Project Evaluation Criteria

Applications will be evaluated based on criteria established by the board. The Affordable Housing staff will prepare a summary for the board that will include the following:

I. Development Executive Summary
   A. Development description
   B. Development team
   C. Sources and Uses
   D. Strengths of the Development
   E. Concerns related to the development

II. Project Design
   A. Location and site description
   B. Project amenities
   C. Populations to be served
   D. Number of units and bedroom sizes
   E. Incomes to be served
   F. Rents to be charged vs market and maximum rents allowable
   G. Construction features
   H. Energy enhancements
   I. Relocation plan (if applicable)
   J. Effect on neighborhood

III. Capacity of Development Team
   A. Development Teams experience with affordable housing developments
   B. Summary of responses to application questions
   C. Financial capacity of development team
   D. Development's teams relationship with other funders

IV. Financial Feasibility
   A. Sources and Uses
   B. Construction budget
   C. Pro-Forma
   D. Appraisals
   E. Other funding resources
   F. Projected lease up period

V. Market/Need

A. Results of market study
B. Incomes to be served and rents
C. Effect on other rental properties within proximity of proposed development

VI. Readiness to Proceed

A. Project timeline
B. Property zoning
C. Status of funding from other sources
D. Ownership of property

Financial Guidelines and Benchmarks for Rental Applications:

Following is a summary of some of the criteria the staff and board of the affordable housing fund will consider when underwriting a multifamily development. This list is not intended to be all-inclusive.

Statement of Sources and Uses:

Documents all of the financial resources related to a development and how those resources will be used. This document also includes a detailed construction budget outlining both hard costs (those directly related to construction) and soft costs (indirect construction costs). Key elements of this document include:

1. Description of funds used to leverage affordable housing dollars
2. Pricing of housing credits (if applicable)
3. Total costs per unit as well as hard costs and soft costs per unit
4. Amount of fees paid to architects, attorneys, consultants and developers
5. Amount of construction overhead, general requirements and profit
6. Amount of construction contingency and operating reserves.

The goal of the Affordable Housing Fund is to leverage $6 for every $1 provided by the fund. This does not apply to each development but does serve as a benchmark for the overall use of fund dollars.

Currently for Fayette County developments we should see credit prices between 85 and 90 cents on the dollar.

The fund will utilize the containment guidelines of Kentucky Housing Corporation. Soft costs normally are 25% to 30% of total hard costs. Costs associated with commercial space or a Community Service Facility will not be included in the calculation. Current cost containment guidelines are attached.

Maximum allowable construction fees are based on the total development cost as shown below:

Total Development Cost	**General Requirements**	**Builder's Overhead**	**Builder's Profit**
$250,000 and less	6%	7%	12%
$251,000 - $750,000	5%	6%	8%
$751,000 and greater	6%	2%	6%

Construction management fees are considered to be a part of General Requirements. Therefore, they must be included with general requirements and cannot exceed the general requirement percentage.

Developer fees, including consulting fees may not exceed 15% of total development costs.

Architect and legal fees vary by development and the affordable housing fund staff and board will monitor those for reasonableness.

The construction contingency may not exceed 10 percent of total construction hard costs. When calculating contingency, acquisition of the property should not be included as hard costs. If no contingency is being requested, the applicant must explain the rationale as to why none is required. Furthermore, if no contingency is requested and change orders occur during construction, the applicant is responsible for all such costs. For new construction projects, contingency should always be less than 10 percent (in most cases generally less than 5 percent). For rehabilitation projects, the contingency should generally be minimized by in-depth studies and evaluations that should be conducted as part of the developer's due diligence in preparing the application. Soft cost contingencies are not allowed.

The purpose of an operating deficit reserve is to ensure adequate funds are on hand should operating costs exceed the development's ability to pay them as well as a safe guard during the initial lease up period. Normally, the minimum operating deficit reserve deposit is calculated as 6 months debt service plus 6 months operating expenses.

Pro-Forma:

A 15-20 year budget for the proposed rental development outlining income and operating expenses. During this period most funders assume a 2% annual rent increase and 3% increase in operating expenses. Key issues related to this document include:

1. Debt coverage ratio.
2. Operating expenses per unit, including management fees
3. Rental vacancy rate
4. Cash flow after expenses and debt service
5. Amount of replacement reserve contribution

Debt coverage ratios are required to have a minimum debt coverage ratio of 1.2 in year one and remain positive throughout the affordability period. Any development with a debt coverage ratio that is approaching the break-even point on or before the end of the affordability period must provide an explanation and document that sufficient funds will be available to support and maintain the development throughout the affordability period.

Affordable developments in Fayette County currently have average operating expenses (maintenance, utilities, management fees, taxes and insurance) totaling $3,956 per unit per year. The average costs exclusive of utilities are $3,094 per unit per year. The affordable housing fund board and staff will review projected operating costs for reasonableness.

Management fees generally should be comparable to market and should not exceed 8.5% of gross income. Smaller projects and those housing populations with special needs may apply for a higher fee and if so, justification must be provided.

A vacancy rate of 7% for developments with more than 15 units should be included on the pro-forma. The vacancy rate is 10% for developments of 15 units or less.

The affordable housing fund requires a minimum reserve for replacement deposit of $400 per unit per year for new construction developments. The minimum amount for rehabilitation developments should be determined by the capital needs assessment, but in no case be less than $400 per unit per year.