



Affordable Housing 101 for HERS Raters using the CUAC

CalHERS Webinar

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Becoming Part of the Development Team

- Development Team typically consists of **the developer** and those who work for him or her:
 - general contractor, architect, attorney, tax professional, property management company, consultant(s), market analyst, appraiser, and capital needs assessment consultant.



Becoming Part of the Development Team

- Property Management Company
 - One specializing in managing affordable housing and assuring compliance with regulating entities
 - These may be the people you will be sending CUAC estimates to after a project has been built



Becoming Part of the Development Team

- Capital Needs Assessment (CNA) Consultant
 - Someone who will almost never be part of the development team for projects you are working on involving the CUAC
 - Role is deserving of attention because it represents another opportunity for HERS raters trained in existing home inspections/energy audits
 - Developers tend to focus on either new construction or rehabilitation projects



Becoming Part of the Development Team

- Consultant(s)
 - Professionals familiar with one or more of the aspects of, or steps in developing, an affordable housing project (**that's you**)
 - As HERS raters developing CUAC estimates, this is how you would most likely be seen by others
 - You will likely face the same certification and/or conflict-of-interest disclosure requirements or restrictions as other members of the development team



Becoming Part of the Development Team

- Developer
 - Typically a professional full-time affordable housing developer
 - Incorporated as nonprofit or for profit entity
 - Not necessarily the same as the “owner”



Becoming Part of the Development Team

- Owner = Limited Partnership
 - Limited partnerships are the typical ownership structure for Low Income Housing Tax Credit (LIHTC) projects
 - The structure may not be as intrinsic to projects without LIHTCs – although given the legal and/or tax issues it is probably very prevalent



Becoming Part of the Development Team

- Section Wrap Up:
 - ✓ If you're going to produce CUAC estimates for affordable housing developers, you need to be prepared to present your credentials and defend your work
 - ✓ Ultimately, you are certifying to a public agency distributing public money or other resources to private parties for a public purpose (to create affordable housing)



Becoming Part of the Development Team

- Section Wrap Up:
 - ✓ At the preliminary stages of the development of an affordable housing project, you will likely be employed by the Developer
 - ✓ At later stages of the project you may be employed by the Partnership, the property management company or one of the General Partners
 - ✓ As a consultant contractor, you'll want to make it clear what your responsibilities are, and to whom



Becoming Part of the Development Team

**THE SOONER YOU CAN BECOME
INVOLVED IN A PROJECT, THE
BETTER, AND THE MORE LIKELY
THE DEVELOPER IS TO SEE ALL OF
THE POTENTIAL BENEFITS OF
USING THE CUAC.**



Section Break



Utility Allowances Are Critical to Affordable Housing Finance

Key Concepts:

❖ Affordable means income and rent restricted

- Typically affordable housing units are restricted to tenants earning less than 60% of Area Median Income, 30% of that income is assumed to go for gross rent

❖ Area Median Income (AMI)

- Typically this is the countywide median income



Utility Allowances Are Critical to Affordable Housing Finance

Key Concepts:

❖ Gross Rent or “Housing Burden”

- Affordable rents are limited to 30% of target AMI for rent **AND UTILITIES**
- HUD publishes updated income and gross rent schedules annually

❖ Rent or Net Rent

- This is Gross Rent less the cost of utilities, as provided by a Utility Allowance



Utility Allowances Are Critical to Affordable Housing Finance

Key Concept

❖ Utility Allowance

- An estimate of average or typical utility costs associated with an affordable housing unit of a particular size
- Utility allowances have historically been published by local Public Housing Authorities (PHAs), based on surveys of their local existing housing stock, as required by the federal government (HUD)
- What this means is that actual rent or net rent collected can be significantly impacted by utility allowances



Utility Allowances Are Critical to Affordable Housing Finance

HUD 2009 Gross Rents

| SACRAMENTO | Efficiency | 1 BR | 2 BR | 3 BR | 4 BR | 5 BR |
|-------------------|-------------------|-------------|-------------|-------------|-------------|-------------|
| 60% Income Level | \$765 | \$819 | \$982 | \$1,135 | \$1,266 | \$1,398 |
| 55% Income Level | \$701 | \$750 | \$900 | \$1,040 | \$1,160 | \$1,291 |
| 50% Income Level | \$637 | \$682 | \$818 | \$946 | \$1,055 | \$1,165 |
| 45% Income Level | \$573 | \$614 | \$736 | \$851 | \$949 | \$1,048 |
| 40% Income Level | \$510 | \$546 | \$655 | \$757 | \$844 | \$932 |
| 35% Income Level | \$446 | \$477 | \$573 | \$662 | \$738 | \$815 |
| 30% Income Level | \$382 | \$409 | \$491 | \$567 | \$633 | \$699 |



Utility Allowances Are Critical to Affordable Housing Finance

SHRA Utility Allowance (published 5/1/07)

| Apartments and Townhomes | 0 Bedrm | 1 Bedrm | 2 Bedrm | 3 Bedrm | 4 Bedrm | 5 Bedrm |
|---------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Heating - Natural Gas | \$26 | \$37 | \$47 | \$56 | \$72 | \$82 |
| Cooking - Natural Gas | \$6 | \$10 | \$11 | \$14 | \$18 | \$21 |
| Other Electric | \$12 | \$16 | \$21 | \$25 | \$32 | \$36 |
| Air Conditioning | \$11 | \$15 | \$19 | \$23 | \$29 | \$34 |
| Water heating - Natural Gas | \$13 | \$18 | \$22 | \$28 | \$35 | \$42 |
| Water | \$22 | \$22 | \$22 | \$22 | \$22 | \$22 |
| Sewer | \$23 | \$23 | \$23 | \$23 | \$23 | \$23 |



Utility Allowances Are Critical to Affordable Housing Finance

Actual Rent Collected

| Net Rents | Efficiency | 1 BR | 2 BR | 3 BR | 4 BR | 5 BR |
|------------------|------------|-------|-------|-------|---------|---------|
| 60% Income Level | \$652 | \$678 | \$817 | \$944 | \$1,035 | \$1,138 |
| 55% Income Level | \$588 | \$609 | \$735 | \$849 | \$929 | \$1,031 |
| 50% Income Level | \$524 | \$541 | \$653 | \$755 | \$824 | \$905 |
| 45% Income Level | \$460 | \$473 | \$571 | \$660 | \$718 | \$788 |
| 40% Income Level | \$397 | \$405 | \$490 | \$566 | \$613 | \$672 |
| 35% Income Level | \$333 | \$336 | \$408 | \$471 | \$507 | \$555 |
| 30% Income Level | \$269 | \$268 | \$326 | \$376 | \$402 | \$439 |



Utility Allowances Are Critical to Affordable Housing Finance

Proportion of Gross Rent Collected

| Net as a % of Gross Rents | Efficiency | 1 BR | 2 BR | 3 BR | 4 BR | 5 BR |
|---------------------------|------------|------|------|------|------|------|
| 60% Income Level | 85% | 83% | 83% | 83% | 82% | 81% |
| 55% Income Level | 84% | 81% | 82% | 82% | 80% | 80% |
| 50% Income Level | 82% | 79% | 80% | 80% | 78% | 78% |
| 45% Income Level | 80% | 77% | 78% | 78% | 76% | 75% |
| 40% Income Level | 78% | 74% | 75% | 75% | 73% | 72% |
| 35% Income Level | 75% | 70% | 71% | 71% | 69% | 68% |
| 30% Income Level | 70% | 66% | 66% | 66% | 64% | 63% |



Section Break



Affordable Housing Finance

Key Concepts and Implications

◆ Hard Debt

- ◆ A project's hard debt is typically a conventional permanent loan or a tax exempt or taxable bond purchase
- ◆ This loan may be substantially smaller than the conventional construction loan or initial bond purchase that financed the project's construction



Affordable Housing Finance

Key Concepts and Implications

◆ Debt Service Coverage Ratio

- ◆ Debt service coverage ratio is the ratio of the cash available to pay hard debt service after expected expenses
- ◆ For most projects the debt service coverage ratio begins at 1.1:1 or greater and is expected to increase over the life of the project as rents increase (since revenues and operating expenses increase but the monthly debt payment remains constant)



Affordable Housing Finance

Key Concepts and Implications

◆ Soft Funds or Soft Funding

- ◆ Typically forgivable loans or grants made by public agencies
- ◆ Soft funds reduce a projects hard debt and therefore its required debt service
- ◆ This money (nearly) always comes with strings attached (more on this later).



Affordable Housing Finance

Key Concepts and Implications

◆ Limited Partner/Investor Equity

- ◆ This is the equity/direct investment provided by the limited partner investor in a limited partnership that will own an affordable housing project
- ◆ Like soft funding, this is critical to reducing a project's hard debt and debt service



Affordable Housing Finance

Key Concepts and Implications

◆ Tax Credit Factor

- ◆ The tax credit factor is the price per credit
- ◆ At the height of the housing boom tax credit factors ran as high as \$1.10 per \$1 tax credit
- ◆ Current credit pricing appears to be running approximately \$.70 to \$.80 per tax credit
- ◆ Tax credit pricing reflects not only the state of the economy but also the risk associated with a project as an investment vehicle



Affordable Housing Finance

Key Concepts and Implications

◆ Eligible Basis

- ◆ For LIHTC projects this is IRS-speak for “depreciable costs”
- ◆ LIHTCs are awarded based on the amount of eligible basis a project has
- ◆ Maximum eligible basis that can be claimed is regulated by TCAC
- ◆ Other affordable housing programs have similar concepts – for instance the HOME program defines “eligible costs”



Affordable Housing Finance

Key Concepts and Implications

- Section Wrap Up
 - ✓ Even with the reduced hard debt due to soft funding and investor equity, because of the gross rent restrictions on units, coupled with local PHA housing authority utility allowances, actual annual net cash flow after operating expenses can be very modest



Affordable Housing Finance

Key Concepts and Implications

- Section Wrap Up
 - ✓ If you are a member of the development team from the initial stages of a project, and doing performance modeling variations (along with CUAC variations) based on different energy efficiency options, each of those options will likely impact eligible basis (positively or negatively)



Affordable Housing Finance

Key Concepts and Implications

- Section Wrap Up
 - ✓ Properly used in the early development stages of a project, the CUAC should allow a developer to arrive at set of cost-effective energy efficiency or renewable generation measures



Affordable Housing Finance

Key Concepts and Implications

- Section Wrap Up
 - ✓ The CUAC estimate can impact the ability of a project to service hard debt (meet the required debt payments from increased debt) and/or the debt service coverage ratio (which impacts how attractive the project might be as an investment)



Section Break



Policy and Regulatory Environment

▶ Limited Resources

- ▶ Nearly every source of affordable housing funds has more demand than available funds
- ▶ Affordable housing funding resources have tended to decrease not increase
- ▶ Notable exceptions to this trend have been the 4% LIHTC and tax-exempt bond programs



Policy and Regulatory Environment

▶ “Cutthroat” Competition

- ▶ Limited resources means that nearly all affordable housing programs are competitively structured
- ▶ Affordable housing developers compete successfully in these programs or they don't remain affordable housing developers
- ▶ Need to succeed in competitions drives developer behavior



Policy and Regulatory Environment

► Multiple Masters

- For LIHTC projects these are public and private resources
- Affordable housing programs were developed and implemented at different times, have different originating legislation behind them, and in some ways may be at odds with one another
- Multiple state and federal agencies with different cultures, goals, etc. implement these programs



Policy and Regulatory Environment

Fireside in Marin County

| Construction Financing | | Permanent Financing | |
|------------------------------|--------------|------------------------------|---------------------|
| Source | Amount | Source | Amount |
| CalHFA | \$12,165,000 | CalHFA First Loan | \$1,350,000 |
| Marin Co. Housing Trust Fund | \$1,400,000 | CalHFA Second | \$250,000 |
| Marin Co./CalHFA Help | \$1,050,000 | Marin Co. Housing Trust Fund | \$1,400,000 |
| Marin Co. HOME | \$1,610,000 | Marin Co. HOME | \$1,610,000 |
| Marin Co. CDBG | \$194,478 | Marin Co. CDBG | \$194,478 |
| AHP | \$500,000 | AHP | \$500,000 |
| McKinney SHP | \$610,000 | McKinney SHP | \$610,000 |
| Foundation Grants | \$420,000 | Marin Community Foundation | \$1,600,000 |
| Deferred Costs | \$688,275 | Foundation Grants | \$420,000 |
| Deferred Developer Fee | \$300,330 | HCD MHP | \$4,882,222 |
| Investor Equity | \$846,170 | Deferred Developer Fee | \$300,330 |
| | | Investor Equity | \$8,267,224 |
| | | TOTAL | \$21,384,254 |

<http://www.gabreport.com/gabreport/2009/04/the-story-of-the-fireside-green-affordable-housing.html>



Policy and Regulatory Environment

- Section Wrap Up
 - ✓ Limited resources drives investor behavior and government behavior
 - ✓ This, in turn, drives developer behavior
 - ✓ The energy efficiency and/or renewable generation measures you recommend could have either a positive or negative impact on the project's competitiveness, and therefore success in getting funding



Policy and Regulatory Environment

- Section Wrap Up
 - ✓ One or more of those agencies and/or programs may have regulations or requirements in place that impact project design, which in turn may impact the CUAC estimate



Policy and Regulatory Environment

- Section Wrap Up
 - ✓ More importantly, each of those agencies and/or programs may or may not find a particular CUAC estimate acceptable OR they may not accept the CUAC estimates at all



Section Break



The California Tax Credit Allocation Committee

● Private Investment for a Public Purpose

- Federal LIHTCs are awarded to project “owners”
- Investors “bid” on the value of the LIHTCs
- LIHTCs are then used by the investors in those projects to offset federal (and occasionally state) tax liability on a dollar for dollar basis
- LIHTC investors are very conservative investors and while credit pricing increased for years the rate of return (or IRR) approached that of a federal 10-year treasury note



The California Tax Credit Allocation Committee

4% Program

- This is a noncompetitive program (at TCAC)
- Projects receiving 4% tax credits are required a commitment of tax-exempt bonds through CDLAC
- Typically generates investor equity of between 30-40% of the project's total costs
- Has modest requirements that may impact the use of the CUAC – CDLAC requirements may have more of an impact
- Typically have higher average income targeting than 9% projects



The California Tax Credit Allocation Committee

● 9% Program

- This is a highly competitive program that has been (in previous years) oversubscribed 2 or more to 1
- Developers may have to balance the “best” buildings against winning or losing the competition
- Has requirements that are very likely to impact building modeling and using the CUAC
- Typically generates investor equity of between 60-70% of the project's costs



The California Tax Credit Allocation Committee

● When/How Often Will I Use the CUAC

- At the initial application stage – this can be a draft version of the CUAC
- An updated version of the CUAC must be produced when the developer begins lease-up of the project (typically 1-2 years later), and when the developer submits a “placed-in-service” application (typically 2-3 years later)
- Annually thereafter as required by Federal regulations



The California Tax Credit Allocation Committee

● Price of Noncompliance

- For the first 15 years of a LIHTC project's existence, noncompliance with federal regulations can result the issuance of report of noncompliance (Form 8823) and a loss of credits
- A CUAC estimate that is incorrectly done, or uses false assumptions will cause an owner to charge rents in excess of the gross rent limitation – this is a important type of noncompliance



Section Break



Using the CUAC

- ⊕ Two last discussion items to wrap up this webinar:
 - ⊕ First, which projects should the CUAC be used for?
 - ⊕ Second, when should I use CARE rates?



Using the CUAC

Any affordable multifamily new construction project financed by any public agency (not just TCAC).



Using the CUAC

⊕ CARE rates:

- ⊕ CARE program was instituted by the CPUC, and the POU's refer to this program as the CARE program
- ⊕ Municipal utilities can have other names and/or requirements for their "CARE" programs
- ⊕ Customer discounts are substantial – typically 20% or more



Using the CUAC

- ⊕ Two Criteria for using CARE rates:
 - ⊕ First criteria - you can only select the “CARE” Tariff Type if ALL of the affordable housing tenant households would qualify for the special low-income utility rates
 - ⊕ Second criteria – programs in place that help tenants enroll in CARE



Using the CUAC

- ⊕ First Criteria for using CARE rates:
 - ⊕ The analyst must compare the highest household income that would qualify a household for a unit at the project in question against the income qualification requirements of the “CARE” program
 - ⊕ This must be done for each unit size (number of bedrooms)



Using the CUAC

Example LIHTC verses SMUD REAP income restrictions

| | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 |
|------------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Sacramento LIHTC | Person | Person | Person | Person | Person | Person | Person | Person |
| 100% Income | \$51,000 | \$58,200 | \$65,500 | \$72,800 | \$78,600 | \$84,400 | \$90,300 | \$96,100 |
| 60% Income | \$30,600 | \$34,920 | \$39,300 | \$43,680 | \$47,160 | \$50,640 | \$54,180 | \$57,660 |
| 55% Income | \$28,050 | \$32,010 | \$36,025 | \$40,040 | \$43,230 | \$46,420 | \$49,665 | \$52,855 |
| 50% Income | \$25,500 | \$29,100 | \$32,750 | \$36,400 | \$39,300 | \$42,200 | \$45,150 | \$48,050 |
| 45% Income | \$22,950 | \$26,190 | \$29,475 | \$32,760 | \$35,370 | \$37,980 | \$40,635 | \$43,245 |
| 40% Income | \$20,400 | \$23,280 | \$26,200 | \$29,120 | \$31,440 | \$33,760 | \$36,120 | \$38,440 |
| 35% Income | \$17,850 | \$20,370 | \$22,925 | \$25,480 | \$27,510 | \$29,540 | \$31,605 | \$33,635 |
| 30% Income | \$15,300 | \$17,460 | \$19,650 | \$21,840 | \$23,580 | \$25,320 | \$27,090 | \$28,830 |
| SMUD REAP | \$30,500 | \$30,500 | \$35,800 | \$43,200 | \$50,600 | \$58,000 | \$65,400 | \$72,800 |
| Household Qualifies at 60%? | No | No | No | No | Yes | Yes | Yes | Yes |



Using the CUAC

⊕ Project Specific Analysis:

- ⊕ Consider the unit mix (sizes) and the maximum income qualifications for each of those unit sizes
- ⊕ Household size assumptions should match those used in setting the LIHTC rent and income limits (1.5 persons per bedroom, unrounded, and 1 person for studio units)



Using the CUAC

Hypothetical Example

- ⊕ For a Sacramento County Family Project consisting of 2, 3 and 4 bedroom units:
- ⊕ Where the maximum 2 BR qualifying income is 50% AMI or lower, assumed household size is 2 or 3;
- ⊕ Where the maximum 3 BR qualifying income is 55% AMI or lower, assumed household size is 4 or 5; and
- ⊕ Where the maximum 4 BR qualifying income is 60% AMI or lower, assumed household size is 6 or larger.
- ⊕ Does this project meet the requirement that ALL of the affordable housing tenant households would qualify for the special low-income utility rates?



Using the CUAC

Example LIHTC verses SMUD REAP income restrictions

| | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 |
|----------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Sacramento LIHTC | Person | Person | Person | Person | Person | Person | Person | Person |
| 100% Income | \$51,000 | \$58,200 | \$65,500 | \$72,800 | \$78,600 | \$84,400 | \$90,300 | \$96,100 |
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| 55% Income | \$28,050 | \$32,010 | \$36,025 | \$40,040 | \$43,230 | \$46,420 | \$49,665 | \$52,855 |
| 50% Income | \$25,500 | \$29,100 | \$32,750 | \$36,400 | \$39,300 | \$42,200 | \$45,150 | \$48,050 |
| 45% Income | \$22,950 | \$26,190 | \$29,475 | \$32,760 | \$35,370 | \$37,980 | \$40,635 | \$43,245 |
| 40% Income | \$20,400 | \$23,280 | \$26,200 | \$29,120 | \$31,440 | \$33,760 | \$36,120 | \$38,440 |
| 35% Income | \$17,850 | \$20,370 | \$22,925 | \$25,480 | \$27,510 | \$29,540 | \$31,605 | \$33,635 |
| 30% Income | \$15,300 | \$17,460 | \$19,650 | \$21,840 | \$23,580 | \$25,320 | \$27,090 | \$28,830 |
| SMUD REAP | \$30,500 | \$30,500 | \$35,800 | \$43,200 | \$50,600 | \$58,000 | \$65,400 | \$72,800 |
| Household Qualifies? | N/A | Yes | Yes | Yes | Yes | Yes | Yes | Yes |



Using the CUAC

⌘ Second Criteria for using CARE rates:

- ⌘ More problematic, since this requires your faith in the assurances of a developer regarding a project not yet even built
- ⌘ However, these types of tenant programs are fairly common, and this one in particular (providing aid to access CARE) should be relatively easy to implement
- ⌘ Note that, in the case of TCAC, this will be something monitored by the agency



THE END

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- http://www.gosolarcalifornia.org/affordable_housing/cuac.html
 - <http://www.treasurer.ca.gov/CTCAC/>
 - <http://www.treasurer.ca.gov/cdlac/>
 - <http://www.hcd.ca.gov/>
 - <http://www.calhfa.ca.gov/multifamily/>