Rent = rent income if all units occupied & everyone paid
- Effective rent is GPR less vacancies, rent losses
- Include other income such as commercial, laundry
- Show all equity contributions to operations as income
- Projected rate of income increase should be reasonable given project

Income- Rent Loss

- Rent loss-adjust income due to:
  - Vacancy-look at current market & ten-year variation
  - Concessions
  - Bad Debt

Income- Effective Gross Income (EGI)

Gross Potential Rent	$	180,000
Rent Loss (7%)	$	(12,600)
Other Income	$	1,800
Effective Gross Income	$	169,200

Expenses -- Summary

- All cash expenses should be shown
- Reflect:
  - Type of project
  - Number of units
  - Costs/services of locality
  - Costs of operating mechanical systems
- Trend expenses realistically given history
  - Always higher than income growth
- Look at comparable properties
  - Some PJs keep database

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Expenses-Marketing

- Initial marketing in development budget
- Ongoing marketing in operating budget
- HOME requires affirmative marketing for properties with 5+ units

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Expenses-Payroll

- On-site staff expenses:
  - Administrative staff
  - Maintenance staff
  - Payroll loading factor for:
    - ✓ Taxes
    - ✓ Benefits

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Expenses-Property Management Fee

- Often expressed as a % of rents collected
  - Should reflect the level of difficulty associated with managing the property
- IOI relationship with owner OK but:
  - Should be disclosed
  - Arms-length contract rates
  - Arms-length quality
  - Subject to cancellation for poor performance

Expenses-Other Administrative Expenses

- Office supplies,
- Telephone,
- Other on-site office costs,
- Training for front-line staff,
- Cost of preparing audited financial statements,
- Legal costs

Expenses- Utilities

- Costs paid by the property
  - Vacant units
  - Common areas
  - Master metered utilities
- Benchmark against other comparable properties

Expenses-Non-Housing Services and Security

- Non-Housing Services
  - Recreational Activities
  - Computer Centers
- Security
  - Video Monitoring
  - Foot Patrols
  - Can minimize through design, lighting, and access controls

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Expenses-Maintenance

- General building repairs and cleaning
- Turnover of vacated units
- Grounds maintenance
- Trash removal
- Pest control
- “Capital” repairs usually paid out of capital budget / reserves

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Expenses-Real Estate Taxes

- Based on assessed value
  - Get information on comparables from assessment office
- Affordable properties sometimes offered:
  - Tax abatement, or
  - Payment-in-lieu of taxes (e.g., a fixed percentage of revenue)

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Expenses- Insurance

- Casualty insurance-full replacement value
- Liability insurance
- Fidelity bonding for on-site staff
- PJ should be named as an additional insured party

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Expenses-Reserves for Replacements

- Deposits for future capital expenditures
- Three approaches to capital budgeting:
  - Future cash flow
  - Miracles do happen
  - Reserve deposits
- PJs often use standard rule of thumb (e.g., $250 per unit)
  - Better to do property-specific capital needs assessment

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Net Operating Income

	Gross Potential Rent (GPR)
Minus	**Vacancy and Other Losses**
Plus	**Other Income**
Equals	**Effective Gross Income (EGI)**
Minus	**Operating Expenses & Reserves**
Equals	**Net Operating Income (NOI)**
Minus	**Debt Service**
Equals	**Cash Flow**

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Debt Coverage Ratio

Debt Coverage Ratio (DCR) =

Net Operating Income / Debt Service

- Often used by lenders to determine financing
- Always > 1
- Lenders typically want 120% or more
  - Provides lender with cushion
- a.k.a. DSCR (debt service coverage ratio)

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Debt Coverage Ratio

Example:

Net Operating Income	=	$11,000	= 1.22 DCR
Debt Service	=	$9,000	

What if?

Net Operating Income	=	$100,000	= 1.01 DCR
Debt Service	=	$99,000	

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DCR (2)

Second position loans:

DCR = NET OPERATING INCOME / Debt Service (L1) + Debt Service (L2)

Example:

DCR (L1 only) = $11,000 / $9,000 = 1.22

Add 2nd Loan:

DCR (L1+L2) = $11,000 / $9,000 + $1,500 = 1.05

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Determining Maximum Loan By DCR

- Maximum loan is a function of:
  - ✓ Maximum Debt Service
  - ✓ Available term
  - ✓ Available rate

Maximum Debt Service =
Net Operating Income / Max DCR

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Abbreviated Pro-froma Example

income inflator	4%
expense inflator	5%
vancany factor	5%

	1	2	3	4
GR	$ 229,500	$ 238,680	$ 248,227	$ 258,156
VAC	$ (11,475)	$ (11,934)	$ (12,411)	$ (12,908)
EGI	$ 218,025	$ 226,746	$ 235,816	$ 245,248
Operating Exp.	$ (140,280)	$ (147,294)	$ (154,659)	$ (162,392)
NOI	$ 77,745	$ 79,452	$ 81,157	$ 82,857
DS	$ (64,788)	$ (64,788)	$ (64,788)	$ (64,788)
Cash Flow	$ 12,958	$ 14,665	$ 16,370	$ 18,069
DCR	1.20	1.23	1.25	1.28

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Evaluating The Operating Budget & Pro-forma

- PJ can evaluate developer budget and pro-forma or do own calculations
  - If use developer's, spot check the numbers
- Ensure:
  - Income is sufficient to cover expenses and debt service for all years of affordability period
  - Don't fund if the income and expense lines cross in later years of afford period
  - Need to have some resulting cash flow each year

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Evaluating The Operating Budget & Pro-forma

- Also ensure:
  - Margin of safety
    - ✓Assumptions allow for “bumps in the road”
      - For example, higher than expected vacancy
      - May want to run pro-forma using alternate scenarios
    - ✓Use DCR and NOI as good metrics

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Evaluating The Operating Budget & Pro-forma

- Also ensure:
  - Assumptions about rents are realistic
    - ✓Most HOME rents only grow by 1-3% annually
    - ✓Market rents should be based on comparable history
    - ✓Vacancy estimated at no lower than 5%
  - Assumptions about expenses are realistic
    - ✓Base on comparable properties
    - ✓Generally tend to be 30-40% of gross rents but this varies greatly
    - ✓Expenses should always trend higher than income
    - ✓Recent HOME rent study found that PJs underestimate expense increases

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Evaluating The Operating Budget & Pro-forma

- Also ensure:
  - Plan for balloon payments
  - Reserves are adequate over life of affordability period
- To document review:
  - Obtain copy of operating budget and pro-forma
  - Seek supporting documentation when needed
  - Can contact other sources for verification of specific assumptions (for example tax authority, water/sewer department)

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Module 6: Assessing Return

How Developers Make Money

- Many sources of potential $$
  - Developer Fees
  - Construction Profit
  - Property Management
  - Project Ownership (equity)
- Watch for *Identities of Interest!*
  - OK for developer to fill multiple roles if:
    - ✓Qualified for task, and
    - ✓Within market rates.
- OK for non-profit developers to earn fees!

Sources Of Return On Investment

- Means of getting a return:
  - Cash flow from project
  - Tax benefits
  - Appreciation
  - Cash from IOI tasks (perhaps)
- Subsidy layering looks at how return on this project compares to similar investments

Cash Flow

- Remaining cash after payment of D/S (if distributable)
- "Cash-on-cash" return to measure
  - Annual Cash Flow ÷ Equity = X%
  - Example: ($10,000 Cash Flow ÷ $100,000 Equity) = 10% cash-on-cash return
- Appropriate level of return depends on:
  - Project risk
  - Returns available elsewhere
- Since cash flow changes over time, average over the affordability period

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Cash On Cash Example

Gross Annual Income:	$100,000
Vacancy Loss:	-$5,000
Operating Expenses:	-$65,000
Debt Service:	-$15,000
Cash Flow:	$15,000
Assume Equity:	$150,000
Cash On Cash:	10%

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Tax Benefits

- Tax benefits flow to owners/investors of property
- Reduce taxes owed:
  - Tax credits (LIHTC)
  - Depreciation
  - Amortized Costs
- Ask developer for estimates of these benefits

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Appreciation

- Increase in value of property
  - Benefit realized only upon sale (or refinance) of property
  - On-going affordability requirements may limit resale value
  - Profit from sale may be taxable
  - Profit from refinance is tax deferred
- Look at trends in local real estate market to help assess this

Internal Rate Of Return (IRR)

- IRR measures return on investment for all benefits received
  - Based on time value of money:
    - ✓Timing of equity payments
    - ✓Cash flow over time
    - ✓Tax benefits over time
    - ✓Sale or refinance of project in future
    - ✓Discount rate (or, desired return)
  - PV (Investment) = PV (Benefits) at a % = to IRR

IRR Example – 15% ROI

Year	Equity (cash from investor)	Cash Flow	Tax Benefits	Net Sales Proceeds	Discount Factor	PV (cash to investor)
0	$554,129	$0	$0		1.000	$0
1		-$20,000	$50,000		.870	$26,100
2		$50,000	$47,500		.756	$73,710
3		$52,500	$45,000		.658	$64,155
4		$55,000	$42,500		.572	$55,770
5		$57,500	$40,000		.497	$48,458
6		$60,000	$37,500		.432	$42,120
7		$62,500	$35,000		.376	$36,660
8		$65,000	$32,500		.327	$31,883
9		$67,500	$30,000		.284	$27,690
10		$70,000	$27,500	$500,000	.247	$147,583
Total		*$520,000*	*$387,500*	*$500,000*		$554,129

Reviewing Rates Of Return

- Compare returns to other, similar projects
  - Returns will vary with complexity of project
- Compare with other possible, common types of investment
- Key is to ensure reasonable level of profit
- PJ should establish standards for reasonable rate of return
  - See the QAP for state LIHTC program for good examples

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Module 7: Evaluating Homebuyer Projects

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Homebuyer Affordability Analysis

- Subsidy layering does apply to homebuyer units with multiple government funding
- Need to assess what family can afford v. subsidy level
  - Ensure that family is not receiving excessive subsidy given needs
  - Does not mean PJs cannot have a fixed assistance level program but must document that subsidy level is appropriate

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Ability to Pay

- Measures what family needs
- Takes into account borrower income and expenses
- Two key ratios:
  - Housing expense to income (“front-ratio)
  - Total debt to income (“back-ratio”)

Front Ratio

- Housing Costs (PITI) ÷ Gross Income
- Typical ranges of 25% to 33%
  - Higher ratio = qualify for larger loan but also higher monthly payment
  - Lower ratio = more affordable payments but less purchasing power

Front Ratio Example

Gross income ($35,000)
Front ratio x 28%
= $9,800 per year
÷ 12 months
= $817 max per month
($117) tax/insurance
= $700 max per month to pay principal and interest

At 6% for 30 years = $116,754 loan

Back Ratio

- Total Debt ÷ Gross Income
- Total debt includes PITI plus installment debt (e.g., car loan) and revolving debt (e.g. credit cards)
- Typical ratios are 36-41%

Back Ratio Example

Gross income ($35,000)
Back ratio x 38%
= $13,300 per year
÷ 12 months
= $1,108 max per month
($117) tax/insurance
($150) car payment
($75) credit card payment
= $676 max to P & I
At 6% for 30 years = $112,751 loan

Capital

- Measures family's ability to pay upfront costs:
  - Downpayment
  - Closing costs
- Also wise to have some cash reserves after paying these costs

Collateral

- Measures security value of the home
- Loan to value ratio
  - Loan Amount ÷ Appraised Value
  - Impacted by downpayment and gap financing
  - Typically no more than 95-97% for affordable homeownership
- Also issues about acceptability of collateral

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Documenting Homebuyer Subsidy Layering

- PJ should adopt policies on its subsidy levels and layering procedures for single family
  - Set target ratios
  - Set required amount of family downpayment
  - Set required LTV levels
- Document analysis of needs compared to subsidy

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Module 8: Finalizing the Review

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Result Of Subsidy Layer

- Based on subsidy layering review, PJ can fill the financing gap
  - Difference between funding and costs, as deemed necessary with reasonable return
  - Cannot exceed max subsidy limits
- If requested HOME assistance exceeds PJ determination of necessity:
  - Reduce HOME assistance
  - Make other adjustments to project such as lowering rents charged
  - Deny HOME assistance if developer will not amend project

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Financing Gap Example

$ 750,000 Total Development Cost

($429,000) Bank Loan

($ 50,000) Equity

$271,000 Gap

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Market Rate Housing

Operating Budget		Development Budget	
Gross Potential Rent	$140,000	Hard Costs	$600,000
Vacancy Loss	($10,000)	Soft Costs	$100,000
Net Rent	$130,000	Other Costs	$50,000
Other Income	$5,000	TDC	$750,000
Effective Gross Income	$135,000	Maximum Loan	($704,000)
Operating Expenses	($60,000)	Equity	($46,000)
Net Operating Income	$75,000	Gap	$0
Debt Service	($65,000)		
Cash Flow	$10,000		

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Affordable Housing

Operating Budget		Development Budget	
Gross Potential Rent	$100,000	Hard Costs	$600,000
Vacancy Loss	($10,000)	Soft Costs	$100,000
Net Rent	$90,000	Other Costs	$50,000
Other Income	$5,000	TDC	$750,000
Effective Gross Income	$95,000	Maximum Loan	($429,000)
Operating Expenses	($50,000)	Equity	($50,000)
Net Operating Income	$45,000	Gap	$271,000
Debt Service	($40,000)	Public Subsidy	($271,000)
Cash Flow	$5,000	Remaining Gap	$0

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Tools For Filling The Financing Gap

- Loan
- Construction loan
- Deferred payment loan
- Grant
- Loan guarantee
- Interest subsidy
- Interest-only loan
- Tax abatement

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Documenting Compliance

- What should go in the project file?
  - Certification of Governmental Assistance
  - Copy of final development budget, sources and uses, operating budget, pro-forma
  - Back-up documentation of costs and financing, as needed
  - Your written determination of compliance with guidelines

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THE END
GO FORTH AND DO GOOD PROJECTS!
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