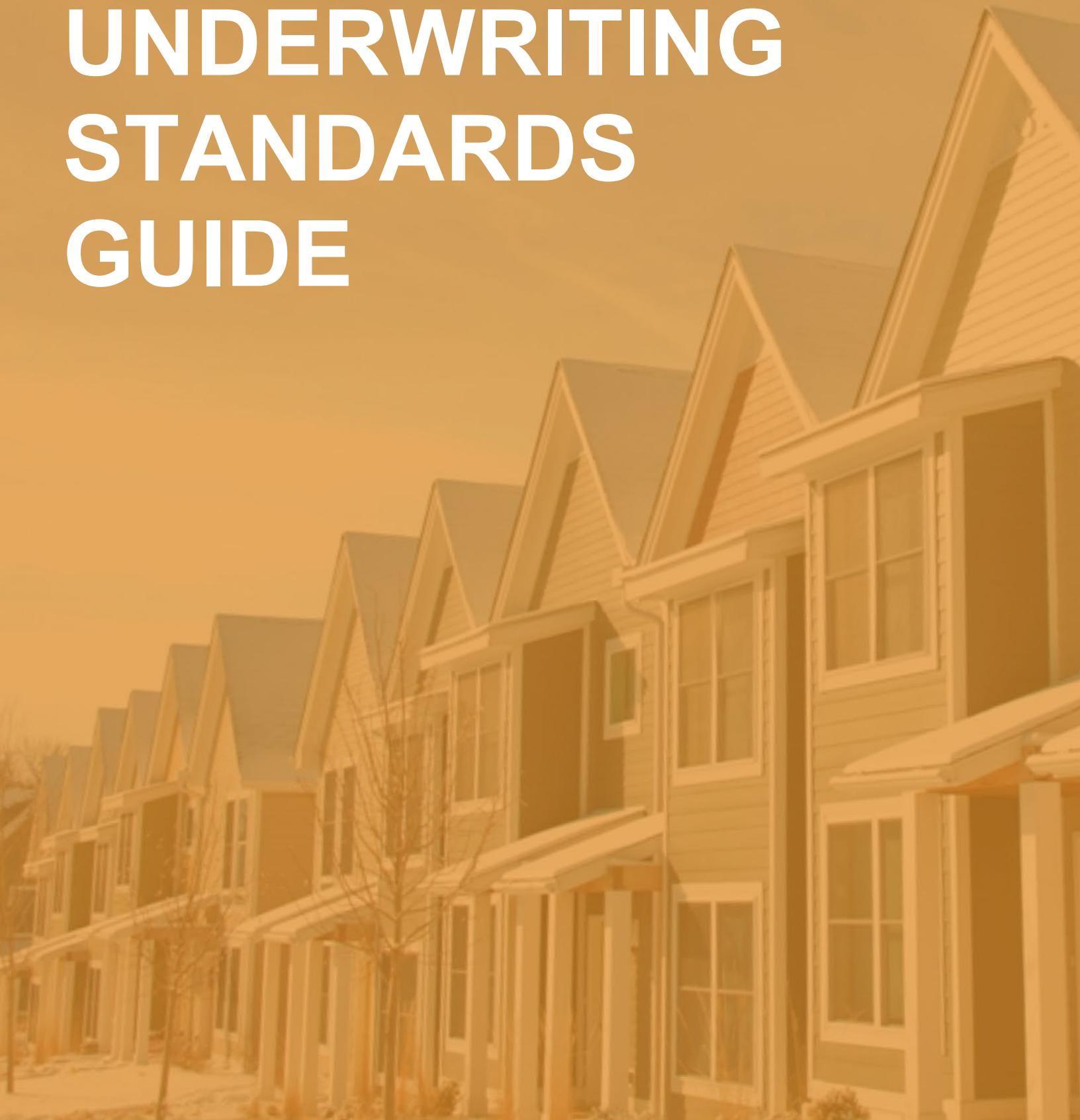




ILLINOIS HOUSING  
DEVELOPMENT AUTHORITY

OCTOBER 2023

# UNDERWRITING STANDARDS GUIDE



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## I) Introduction

This Underwriting Standards Guide (“Guide”) presents the Authority’s criteria for evaluating a Project’s financial feasibility and underwriting assumptions.

The Guide establishes not only the Authority’s required financial criteria, but also indicates in each section what documentation the Authority requires to be submitted as part of any Project Application for financing for Authority resources. The application process for Authority resources involves the submission of a Preliminary Project Assessment (PPA), followed by submission of a full Project Application. For more information, see the Authority’s Website. The entity applying for Authority resources for a Project is referred to throughout this document as the Project Sponsor.

**Any exception to this Guide will be considered, so long as the Project Sponsor identifies and submits rationale for the exception in writing at the PPA stage. For recapitalization transactions, rationale will often need to include three years of historic audited financial information. Exception requests should be listed on the “Description” tab of the Preliminary Project Assessment Workbook that can be found on the Authority’s website. Additional information supporting the exception request should be clearly labeled as such and submitted as part of the PPA application.**

These financial feasibility and documentation requirements apply to the 9% and 4% Low-Income Housing Tax Credits (LIHTC) governed by the [QAP](#) (found on the Authority’s Website), as well Projects applying for other Authority funding Sources, including, but not limited to: Illinois Affordable Housing Trust Fund, HOME Investment Partnership funds, and Illinois Affordable Housing Tax Credits. Likewise, these criteria should be considered to apply for all Project types, except where explicitly indicated. Note that Projects applying solely for Illinois Affordable Housing Tax Credits should reference the applicable regulations for that resource (Illinois Administrative Code, Title 47, Chapter II, Part 355). Additionally, Projects applying under the Authority’s Permanent Supportive Housing Rounds should reference this Guide and the applicable [Request for Applications](#) posted on the Authority’s Website.

If the Project involves a “Twinning” structure, meaning the Project Sponsor will be applying for 9% LIHTC and 4% LIHTC within one common development plan, Project Sponsors should review the [Twinning Application Guide](#) which can be found on the Authority’s Website.

Every Project Application must include submission of a completed version of the [Common Application](#), an Excel document that serves as the pro-forma model for any Project requesting Authority resources (this document is available on the Authority’s Website). The submitted Common Application will provide the Authority with information regarding the proposed development and operating budgets for the Project and should reflect the financial feasibility and underwriting assumptions outlined in this Guide. As part of the review of a project’s Project Application, the submitted Common Application will be evaluated for compliance with these requirements by the Authority’s staff and Loan Committee.

If a Project is ultimately selected to receive Authority resources, it will then proceed to the Authority’s Board for final approvals. Once Board approval has been secured, and the Project budget is refined as the Project approaches financial closing, the Sponsor must periodically provide updated versions of the Common Application to reflect any nominal changes to the Project’s financing structure or operating projections.

The Common Application and other required financial feasibility documentation outlined in this Guide should be submitted via the Multifamily Portal, as described on the [Developer Resource Center page](#) of the

Authority Website.

## II) Sources

All Common Applications submitted as part of a Project Application for Authority resources must reflect adequate sources of construction and permanent financing to complete the Project (“Sources”). These Sources are to be represented in the “Sources” tab of the [Common Application](#) document. Project Sources are subject to the following.

### A. Maximum Tax Credit Request

Projects applying for Low-Income Housing Tax Credit are subject to the maximum LIHTC request and to the respective requirements for Code Required Basis Boost and Discretionary Basis Boost criteria, all of which are described in depth in the [QAP](#), found on the Authority’s Website.

### B. Authority Soft Loan Limits

The Authority has an array of funding resources that are available to provide below-market financing for affordable housing developments.

Payment terms for Soft Loans (also known as “Soft Funds,” “Gap Financing,” or “Subordinate Loans”) will be at the sole discretion of the Authority, subject to Project characteristics; however, the Authority will generally consider a payment equal to the greater of: (a) an annual payment equivalent to twenty-five percent (25%) of “Surplus Cash Flow” (as defined in the Authority’s loan documents executed prior to financial closing); and (b) an annual payment of \$1,200. The Authority will consider alternative cash flow payment structures when other government entities are also providing financing at below-market interest rates, on a case-by-case basis and at its sole discretion.

Authority Soft Loan resources are typically over-subscribed. Consequently, all Projects that are applying to the Authority for a Soft Loan, are subject to the maximum Authority Soft Loan limits stipulated below, according to the geographic Set-Aside (as defined in the QAP) into which the project falls:

City of Chicago	Chicago Metro, Other Metro	Non-Metro
Up to 10% of Total Development Costs (TDC)	Up to 15% of TDC	Up to 20% of TDC

The Authority reserves the right to limit total Authority Soft Loans requested per Project and change the limits at its sole discretion. The Authority will consider any Soft Loan requests above these limits at its sole discretion.

Authority Soft Loans may require additional information, documentation, and restrictions, including, but not limited to, further environmental review, contractor wage rates and standards, and income and occupancy restrictions. In addition, any Projects applying to the Authority for an Authority Soft Loan must not undertake any activity or project that would have an adverse environmental impact or limit the choice of reasonable alternatives (i.e., a “choice-limiting action”) as described in 24 CFR Part 58. This includes, but is not limited to, actions to acquire, rehabilitate, demolish, convert, lease, repair, or construct properties. Performing a choice-limiting action may disqualify a Project from receiving any Authority Soft Loans.

If a Project with an Authority Soft Loan experiences cost savings during the construction period, the use of

the cost savings will be subject to the Authority's approval prior to Final Closing.

### **C. Authority Private-Activity Bond Volume Cap**

Projects making use of the Authority's private-activity bond ("Bond") volume cap in conjunction with an allocation of 4% Low-Income Housing Tax Credits (pursuant to Section 42 of the Code, and as further described in the Authority's QAP).

The Authority requires that the Bond volume cap awarded to a Project be sized at time of Board approval as fifty-four percent (54%) of the Project's aggregate basis (the "54% Threshold"), above the Section 42 minimum requirement that the award be sized at fifty percent (50%) of aggregate basis (the "50% Test"). Additionally, the Authority generally requires that Bond prepayment occur no earlier than 24-months after initial closing. Prepayment earlier than 24-months requires Authority approval. The Authority will consider exceptions to this policy on a case-by-case basis, at its sole discretion.

The Authority reserves the right to:

- Limit Project volume cap to the amount needed to meet the 50% Test, or as required to meet the Authority's 54% Threshold underwriting standard.
- Restrict or eliminate the use of Bond volume cap for conduit Bond transactions.
- Score applications for tax-exempt bonds and 4% Low-Income Housing Tax Credits according to the scoring requirements outlined in the [QAP](#) found on the Website.

See the [Multifamily Fee Payment Form](#) on the Website for additional information on fees associated with issuance of Bonds.

### **D. Deferred Developer Fee**

All Projects will include a Developer Fee as a development cost (a Project "Use") in the Project development budget (as defined in Section III.E of this Guide). With the exception of Permanent Supportive Housing developments, Project Applications for which will be submitted annually in response to the Authority's Permanent Support Housing Request For Applications, the submitted Common Application for all Projects must reflect that a portion of the Project Developer Fee is deferred—that is, will be paid via Project operating cash flow after the Project has completed construction, placed in service, and converted to permanent financing ("Deferred Developer Fee"). This Deferred Developer Fee must be reflected as a financing Source in the "Sources" tab of the Common Application.

At a minimum, the Deferred Developer Fee must be equal to the lesser of: (a) twenty-five percent (25%) of the Total Developer Fee; and (b) seventy-five percent (75%) of cumulative cash flow after debt service for years one (1) through twelve (12) of Project operations; both as calculated in the "Sources" tab of the Common Application. See Section III.E for further information regarding the calculation of Total Developer Fee.

The total Deferred Developer Fee cannot exceed an amount equal to one hundred percent (100%) of cumulative cash flow after debt service for years one (1) through fifteen (15) of Project operations, unless the Sponsor provides an explanation of how the Deferred Developer Fee will be repaid.

Applications should reflect the maximum supportable Deferred Developer Fee if Authority Soft Loan resources are being requested (as described in Section II.B).

## E. Evidence of Project Financing

The Project Application submitted via the Multifamily Portal, as described on the [Developer Resource Center page](#) of the Authority Website, must include financing acknowledgment letters for all Project Sources, including all construction and permanent financing from all lenders, grantors, and equity providers. Provided letters must state that as of the Application submission date, the financing Source is either under consideration or has been approved as stated within the letter. The letters must demonstrate the level of commitment for each Project Source, including what, if any, approval processes are still pending for each Source.

A written request for Authority resources shall not imply an award or future award by the Authority of any funding resources.

The following requirements apply to various potential Project Sources:

### *Authority Debt Sources with Market Interest Rates*

Requests for Authority debt Sources with market interest rates should be made thirty (30) days prior to Application due date as posted on the [Multifamily Transaction Timelines page](#) of the Website. The Authority Business Development Team should be contacted prior to, or in tandem with, submission of a Preliminary Project Assessment to the Authority. For information on how to obtain a financing acknowledgement letter for Authority debt Sources with market rates of interest see the [Multifamily Financing Programs page](#) of the Authority Website.

Authority debt Sources may require additional information, documentation, and restrictions, including, but not limited to, further environmental review, contractor wage rates and standards, and income and occupancy restrictions. In addition, any Projects applying to the Authority for a federal resource must not undertake any activity or project that would have an adverse environmental impact or limit the choice of reasonable alternatives (i.e., a “choice-limiting action”) as described in 24 CFR Part 58. This includes, but is not limited to, actions to acquire, rehabilitate, demolish, convert, lease, repair, or construct properties. Performing a choice-limiting action may disqualify a Project from receiving any federal funds.

Note that if a Project is requesting a Authority first mortgage (market-rate) loan product, the Authority will require the Sponsor to submit an appraisal that complies with the [Authority’s Standards for Appraisals](#) available on the Authority’s Website, with the Authority listed as an “intended user,” early in the application review and underwriting process.

### *Authority Debt Sources with Below Market Interest Rates*

Financing acknowledgement letters for Authority debt Sources with below market rates of interest (“Soft Loans” see Section II.B of this Guide) can be evidenced in the Application through a written request to the Authority for debt financing that includes all of the following:

- The amount of the loan(s).
- The length of the loan term(s), which must be at least fifteen (15) years. If there is more than one tranche or component to the loan, and these components have different terms, the terms of the longest tranche or component must be at least fifteen (15) years.
- The amortization period of the loan(s), if applicable.
- The interest rate(s), and any terms and conditions regarding adjustments.
- The expected monthly or annual debt service payment for each loan. The Authority does permit requests for payments subject to availability of Project cash flow in the case of Soft Loans.
- The expected Wage Standard (e.g., Illinois Prevailing Wage, Davis Bacon Wages) that the Sponsor expects to use for the Project, and relevant information regarding how different Soft Loan funding Sources might affect project costs.

The Authority reserves the right to utilize any available funding resource to provide a Soft Loan at below market interest rates. Priority access to Authority Soft Loan resources available at the time of Project Application will be given to Projects that receive the highest scores in competitive funding rounds or meet Authority housing policy objectives.

Authority debt Sources may require additional information, documentation, and restrictions, including, but not limited to, further environmental review, contractor wage rates and standards, and income and occupancy restrictions. In addition, any Projects applying to the Authority for an Authority Soft Loan must not undertake any activity or project that would have an adverse environmental impact or limit the choice of reasonable alternatives (i.e., a “choice-limiting action”) as described in 24 CFR Part 58. This includes, but is not limited to, actions to acquire, rehabilitate, demolish, convert, lease, repair, or construct properties. Performing a choice-limiting action may disqualify a Project from receiving Authority Soft Loans.

If a Project is receiving an Authority Soft Loan, the Authority will require submission of an appraisal that complies with the [Authority’s Standards for Appraisals](#) available on the Authority’s Website, and lists the Authority as an “intended user,” prior to initial financial closing.

### *Non-Authority Debt Sources*

Financing acknowledgement letters from each lender of a non-Authority debt Source—including, but not limited to, construction loans, permanent loans, equity bridge loans, and the assumption of existing debt—must include all of the following:

- The entity providing the loan.
- The amount of the loan.
- The length of the permanent loan term, which must be at least fifteen (15) years (if there is more than one tranche or component to the loan, and these components have different terms, the terms of the longest tranche or component must be at least fifteen (15) years).
- The amortization period of the loan.
- The estimated interest rate (and any terms and conditions regarding adjustments), which may be zero percent (0.0%) in the case of loans offered at below-market interest rates.
- The expected monthly or annual debt service payment.
- Any financing fees associated with the debt Source.

### *Tax Credit Equity Sources*

If a Project is applying for 9% or 4% Low-Income Housing Tax Credits and/or Illinois Affordable Housing Tax Credits (“Donation Tax Credits”) from the Authority, the Sponsor must include a financing acknowledgement letter from an equity Source for the tax credit type being requested. If Low-Income Housing Tax Credits or Donation Tax Credits are anticipated to be provided by the City of Chicago, or alternatively Historic Tax Credits or other tax credits are expected to be provided by a third party, applicable acknowledgement letters must be provided from both the issuer of the tax credits and from the equity providers that will be purchasing the tax credits. All tax credit equity letters must include the following:

- The anticipated tax credit Allocation.
- The per-credit net cent raise rate, including disclosure if equity pricing is tied to providing debt for the Project.
- The amount of tax credit equity available to the Project.

The Authority’s preferred equity pay-in schedule for Projects that do not include an equity bridge loan as a funding Source is as follows:

- 15% at initial financial closing.

- 55% equity at construction completion.
- Balance at stabilization.

For Projects that include an equity bridge loan as a funding Source, the Authority will allow a minimum of 10% of the total tax credit equity to be paid in at initial financial closing. Note that the lender and equity investor may be different entities. The Authority will consider deviations from these pay-in schedules on a case-by-case basis.

The equity letter must include any attachments provided by the investor with calculations and assumptions. For Projects applying for Low-Income Housing Tax Credits and other tax credits that rely on the calculation of eligible basis (i.e. Historic Tax Credits), the Common Application provides the ability for the Sponsor to itemize the eligible basis for each item in the development budget in the “Uses” tab. Sponsors are required to provide eligible basis information via this budget, in order to justify the expected allocation of LIHTC requested from the Authority or the City of Chicago. See the [QAP](#) found on the Authority’s Website for further information regarding tax credit eligible basis.

Project Applications that include a request for Illinois Affordable Housing Tax Credits (IAHTC) must include all items listed on the [IAHTC Application Checklist](#) found on the Authority Website.

In the case of Projects applying within the competitive 9% LIHTC application round that are also requesting an allocation of Illinois Affordable Housing Tax Credits (IAHTC) at time of 9% LIHTC application, Sponsors must submit at a minimum the following documentation from the IAHTC Application Checklist:

- Application fees as listed in the [Multifamily Fee Payment Form](#) as found on the Authority Website.
- [IAHTC Expanded Donation Form](#) as found on the Authority Website.
- Evidence of commitment of Donation from Donor.
- Flow Chart Process showing how Donation will be placed into the Project.
- An appraisal that supports the donation amount, with the Authority listed as an “intended user.”

### *Non-Authority Grant Sources*

Project Applications that include grant funds as a Source must include an acknowledgement letter from the entity providing the grant in question. These financing acknowledgement letters from each grantor of non-Authority grant Sources must include the following:

- The name of the grant Source.
- The amount of the grant.
- A pay-in schedule detailing when the grant will be available to the Project.
- Any outstanding requirements to be met prior to grant availability.

## **F. Construction-Period Income**

If construction-period income is included as a Source of project financing for Projects that involve the rehabilitation of an existing property, the amount must be supported by submission of financial property audits for the prior three (3) years as part of the Project Application. Submission must include a narrative highlighting the assumptions used in estimating the dollar amount of this Source. The Authority will allow construction-period income to be included as a financing Source at its sole discretion, upon review of property audits and the provided narrative.

## **III) Uses**

All Common Applications submitted as part of a Project Application for Authority resources should reflect Project development costs (“Uses”) in the “Uses” tab of the [Common Application](#) document. When



completing the development budget in the “Uses” tab, be sure to include all relevant Authority fees, as laid out in the [Multifamily Fee Payment Form](#) available on the Website. Project Uses are subject to the following requirements.

### **A. Acquisition**

The Project budget in the Common Application may only include the acquisition costs attributable to the Project Site. As part of the Project Application for any Authority resource, the Sponsor must provide evidence of site control that matches the criteria discussed in detail in the [QAP](#), found on the Authority’s Website. This site control documentation must evidence the cost of acquisition. If site control documentation is for property larger than the Site, a detailed narrative and calculation of the Site sale or lease price on a per square footage basis must be submitted. Site acquisition costs indicated in the “Uses” tab of the Common Application must match the site control documentation and/or provided supplemental narrative.

In the case of the acquisition of existing buildings from an unrelated third-party entity, the Project Sponsor must submit an appraisal to substantiate the acquisition price prior to initial closing. In the case of a related-party acquisition of land and/or existing buildings, in which one entity will be purchasing or has purchased the property from a related entity, the Project Sponsor must submit an appraisal to substantiate the acquisition price at time of Project Application; the Authority will review the submitted appraisal and permit the use of the requested acquisition price in the Project budget at its sole discretion. For a Project that includes the rehabilitation of existing buildings, the Authority will defer to the “As-Is” property value indicated in the appraisal to determine the allowable amount of Low-Income Housing Tax Credit eligible basis. The Authority will consider exceptions to this policy at its sole discretion.

Note that the Authority does not need to be listed as an “intended user” for the appraisal if the Authority will not be providing either a Soft Loan or first mortgage market-rate loan product.

### **B. Grand Total Construction Costs**

At time of Project Application, the Project Sponsor should enter the projected construction costs (the “Hard Costs”) in the “Construction” tab of the Common Application. All costs expected to be reflected in the contract between the Sponsor and the General Contractor (the “Construction Contract”) should be included in the “Construction” tab.

The Common Application will automatically populate the Project’s total Hard Costs (“Grand Total Construction Costs”) in the budget included in the workbook’s “Uses” tab. Note that, per the Common Application, the Grand Total Construction Costs does not include budgeted construction contingency costs.

At time of financial closing, the construction cost budget reflected in the “Construction” tab of the Common Application must match the final Construction Contract figures.

Grand Total Construction Costs may not increase more than ten percent (10%) from Board approval to initial closing. The Authority will generally not consider using its resources to account for cost increases above this threshold but may do so at its sole discretion on a case-by-case basis. An award of funding is provided by the Authority’s Board based on the information provided in the Project Application. Project modifications require re-evaluation of the Project Application and may trigger a change in the Project’s score or ranking (depending on the funding Source and Project type), Loan Committee and Board approval, or the revocation of the funding award. The Authority will evaluate these changes on a case-by-case basis and at its sole discretion.

Furthermore, in general Projects contemplating Historic Tax Credits as a Source must demonstrate that costs required to complete the historic work do not exceed equity generated by the credits. The Authority will evaluate any cost overages due to historic rehabilitation work for reasonableness on a case-by-case basis and at its sole discretion.

*Hard Cost Maximum Thresholds*

During the review of an Application, the Grand Total Construction Costs figure will be divided by the Project's Gross Square Footage and compared the Authority's per square foot limits detailed below.

**LIHTC New Construction/Adaptive Reuse (\$/SF)**

Set Aside	Base	Green Building Certification - Advanced Level	Green Building Certification - Net Zero Level
City of Chicago	\$380	\$405	\$430
Chicago Metro	\$310	\$335	\$360
Other Metro	\$235	\$260	\$285
Non-Metro	\$230	\$255	\$280

**LIHTC Rehabilitation (\$/SF)**

Set Aside	Base	Green Building Certification - Advanced Level	Green Building Certification - Net Zero Level
City of Chicago	\$220	\$260	\$300
Chicago Metro	\$210	\$250	\$290
Other Metro	\$175	\$215	\$255
Non-Metro	\$120	\$160	\$200

**PSH New Construction/Adaptive Reuse (\$/SF)**

Set Aside	Base	Green Building Certification - Advanced Level	Green Building Certification - Net Zero Level
City of Chicago	\$405	\$430	\$455
Chicago Metro	\$335	\$360	\$385
Other Metro	\$320	\$345	\$370
Non-Metro	\$315	\$340	\$365

## PSH Rehabilitation (\$/SF)

Set Aside	Base	Green Building Certification - Advanced Level	Green Building Certification- Net Zero Level
City of Chicago	\$260	\$300	\$340
Chicago Metro	\$250	\$290	\$330
Other Metro	\$215	\$255	\$295
Non-Metro	\$160	\$200	\$240

These limits have been established utilizing recent historical data of Authority projects within each Set-Aside and verified against a third-party cost database and include analysis of all related hard costs associated with the project. The Common Application includes a comparison of the Project's Grand Total Construction Costs and the Construction Cost Limits in the "Project Narrative" tab. Projects that exceed the calculated Construction Cost Limits must provide a detailed explanation of the specific expenses that result in costs in excess of the limits. The explanation should include a breakdown of specific items with attributable dollar amounts.

The Authority will review and determine the suitability of grand total hard costs in excess of the limits on a case-by-case basis. The following are examples of acceptable waiver items. This list is not meant to be exhaustive and shall not limit the Authority's discretion on hard cost waiver determinations in any way:

- Unusually high municipal impact fees as compared to other municipalities within the same set-aside.
- Municipal building codes that are significantly more stringent than those of other municipalities in the same set aside.
- Excessive cost impacts from property soil conditions, environmental and geotechnical.
- Historical rehabilitation (when a non-Authority Source such as Historic Tax Credits is evidenced in the financing).

Likewise, the following are examples of items that will not be considered acceptable reasons to request a waiver for exceeding the Construction Cost Limits:

- Wage standards
- Accessibility standards that are mandatory or for which the project has scored points.
- Green building standards that are mandatory or for which the project has scored points.
- Municipal architectural, aesthetic, or material standards.
- Costs associated with design decisions impacting the physical configuration of the building (e.g., height, area, material choice).
- Stormwater management requirements.

Regardless of whether the Project's Grand Total Construction Cost exceeds IHDA limits, the Authority may, at its discretion, verify construction costs through a third-party cost database to evaluate cost reasonableness.

### *Hard Cost Minimum Thresholds*

In the case of a Project proposing the rehabilitation of an existing building, the Authority requires a minimum

budget of \$40,000 in hard costs per unit, exclusive of any construction cost contingency, and requires the following minimum project scope:

- Replacement of all unit and common area kitchen and bathroom cabinets and counter tops.
- Replacement of all plumbing fixtures within the entire project with fixtures meeting criteria identified in the [Standards for Architectural Planning and Construction document](#) available on the Website. Replacement of all electrical fixtures with Energy Star fixtures.
- Replacement of all flooring throughout the project.
- Repair/Replacement of one additional major system (e.g., furnaces, water heaters, central boilers, air conditioning equipment, elevator, windows, roofing, tuckpointing of exterior masonry) throughout the entire building.
- The Authority may waive any of the above items based on the Property Needs Assessment (PNA).

In addition, for Projects requesting 4% LIHTC, rehabilitation expenditures must equal or exceed fifteen percent (15%) of the portion of the costs of acquiring the building financed by tax-exempt bonds:

$$\frac{\text{Rehab Costs}}{\text{(Building Acquisition Financed by Bonds) – (Land Cost Financed by Bonds)}} \geq 15\%$$

For Projects involving the rehabilitation of a property acquired via the sale of the property to the new Owner by a related-party Seller, the Authority will evaluate the ratio of hard construction costs to funds received by the entities affiliated with the Project Sponsor, with the goal of ensuring that sufficient resources are dedicated to the rehabilitation of the property. For this purpose, the Authority considers the funds that affiliates of the Project Sponsor receive from the sale of the property to be equal to: the acquisition price of the property less the outstanding debt on the property (“Cash to Seller”). In general, the Authority requires that the combined dollar value of (a) the total of the Realized Developer Fee (described in Section III.E) and (b) the Cash to Seller not exceed the dollar value of the proposed Grand Total Construction Costs for the Project:

$$\text{Realized Developer Fee} + \text{Cash to Seller} < \text{Grand Total Construction Costs}$$

Projects involving rehabilitation are required to submit a third-party PNA completed according to the Authority’s Standards for PNAs and based on the existing conditions of the property. The Project Application must include a detailed explanation of all construction cost variances existing between the development budget and the PNA. In addition, any deviation from rehabilitation scope noted above will require a detailed explanation.

The Authority reserves the right to modify the construction scope based on a review of the explanation.

### *General Contractor Fees*

The general conditions, overhead, and profit in a general contractor’s budget are limited to fourteen percent (14%) of trade payments and site work costs, as calculated in the “Construction” tab of the Common Application. As further described in the [Authority’s Standards for Architectural Planning and Construction](#) found on the Authority’s Website, the Project general contractor is allowed profit in the maximum amount of six percent (6%) of trade payments and site work, overhead in the maximum amount of two percent (2%) of trade payments and site work, and general conditions (also known as “general requirements”) in the amount of six percent (6%) of trade payments and site work.

When an Identity of Interest exists between the Project general contractor and the Owner, the Base Developer Fee (discussed in Section III.E) shall be reduced by the amount of the general contractor’s overhead. This reduction will be automatically populated in the Developer Fee calculation of the Uses tab of

the Common Application when an Identity of Interest is indicated between Owner and general contractor.

### **C. Construction Contingency**

The submitted Common Application must include a construction contingency (“Construction Contingency”) in the development budget in the “Uses” tab, equal to the following as applicable:

#### *New-Construction Projects:*

Five percent (5%) of trade payments, site work, general conditions, general contractor overhead and profit as calculated in the Common Application.

#### *Rehabilitation and Adaptive Reuse Projects:*

Ten percent (10%) of trade payments, site work, general conditions, general contractor overhead and profit as calculated in the Common Application.

Construction Contingency will be prorated for Projects that combine new construction and rehabilitation and evaluated for appropriateness on a case-by-case basis.

For Projects applying for 9% Low-Income Housing Tax Credits, no more than fifty percent (50%) of Construction Contingency may be included in a Project’s calculation of Tax Credit eligible basis. For 4% Low-Income Housing Tax Credits, the Authority, at its sole discretion, may allow up to 100% of Construction Contingency to be included in eligible basis.

During construction, the Construction Contingency line item may be drawn on, subject to Authority approval in line with the Change Order process as described in the [Authority’s Standards for Architectural Planning and Construction](#).

### **D. Soft Cost Contingency**

The submitted Common Application may include a soft cost contingency (“Soft Cost Contingency”) in the development budget in the “Uses” tab. Soft Cost Contingency should not exceed 5% of total Soft Costs.

For Projects applying for 9% Low-Income Housing Tax Credits, no more than fifty percent (50%) of Soft Cost Contingency may be included in a Project’s calculation of Tax Credit eligible basis. For 4% Low-Income Housing Tax Credits, the Authority, at its sole discretion, may allow up to 100% of Soft Cost Contingency to be included in eligible basis.

### **E. Architect and Civil Engineering Fees**

Fees for architectural services and civil engineering are limited according to the standards established in the Authority’s Standards for Architectural Planning and Construction.

### Authority Architectural Fee Limits

The Authority limits architectural fees according to the [Standards for Architectural Planning and Construction](#) found on the Website. The limits are also included below:

Total Construction Costs (\$)	New Construction Architect Fee (%)	Adaptive Reuse and Rehabilitation Architect Fee (%)
0 - 1,000,000	7.2	8.4
1,000,001 - 5,000,000	6.2	7.3
5,000,001 - 10,000,000	4.8	6.7
10,000,001 - 15,000,000	4.1	5.9
15,000,001 - 25,000,000	3.4	5.1
Over 25,000,000	2.8	4.4

### Authority Civil Engineering Fee Limits

The Authority limits civil engineering fees according to the Standards for Architectural Planning and Construction. The limits are also included below:

Set-Aside	Civil Engineering Fee (\$)/Gross Site Area
Non-Metro	\$0.35
Other Metro	\$0.35
Chicago Metro	\$1.00
City of Chicago	\$2.00

The costs listed for this item in the “Uses” tab of the Common Application should not exceed the stipulated limits; any overruns will be required to be included in Developer Fee, as described in Section III.E of this Guide.

## F. Developer Fee

Sponsors will include a fee paid to the Project Sponsor and associated entities for developer services provided (the “Developer Fee”) in the Project’s development budget in the “Uses” tab of the Common Application. The Developer Fee includes the following, which shall not appear elsewhere in the Project budget:

- Development consultant fees
- Construction management fees
- Architectural and civil engineering fees in excess of the Authority’s fee limits
- Developer overhead fees
- Any additional fees related to direct assistance provided to the Sponsor or Owner in conjunction with the completion of the Application or construction or management of the development.

A Base Developer Fee shall be calculated per the percentages of the Fee-Based Costs listed below. Further increases or reductions to the Base Developer Fee, as outlined in the sections below, produces the Project's final Total Developer Fee. Fee-Based Costs are equal to Total Development Cost, net of Total Developer Fee, Acquisition, Reserves, Interim Costs, and Syndication Costs, as calculated in the "Uses" tab of the Common Application. The Base Developer Fee may be reduced when an Identity of Interest exists, as further defined below. The final Total Developer Fee reflects the Base Developer Fee, less any reductions due to an Identity of Interest. These calculations are captured in the "Uses" tab of the Common Application.

As described in Section II.D of this Guide, the Authority requires that a portion of the Developer Fee be deferred and paid via Project operating cash flow after the Project has completed construction, placed in service, and converted to permanent financing at final financial closing. This Deferred Developer Fee is to be included as a Project Source. The non-deferred Developer Fee (i.e., the "Realized Developer Fee") will be paid out prior to, or concurrent with, final financial closing.

The Authority reserves the right to limit the Total Developer Fee to two million five hundred dollars (\$2,500,000) for any Project receiving an Authority grant, or an Authority loan at a below-market rate of interest (i.e., an Authority Soft Loan).

As Fee-Based Costs are finalized prior to financial closing, the calculated Total Developer Fee (as determined according to the Base Developer Fee calculation and Increases or Reductions in Base Developer Fee as described below) will increase or decrease accordingly. A Project's Total Developer Fee cannot increase by more than ten percent (10%) above the Total Developer Fee calculated at the time that Authority resources were initially awarded to the Project by the Authority's Board.

For 9% Low-Income Housing Tax Credits Projects, if there is an increase in the Soft Loan request to the Authority after tax credits are awarded, a Project's Total Developer Fee cannot increase above the Total Developer Fee calculated at the time of initial award.

### *Base Developer Fee*

The Authority will calculate a Project's Base Developer Fee as follows:

- 5% of Project Acquisition (limited to the first \$20 million of total Acquisition costs); plus
- 15% of first \$5 million of Fee-Based Costs; plus
- 10% of Fee-Based Costs between \$5 million and \$15 million; plus
- 5% of Fee-Based Costs in excess of \$15 million.

The Authority's Common Application will automatically calculate the Base Developer Fee based on the above requirements.

### *Increases to Base Developer Fee*

The Authority may allow, at its sole discretion, an increase over the Base Developer Fee if the Project is able to pay the increase by deferring the additional Developer Fee over and above the minimum required amounts in the QAP. Projects must formally request a Base Developer Fee increase in writing and explain how the increase will benefit the Project.

The Authority will review request to increase Base Developer Fee on a case-by-case basis, and at its sole discretion. In particular, the Authority will consider these requests when the additional equity enables the reduction or elimination of a request to the Authority for a Soft Loan or other gap financing resource.

If an increased Base Developer Fee is permitted, the resulting Realized Developer Fee cannot exceed the value of the Realized Developer Fee if there had been no increase to the Base Developer Fee; in other

words, all additional Developer Fee must be deferred.

In no case can a project's Total Developer Fee exceed fifteen percent (15%) of Total Development Costs.

#### *Reductions to Base Developer Fee*

Reduction(s) to the Base Developer Fee will be made if:

- An Identity of Interest exists between the buyer and seller, or the property has been previously acquired by the Sponsor or an affiliate of the Sponsor. In this case, the Base Developer Fee on the acquisition portion of the Project shall be calculated at 2.5% of the first \$20 million of total acquisition costs instead of 5%.
- An Identity of Interest exists between the Project general contractor and the Owner. In this case, the Base Developer Fee shall be reduced by the amount of the general contractor's overhead, as calculated in the Common Application.
- An Identity of interest exists between the Project property manager and the Owner. In this case, the Authority reserves the right to reduce the Base Developer Fee at its sole discretion.

A waiver to these Developer Fee reductions may be requested on a case-by-case basis when additional equity generated is used for actual hard construction costs for the Project or the additional equity enables the reduction or elimination of a request to the Authority for a Soft Loan or other gap financing resource.

### **G. Furniture, Fixtures, and Equipment**

Any items included in the development budget as furniture, fixtures, and equipment ("FF&E") must meet the following qualifications. The examples below are a representative list rather than a complete list, and payment of these items will be at the Authority's discretion. All items considered FF&E shall be new or will require Authority approval if refurbished.

#### *Furniture*

Furniture includes items which are generally used by the residents, guests, and staff for living and operating the project, including but not limited to: beds, desks, chairs, couches, and office file cabinets.

#### *Fixtures*

Fixtures include items which could be considered personal property but due to permanent attachment are now considered as being part of the real estate, such as window blinds and built-in cabinetry.

#### *Equipment*

Equipment is considered as having a contributory association with the operation of the Project and is usually considered personal property as it is not readily attached to the real estate, such as computers, laundry equipment, appliances, and snow blowers.

Supplies are considered general purpose items and as such are not FF&E items. Examples of supplies are hand and power tools including items that could be removed from the designated shop or location, mops, cleaning solutions, trash cans, garden utensils, portable sports equipment, and computer ink and paper.

The "Uses" tab of the Common Application includes a Furniture, Fixtures, and Equipment line for any costs associated with these items.

## **IV) Income**

All Common Applications submitted as part of a Project Application for Authority resources should reflect Project income expectations ("Income") in the "Income" tab of the [Common Application](#). Project Income



assumptions are subject to the following requirements.

### **A. Residential Income**

The Project unit mix and expected unit rents should be entered in the “Income” tab of the Common Application. Gross residential unit rents (inclusive of Utility Allowances—see Section VII.E for further information), as calculated in the Common Application, may not exceed ninety-five percent (95%) of the current rent limit imposed by any financing Source, program, or other requirement, unless the unit is assisted through project-based rental assistance. In the case of Authority resources that stipulate rent limits, such as Low-Income Housing Tax Credits or HOME Investment Partnership funds, [rent and income limits](#) are available on the Authority Website. These program rent limits should be entered into the “Monthly Rent Limit” column of the “Income” tab of the Common Application. Note that Authority-calculated limits should be used for all eligible programs.

In the case of mixed-income Projects that include units to be rented at market rates, the Authority will generally require that rents on these units be set at a 10% discount to area market rents (based on rents validated by market study, appraisal, and other relevant information). The Authority will evaluate each mixed-income property on a case-by-case basis to determine the appropriate discount, at its sole discretion.

For Supportive Living Facility (“SLF”) Projects, “room and board” payments should be included in the Residential Income section of the Common Application. Please see further information on the [Supportive Living Program](#) for the specifics on SLF room and board payments. If a proposed Supportive Living Facility Project includes units that are private-pay, the Authority will underwrite these market-rate units to the assumed low-income SLF rent. Please see Section IV.C for additional information on how to include Supplemental Nutrition Assistance Payments (SNAP) and Medicaid payments in property income.

### **B. Federal Project-Based Rental Assistance Subsidy**

Projects with unit-based, rather than tenant-based, federal rental assistance must submit a copy of the fully executed rental assistance contract or a rental assistance commitment letter from the entity providing the rental assistance, that includes all of the following:

- The maximum percent of AMI.
- The total number of units assisted by unit type.
- The length of the rental assistance contract.
- The contract rent by unit type paid through the rental assistance; note that the contract rent is the maximum amount of rent paid to the Project by the rental assistance.

If the Project Application includes an executed rental assistance commitment letter from a Public Housing Authority (“PHA”) using Project-Based Vouchers (“PBV”), that letter must also provide documentation that:

- The PHA Administrative Plan allows for the PHA to administer a PBV Program.
- The PHA has selected the property to receive PBVs in accordance with the PHA Administrative Plan and 24 C.F.R. § 983.51.
- If applicable, acknowledgement by the PHA that assisted units may receive referrals from the Statewide Referral Network. See the Authority Website for more information regarding the [SRN program](#).

All underwriting assumptions regarding the funding and renewal of rental assistance contracts must be clearly identified.

### **C. Other Residential Income**

The Authority limits other residential income (“Other Residential Income”) Sources to income from laundry, vending, parking, and the provision of resident services.

In general, Other Residential Income should only include items that are recurring, defensible, and voluntary to the tenant. Late fees, pet fees, security deposits, and the collection of damages are not permissible Other Income Sources. Other Income should be entered in the appropriate line in the “Income” tab of the Common Application.

Project Applications reflecting Other Residential Income in the “Income” tab of the Common Application must describe all assumptions regarding the calculation of this income, including the Source, or the nature of the service in case of resident service income.

For Supportive Living Facility Projects, Supplemental Nutrition Assistance Payments (SNAP) and Medicaid payments should be included as Other Residential Income. Please see the external published information on the [SNAP Program](#) and [Medicaid Reimbursement](#) for SNAP and Medicaid payments. SNAP income should be underwritten at 65% of the maximum available to applicable units/residents.

Projects that involve the proposed rehabilitation of existing residential buildings that are including Other Residential Income must submit audited financial statements for the prior three (3) years, and a written explanation of any variance between historical non-residential income and the proposed Other Residential Income in the “Income” tab of the Common Application.

### **D. Commercial Income**

Commercial income (“Commercial Income”) should not be included in financial feasibility calculations for most Projects. The Authority may permit commercial income to be considered for financial feasibility calculations at its sole discretion. Requests to include Commercial Income must be made explicitly in writing to the Authority at the time of Project Application, via a narrative providing any salient details regarding potential or existing leases, or other extenuating information that the Authority might consider. Potential Sources of Commercial Income should be identified as well at time of Preliminary Project Application in the case of 9% Low-Income Housing Tax Credit Project Applications.

### **E. Average Income Test**

In the case of Projects applying for LIHTC, the Authority will consider, at its sole discretion, allowing the use of the average income test for the minimum income set-aside (also referred to as “income averaging”), as defined in Section 42(g)(1)(C) of the Code (the “Average Income Test”). Under the Average Income Test, at least 40% of Project units are rent restricted, with an average income restriction of 60% AMI, and with maximum income restriction no higher than 80% AMI.

Sponsors intending to elect the Average Income Test for the Project’s minimum set-aside must declare this intention, as well as the distribution of income restrictions by unit type, at the Preliminary Project Assessment stage of the application process. At the Full Application stage, Sponsors will indicate selection of the Average Income Test in the “Income” tab of the Common Application.

The Authority will consider funding applications proposing to implement income averaging under the following conditions:

- Eligible Uses: Use of Average Income Test will be approved at the Authority's sole discretion. Some instances in which the Authority will consider approving the use of Average Income Test for 4% and 9% LIHTC Projects include—but are not limited to—cases where the use of Average Income will prevent displacement of existing tenants, result in lower subordinate resource request, or benefit the property.
- Applicable Fraction: All units must be restricted to tenants earning at a Low-Income level. The development may not contain unrestricted or market rate residential units.
- Average Income: The average income target of Low-Income units must not exceed 57% AMI.
- Multi-Building Projects: Owners must declare their intended declaration on line 8b of IRS Form 8609 at application. The Authority prefers that Owners declare each building to be part of a multi-building Project, but will consider applications where Owners propose to treat buildings as separate Projects at its sole discretion.
- Unit Income Targets: Owners will state the number of units by percent income category and by unit bedroom size at the time of application. Applicants must demonstrate that income restrictions are applied evenly across units by unit size and other features. For example, larger units cannot be skewed toward higher income targets to maximize rental income. The LIHTC Extended Use Agreement that will be executed at Project closing will reflect that the Average Income Test is being applied but will not record specific designations. The number of units by income category and unit type will be specified in the Project's Management Plan. Units may float within those categories to provide flexibility. The Authority will limit the number of income designations to four (4).

Sponsors considering making use of income averaging should consider the following compliance implications:

- Minimum Set Aside: Absent IRS guidance to the contrary, the Authority will not report a property as failing the Average Income Test for minimum set-aside purposes as long as 40% of the total project units are occupied by households qualified at an average of 60% Area Median Income (AMI).
- Vacant Units: A vacant units will be treated as affordable at the original income target unless it is occupied by a household at a higher income.
- Applicable Fraction: During the LIHTC Compliance Period, owners must maintain the 60% AMI average among compliant units for which tax credits are being claimed. If one or more units is discovered to be out of compliance, the noncompliance may require subtracting additional units from LIHTC basis in order to restore the 60% average, until compliance can be restored.
- Reporting Requirements: Owner or Agents will be required to report on current income restrictions on an annual basis.
- Compliance Fees: To compensate for additional monitoring required by additional unit designations, projects that elect the Average Income Test may also be charged higher compliance fees.

Sponsors submitting applications that use income averaging must provide the following supplemental material:

- Market Study: Must demonstrate sufficient market demand for each income bracket proposed.
- Investor Acknowledgement: Written acknowledgement from the LIHTC equity investor, lender, and legal counsel that the Average Income Test is compatible with requirements of other public and private funding Sources.
- Property Management Preparedness: Written acknowledgement from the property manager regarding the compliance implications and commitment to provide annual Average Income Test training to on-site property management.

## V) Expenses

All Common Applications submitted as part of a Project Application for Authority resources should reflect

Project operating expense budget (“Expenses”) in the “Expenses” tab of the [Common Application](#).

Authority staff will evaluate the Project expense budget for reasonableness during the Project Application review and will consider the proposed expenses against the Authority’s portfolio and comparable properties.

Projects that involve the proposed rehabilitation of existing residential buildings must submit audited financial statements reflecting the prior three (3) years of operation, and a written explanation of any variance between historical expenses and the proposed operating expenses budget in the “Expenses” tab of the Common Application.

Project expense budgets are subject to the following requirements.

### **A. Per Unit Operating Expenses**

Per-unit annual operating expenses must be adequate and reasonable for the Project type, location, and population served.

Per-unit annual operating expenses, excluding taxes, reserve contributions, resident services, and debt service, as calculated in the “Expenses” tab of the Common Application, are expected to fall within the following ranges, as applicable by Project type and geographic Set-Aside (as defined in the Authority’s QAP):

<b>Project Type</b>	<b>City of Chicago</b>	<b>Chicago Metro</b>	<b>Other Metro</b>	<b>Non-Metro</b>
Elderly	\$6,100 - \$9,000	\$4,200 - \$7,000	\$3,800 - \$6,800	\$3,400 - \$6,400
Non-Elderly	\$6,900 - \$9,900	\$5,300 - \$9,300	\$3,600 - \$6,300	\$3,400 - \$6,400

Existing Projects for which the Sponsor is proposing a rehabilitation must include historical expense information in the form of audited financial statements reflecting the prior three (3) years of property operations, and a written explanation of any variance between historical expenses and the proposed operating expenses budget in the “Expenses” tab of the Common Application.

The Authority will review and determine the suitability of operating expenses that fall outside of the expected ranges on a case-by-case basis. The Authority reserves the right to request additional documentation to support an application’s proposed operating expenses.

### **B. Management Fee**

The proposed property management fee (“Management Fee”) indicated in the “Expenses” tab of the Common Application may not exceed 6% of a Project’s Effective Gross Income. The Authority will review and determine the suitability of a Management Fee that falls outside of this limit on a case-by-case basis. Special consideration will be given to Permanent Supportive Housing Projects.

### **C. Monitoring and Compliance Fees**

For Projects applying for Low-Income Housing Tax Credits, the “Expenses” tab of the Common Application should include an annual Tax Credit monitoring and compliance fee based on the LIHTC payment instructions found on the [Property Managers page](#) of the Authority Website. This cost should be included in the appropriate “Monitoring” line item in the “Expenses” tab.

## D. Resident Services

Resident services must not be included in the Project operating expenses budget laid out in the “Expenses” tab of the Common Application, unless a Project receives or will receive federal Project-Based Rental Assistance or Project-Based Vouchers that contractually require the provision of resident services. Any service requirements will be evaluated on a case-by-case basis and approved at the Authority’s sole discretion.

If the project is not required to provide resident services under a federal Project-Based Rental Assistance or Project-Based Voucher contract, all resident services expenses must be funded from an income stream from a third-party entity, including, but not limited to: Medicaid, McKinney Vento, Illinois Department of Public Health, Illinois Department on Aging, Illinois Department of Healthcare and Family Services, Illinois Department of Human Services, Illinois Department of Veteran’s Affairs, or the U.S. Department of Veteran’s Affairs. Budgeted cost to provide services should be sufficient to provide services over 15-year LIHTC Compliance Period in the case of a Project receiving an allocation of Low-Income Housing Tax Credits.

## E. Syndicator/Investor Asset Management Fees

If a Project receives an award of an Authority Soft Loan with a Surplus Cash Flow payment structure (per Section II.B of this Guide), the Authority will allow a syndicator or investor asset management fee (“Syndicator/Investor Asset Management Fee”) or equivalent, in an amount up to \$100 per unit annually (with no annual trending), to be included in the Project’s cash flow waterfall prior to the payment on the Authority’s Soft Loan. The Authority will permit deviations from this per-unit amount in its sole discretion.

If there is any ambiguity as to whether a fee in the Project expenses budget constitutes as a Syndicator/Investor Asset Management Fee as discussed in this section, the Authority will determine in its sole discretion whether the fee in question qualifies.

# VI) Reserves

The Authority requires minimum levels of capitalized Project reserves for all Projects receiving Authority resources. All Common Applications submitted as part of a Project Application for Authority resources should reflect capitalized Project reserves in the development budget in the “Uses” tab of the [Common Application](#), and ongoing Project reserve contributions in the “Expenses” tab of the Common Application.

In the case of Projects receiving Low-Income Housing Tax Credits, any balances in Project reserve accounts must stay with the Project at the time of investor or Limited Partner exit. The Authority will review Owner partnership agreements or other organization documents to ensure this policy is enforced.

All Projects, except as otherwise noted, must meet the following minimum reserve requirements.

## A. Replacement Reserve

All Projects must capitalize a replacement reserve (“Replacement Reserve”) in the development budget based on the number of units and fund ongoing per-unit annual Replacement Reserve contributions from Project operations, starting at the rate below in year one (1) of Project operations, and increased annually thereafter at three percent (3%) per year.

The below table specifies the required Per-Unit Capitalized Reserve based on the number of Project units, to be included in the “Uses” tab of the Common Application. The table also indicates a Per-Unit Ongoing

Reserve contribution. This contribution is to be included in the “Expenses” tab of the Common Application and trended at three percent (3%) annually thereafter in the “Cash Flow” tab of the Common Application.

The minimum requirements listed below apply to all Projects other than those applying in response to the [Permanent Supportive Housing Request for Applications](#) or, in some cases, for those Projects applying solely for [Illinois Affordable Housing Tax Credits](#). The Authority will consider deviations from these Replacement Reserve requirements in its sole discretion.

Higher annual payments may be required for rehabilitation Projects, depending on the Property Needs Assessment submitted at time of Project Application.

Per-Unit Capitalized Reserve		Per-Unit Ongoing Annual Reserve
New Construction	Rehabilitation/Adaptive Reuse	All Projects
\$750	\$1,000	\$350

### B. Operating Reserve

Generally, all Projects with Authority debt Sources, whether at or below market interest rates, must capitalize an Operating Reserve equal to six (6) months of Project operating expenses, calculated as one-half the value of the “Total Annual Operating Expenses” (as represented in the “Expenses” tab of the Common Application) less the value of the total annual “Reserves” expense (also as represented in the “Expenses” tab of the Common Application). When the Authority is providing a market-rate loan it may allow an alternative Operating Reserve minimum equal to four (4) months of operating expenses, on a case-by-case basis and at its sole discretion.

The Operating Reserve will be used to fund operating deficits including lease-up period costs and to allow for a transition of units if subsidies are eliminated. If the Project is utilizing Low-Income Housing Tax Credits, the Authority will allow the syndicator or investor in the LIHTC to hold the Operating Reserve during the LIHTC Compliance Period. Upon the exit of the Tax Credit Limited Partner, the Operating Reserve must be transferred to the Authority.

### C. Debt Service Reserve

In general, all Projects with Authority debt Sources with market interest rates must capitalize a Debt Service Reserve equal to six (6) months of payments on all mandatory (“hard pay”) debt service and held by the Authority. On a case-by-case basis and at its sole discretion, the Authority will consider an alternative Reserve minimum equal to four (4) months of debt service.

### D. Real Estate Tax Reserves

All Projects must capitalize real estate tax reserves in the development budget and fund ongoing annual real estate tax reserve contributions from operations.

The development budget in the “Uses” tab of the Common Application must include a capitalized real estate tax reserve equal to fifty-five percent (55%) of the estimated annual real estate taxes in the first year of Project operations, as reflected in the “Expenses” tab of the Common Application.

The operating budget must have adequate annual operating cash flow to fund the real estate tax reserve in an amount sufficient to pay the Project’s real estate taxes in the following year.

The Project Application submitted by the Sponsor must include a narrative explaining how construction period and operational period real estate taxes were estimated, with any relevant evidence provided.

Applications for Projects assuming real estate tax abatements or exemptions for any period of time must include the following:

- The calculation of real estate taxes before, during, and after the abatement or exemption.
- The anticipated date the abatement or exemption becomes effective.
- The length of the abatement or exemption.
- A real estate tax attorney's opinion the Project is eligible for the abatement or exemption.

### **E. Insurance Reserves**

All Projects must capitalize an insurance reserve in the development budget and fund ongoing annual insurance reserve contributions from operations.

The development budget in the "Uses" tab of the Common Application must include a reserve in the amount of one-hundred and five percent (105%) of the estimated annual insurance expense in the first year of Project operations, as stipulated by the Sponsor in the "Expenses" tab of the Common Application.

The operating budget must have adequate annual cash flow to fund the insurance reserve in an amount sufficient to pay the Project's insurance expense in the following year.

### **F. Other Reserves**

The Authority will review all other Project reserves included in the development budget (in the "Uses" tab of the Common Application) and the operating budget (in the "Expenses" tab of the Common Application) to evaluate their sufficiency and reasonableness. Explanations of Other Reserves must be included with the Project Application.

Projects reflecting additional reserve must describe all of the following for each reserve:

- How the reserve will be used.
- What entity is requiring the reserve.
- How the reserve will be replenished (if required).
- How the reserve will be liquidated or distributed upon exit of the tax credit investor or other triggering event.

Projects utilizing an Authority debt Source with a market interest rate may be required to fund a Bond Reserve if the loan capital Source is generated via bond issuance. At either initial or final closing, a Bond Reserve will be funded at a level equal to six (6) months of principal and interest at the bond interest rate, plus one (1) additional of principal and interest at the loan interest rate. This reserve may be funded via project funds or bond proceeds. Sponsors should discuss options with Authority staff.

Projects involving the development of a Supportive Living Facility will also be required to fund the following additional reserves:

- Furniture, Fixtures, and Equipment Reserve (FF&E) Reserve: \$20,000 capitalized at final closing, with an a per-unit annual funding at \$50 per unit in the first year of operations, and trended annually thereafter at three percent (3%).

Medicaid Delay Reserve: Funded at final closing at a level equal to nine (9) months of project Medicaid subsidy, according to the following table. During Project operations, the Owner will be required to replenish the reserve in full upon future receipt of Medicaid payments. See the following table for an example calculation of this reserve:

<b>SLF Medicaid Delay Reserve (180 Days)</b>	
Total Medicaid Eligible Residents	41
x Occupancy Rate	92.0%
x % Medicaid Eligible	80.0%
= Estimated Medicaid Residents	30.18
x Daily Rate	\$50.76
x % Medicaid Eligible Currently Receiving Medicaid	80.0%
x # of Days in Reserve (DIR)	270
<b>= Total SLR Medicaid Reserve</b>	<b>\$330,854</b>

## VII) Underwriting Standards

All Common Applications submitted as part of a Project Application for Authority resources should reflect the Project’s underwriting assumptions in the “Cash Flow” tab of the [Common Application](#). The Project’s operating projections are subject to the Authority underwriting standards outlined in this section.

Projects applying for any Authority resource must demonstrate compliance with the most restrictive underwriting standards and requirements for all Project financing Sources for a minimum of the initial fifteen (15) years of the Project’s operating period—that is, after construction has been completed, the Project has been placed in service, and the Project has closed on any permanent-period financing at the final financial closing.

The Authority’s minimum underwriting standards and requirements are as follows.

### A. Debt Service Coverage Ratio

Projects with “must pay” hard debt must maintain a minimum annual Debt Service Coverage Ratio, as calculated in the operating pro forma in the “Cash Flow” tab of the Common Application, of 1.15 for the first fifteen (15) years of operation. For Projects in which greater than ninety percent ( $\geq 90\%$ ) of units receive rental assistance subsidy, with a contract term of greater than fifteen (15) years remaining, and the Project involves new construction or substantial rehabilitation, the Authority requires that the Project maintain an annual minimum Debt Service Coverage Ratio of 1.11 through the first fifteen (15) years of operation.

Authority first mortgage market-rate loan products will be sized to maintain the minimum Debt Service Coverage Ratio for the initial twenty (20) years of Project operations (as reflected in the operating pro forma in the “Cash Flow” tab of the Common Application), with minimum Debt Service Coverage Ratio requirements varying depending on Project and loan type. In the case of a balloon loan structure, the Authority standards require a higher minimum Debt Service Coverage Ratio threshold (generally 1.20), along with a series of required “exit test” requirements. Authority first-position loans are also subject to maximum Loan-to-Value requirements. Please see the Authority’s [First Mortgage Loan Programs](#) page for additional details.

If a Project does not have “must-pay” hard debt, it must instead meet an Expense-to-Income Ratio of less than 0.85 in year one (1) of operations. The Expense-to-Income Ratio will be calculated as Effective Gross Income divided by Total Annual Expenses in year one (1) of operations, as found in the “Cash Flow” tab of the Common Application.



If a Project involves the use of Low-Income Housing Tax Credits, Project reserves cannot be used to maintain minimum Debt Service Coverage Ratios during the initial fifteen (15) years of the Project operating period.

The Common Application calculates Debt Service Coverage ratios for each Project debt Source in the “Cash Flow” tab.

### **B. Cash Flow after Debt Service**

Projects must maintain Cash Flow after Debt Service, as calculated in the “Cash Flow” tab of the Common Application, of at least \$100 per unit per year.

Project reserves cannot be used to maintain minimum Cash Flow after Debt Service requirements during the initial fifteen (15) years of Project operations.

### **C. Trending Factors**

Authority cash flow trending factors are as follows, subject to updates by the Authority:

- Annual Increase in real estate taxes: four percent (4%)
- Annual Increase in all other operating expenses: three percent (3%)
- Annual Increase in Residential Income: two percent (2%)
- Annual Increase in Reserve contributions: three percent (3%)

These trending factors must be reflected in the “Cash Flow” tab of the Common Application.

In order to substantiate a deviation from Authority cash flow trending factors, the Application must include documentation such as historic Project operating income and expense audits.

The Authority will review and consider documentation substantiating a deviation from Authority cash flow trending factors on a case-by-case basis.

### **D. Vacancy Rates**

The Project vacancy rates will be reflected in the “Cash Flow” tab of the Common Application, as indicated below. In order to substantiate a deviation from Authority cash flow vacancy rates, the Application must include documentation such as historic Project audits for residential income. The Authority will review and consider documentation substantiating a deviation from Authority cash flow vacancy rates on a case-by-case basis.

#### *Residential Income*

Standard Authority Residential Income vacancy rate standards are as follows:

- Elderly Projects: six percent (6%)
- Non-elderly Projects: eight percent (8%)
- Supportive Living Facility Projects (residential and service income): ten percent (10%)

In the case of Projects with elderly and non-elderly Projects that include units receiving project-based rental assistance, the Authority will consider, at its sole discretion, underwriting those units receiving rental subsidy at a three percent (3%) vacancy rate. In such a case, overall Project vacancy would be calculated as a weighted average of the assisted and non-assisted units. Sponsors hoping to underwrite assisted units to a lower vacancy rate should provide a narrative with their Application evidencing sufficient demand for the units receiving the project-based rental assistance to justify this lower vacancy rate.

At its sole discretion, the Authority will consider allowing lower residential vacancy rates on a case-by-case basis, taking into consideration:

- the performance of similar properties in the Authority’s portfolio or other comparable properties;
- historical property operations, if the Project involves the rehabilitation of an existing residential property;
- information on the primary market area as presented in the submitted market study and third-party appraisals that meet the [Authority’s Standards for Appraisals](#) (available on the Website);
- pertinent information provided by the Sponsor regarding projected property operations; and
- other information that Authority staff deem relevant.

### *Commercial Income*

For Projects requesting that the Authority underwrite with commercial income, Sponsors should provide a detailed narrative proposing an appropriate vacancy rate. Upon considering submitted narrative, the Authority will determine commercial vacancy rates in its sole discretion.

## **E. Utility Allowances**

Projects with any tenant-paid utilities must include current documentation detailing the expected monthly per unit tenant utility expenses (the “Utility Allowance”) incurred by utility and appliance type. The Sponsor should enter the Utility Allowance for each unit type in the unit schedule contained in the “Income” tab of the Common Application.

Tenant-paid utility expenses must be appropriate for the unit size, type of utilities and appliances, and Project location.

In the event a single utility covers multiple appliances, such as gas heat and cooking gas, or electric heat and electric lighting, the Utility Allowance must differentiate utility expenses by appliance.

Utility Allowance documentation can only be demonstrated through one of the following:

- A current Utility Allowance schedule provided by the governing public housing authority where the Project is located. If the governing Public Housing Authority does not have a current Utility Allowance schedule for the number of bedrooms in the Project’s unit types, a Utility Allowance schedule from a neighboring public housing authority and a letter of explanation may be submitted; or
- A utility survey of local utility company information covering one (1) full year that is representative of each unit type within the Project. A utility survey will only be accepted if the Project is currently operating as a residential building(s). Utility surveys of other nearby projects will not be accepted.

In any case where the Project’s expected Utility Allowances are less than reflected in the Utility Allowance documentation, the Application must include a detailed description of all differences that will be evaluated on a case-by-case basis. Non-essential utilities including telephone, cable television, internet access, etc., are excluded from the Utility Allowance.

## Appendix A: Definitions

Capitalized terms in this Guide shall have the following definitions:

**“Allocation”** shall mean the award of Tax Credits to a Project pursuant to Section 42. An Allocation may be made pursuant to a Carryover Allocation Letter or the issuance of IRS Form(s) 8609.

**“Area Median Income” (“AMI”)** shall mean the median income of the county in which the Project is located, or the metropolitan statistical area of Chicago, or the metropolitan statistical area of St. Louis, adjusted for family size, as such adjusted income and median income for the area are determined from time to time by HUD for purposes of Section 8 of the United States Housing Act of 1937.

**“Average Income Test”** shall have the meaning provided in Section 42(g)(1)(C). Under the Average Income Test, at least 40% of units are rent restricted, with an average income restriction of 60% AMI, and with maximum income restriction no higher than 80% AMI.

**“Authority”** shall mean the Illinois Housing Development Authority, a body politic and corporate of the State of Illinois.

**“Base Developer Fee”** shall mean the portion of Developer Fee that shall be calculated based on Fee Based Costs listed below. Base Developer Fee will be increased or decreased as described in this Guide, resulting in the Project’s final Total Developer Fee.

**“Basis Boost”** shall mean up to a thirty percent (30%) boost to the Eligible Basis of the Project.

**“Board”** shall mean the Members of the Authority.

**“Cash Flow After Debt Service”** shall mean the difference between a Project’s income and expenses including Debt Service on all must-pay debt, during Project operations following construction completion and final financial closing.

**“Code”** shall mean the Internal Revenue Code of 1986, as amended, and the regulations, notices, revenue rulings and other official pronouncements promulgated under it, all as they may be amended from time to time.

**“Common Application”** shall mean a spreadsheet document created to enter the anticipated Project development budget, operating pro-forma, and other financial and relevant Project information which will be submitted as part of a Project Application and used by the Authority in the evaluation of a proposed Project.

**“Compliance Period”** (notwithstanding Section 42(i)(1) of the Code) shall mean the period of fifteen (15) consecutive taxable years beginning with the first taxable year of the Credit Period for a LIHTC Project.

**“Control”** shall mean majority ownership interest in the general partner of the Owner or majority decision making authority as defined in the development agreement between Owner and guarantor.

- For purposes of the definition of “Sponsor,” control must mean a majority ownership interest in the general partner of the Owner.
- For purposes of determining that a Qualified Non-Profit is not controlled by a For Profit: control shall mean either a majority ownership interest or decision-making authority as defined in the entity’s legal documents.

**“Construction Contract”** shall mean the agreement between the Project Sponsor and the General Contractor, specifying the scope and terms of work for the construction to be completed as part of the Project. The Construction Contract will include items such site work; trade payments; General Contractor general conditions, overhead, and profit; and other General Contractor costs included within the construction contract, including P&P bonds, permits, builder’s risk, or remediation costs.

**“Construction Costs”** shall mean those costs related to the construction of a Project that will be captured within the Construction Contract, including cost of site work; trade payments; General Contractor general conditions, overhead, and profit; and other General Contractor costs included within the construction contract, including P&P bonds, permits, builder’s risk, or remediation costs (see: Hard Costs).

**“Debt Service”** shall mean the payment of interest and principal on a debt for a particular year.

**“Debt Service Coverage Ratio”** shall mean the quotient of the Project’s net operating income and total debt service exclusive of cash flow notes.

**“Developer Fee”** shall mean the payment to the Project Sponsor and associated entities for developer services provided. The Developer Fee includes the following, which shall not appear elsewhere in the Project budget:

- Development consultant fees.
- Construction management fees.
- Architectural and civil engineering fees in excess of the Authority’s fee limits.
- Developer overhead fees.
- Any additional fees related to direct assistance provided to the Sponsor or Owner in conjunction with the completion of the Application or construction or management of the development.

**“Deferred Developer Fee”** shall mean the portion of the Developer Fee that shall be paid from Project operating cash flow after the Project has completed construction, placed in service, and converted to permanent financing at final financial closing. As described in this Guide, the Deferred Developer Fee must be equal to the lesser of: a) twenty-five percent (25%) of the total Developer Fee; and seventy-five percent (75%) of cumulative cash flow after debt service for years one (1) through twelve (12) of Project operations;. The Authority requires that Deferred Developer Fee be included as a Project Source.

**“Donation”** shall mean an applicable donation made in compliance with the Illinois Affordable Housing Tax Credit regulations, per the Illinois Administrative Code, Title 47, Chapter II, Part 355.

**“Effective Gross Income”** shall mean all the expected income generated by a Property minus potential vacancy.

**“Energy Star”** shall mean program administered by the U.S. Environmental Protection Agency and U.S. Department of Energy that promotes energy efficiency.

**“Exit Test”** shall mean a series of operating standards that the Authority will require that a particular loan satisfy, as specified in the documents provided by the Authority in conjunction with that particular loan product.

**“Expanded Donation Form”** shall mean a document created to provide details regarding the Donation process as part of an application for Illinois Affordable Housing Tax Credits.

**“Expense-to-Income Ratio”** shall mean the quotient of Project expenses and income.

**“Fee Based Costs”** shall mean those costs that are used in the calculation of Base Developer Fee, calculated as Total Development Cost, net of Total Developer Fee, Reserves, Interim Costs, and Syndication Costs.

**“Final Closing”** shall mean the date in which all requirements for conversion from the construction to permanent period have been satisfied as determined by the Authority.

**“Flow Chart Process”** shall mean a document to be created by a Sponsor applying for Illinois Affordable Housing Tax Credits, that visually represents the Donation process.

**“Gap Financing”** shall have the same meaning as Soft Loan.

**“Grand Total Construction Costs”** shall mean the total amount of Project Construction Costs, inclusive of general contractor profit, overhead, and general conditions, and other general contractor costs.

**“Gross Square Footage”** shall mean the total area of a Project’s building footprint measured to the exterior walls of a building. This will include all residential, commercial, and service space.

**“Hard Costs”** shall have the same meaning as “Construction Costs.”

**“IAHTC Application Checklist”** shall mean a document created to provide a list of all necessary items to be submitted as part of a request for Illinois Affordable Housing Tax Credits (IAHTC).

**“Identity of Interest”** shall mean the existence of any of the following conditions:

- When one or more of the officers, directors, stockholders, members, or partners of the Owner is also an officer, director, stockholder, member, or partner of any other Participant;
- When any officer, director, stockholder, member or partner of the Owner has any financial interest whatsoever in any other Participant;
- When any Participant advances any funds or sells or donates property to the Owner;
- When any Participant provides and pays, on behalf of the Owner, the cost of any architectural services or engineering services other than those of a surveyor, general superintendent, or engineer employed by any other Participant in connection with its obligations under its contract with the Owner;
- When any Participant takes stock or any interest in the Owner entity, as part of the consideration to be paid.

**“Interim Costs”** shall mean costs accrued during Project construction including, but not limited to, construction and bridge loan interest costs, servicing fees during construction, real estate tax and insurance during construction, and credit enhancement during construction. Interim Costs is calculated in the “Uses” tab of the Common Application.

**“Investor”** shall mean an entity that receives Low-Income Housing Tax Credits in return for an equity investment in the relevant LIHTC Project.

**“Loan Committee”** shall mean the Authority’s body of upper-level officers, that analyzes and subsequently approves or rejects any initial allocation of Authority resources to a Project. In general, once a resource allocation has been scrutinized and approved by the Loan Committee, the resource allocation will be

presented to the Authority's Board for final approval.

**"Loan-to-Value"** shall mean the quotient of a mortgage amount and property value.

**"Low Income"** shall mean a household income at or below the income limit(s) determined by the property Owner's minimum set-aside election. For LIHTC projects, owners may elect to make units affordable to households at or below 60% AMI, 50% AMI, or for the Average Income Test, between 20% and 80% AMI in increments of ten (10) percentage points.

**"Low-Income Housing Tax Credits" ("LIHTC")** shall mean federal low-income housing tax credits, as authorized by Section 42 of the Internal Revenue Code.

**Bond Reserve** shall mean a Project reserve account required for some Projects using Authority Bond volume cap and an Authority loan product, generally equal six (6) months of principal and interest at the Bond interest rate, plus one (1) additional of principal and interest at the level of an applicable loan interest rate.

**"Management Fee"** shall mean the fee payable to the property manager for the day-to-day management of the Property pursuant to the management agreement document.

**"Multifamily Fee Payment Form"** shall mean a document created to facilitate the payment of relevant fees to the Authority.

**"Multifamily Portal"** shall mean a portal created to allow the electronic submission of all required documentation for applications for any IHDA multifamily funding resource.

**"Owner"** shall mean the entity that will own the proposed Project, whether extant or to-be-formed.

**"Participant"** shall mean a member of the Project's development team, including Sponsor, general contractor, architect, and property manager.

**"PHA Administrative Plan"** shall have the meaning provided in 24 CFR § 982.54.

**"Public Housing Authority" ("PHA")** shall mean the Public Housing Authority whose jurisdiction includes the Project.

**"Project Based Vouchers" ("PBV")** shall have the meaning provided in 24 CFR § 983.

**"Preliminary Project Assessment"** shall mean an entire set of required and requested documents for a Site, market, financial feasibility, and Participant review as more fully described in Section VI of the [QAP](#) and on the Website.

**"Project"** shall mean an existing or proposed qualified Low Income housing project, as defined in Section 42, that satisfies, or will satisfy, the requirements of the QAP and the Authority.

**"Project Application"** shall mean an entire set of required and requested documents as prescribed in this QAP and submitted by a Sponsor to the Authority.

**"Property Needs Assessment" ("PNA")** shall mean a property inspection report that estimates the future costs of property maintenance, as well as determining the cost to repair any parts of a property that must be fixed urgently.

**“Owner”** shall mean the single asset entity, organized under the laws of the State of Illinois, or any other state, that is awarded Tax Credits for a Project pursuant to this QAP and which owns or will own the Project for the term of the Compliance Period, and which shall be signatory to the Extended Use Agreement. The Owner shall be Controlled by the Sponsors.

**“Qualified Allocation Plan” (“QAP”)** shall mean the Authority’s Low-Income Housing Tax Credit Qualified Allocation Plan, as required under Section 42.

**“Realized Developer Fee”** shall mean Total Developer Fee net of Deferred Developer Fee.

**“Reserves”** shall mean certain funds or accounts established in conjunction with the development of a Project to be used to pay specific designated costs in connection with the Project.

**“Section 42”** shall mean Section 42 of the Code and the regulations and revenue rulings promulgated under it, all as they may be amended from time to time.

**“Set-Aside”** shall mean the percentage of Tax Credits allocated as set forth in Section IV of the QAP.

**“Seller”** shall mean the entity that currently owns the property that would be developed according to the proposed Project.

**“Site”** shall mean a parcel of land on which the Project will be developed, described by a unique legal description which will be encumbered by the Extended Use Agreement. A Project may consist of multiple Sites.

**“Sponsor”** shall mean an entity that is applying for Tax Credits for a Project pursuant to this QAP. The Sponsor shall Control the Owner of the Project for the term of the Compliance Period. The sponsor shall not be a single asset entity. Project consultants and other like professionals shall not be considered as Sponsors.

**“Soft Costs”** shall mean costs that are not directly related to the physical construction of a building or structure. Soft costs will typically include architectural design and engineering fees, legal fees, accounting, appraisal reports, environmental research, marketing, relocation, and permits.

**“Soft Loan”** shall mean Authority-provided debt that serves as a Project Source and requires interest and principal payments at below-market rates.

**“Source”** shall mean any funding resource that will pay project Uses, including loans, equity, and grants.

**“Subordinate Loan”** shall have the same meaning as Soft Loan.

**“Surplus Cash Flow”** shall have the same meaning as Cash Flow After Debt Service.

**“Statewide Referral Network” (“SRN”)** shall mean a statewide referral process that links Supportive Housing Populations with available Statewide Referral Network Units. The Statewide Referral Network is a collaboration between the Authority, the Illinois Department of Human Services, the Illinois Department on Aging, the Illinois Department of Healthcare and Family Services, and local social service providers.

**“Syndicator”** shall mean an entity that serves as an intermediary in the purchase of Low-Income Housing Tax Credits, assisting Investors in the sourcing, underwriting, and asset management of LIHTC Projects.

**"Total Developer Fee"** shall mean the Base Developer Fee net of any increases or decreases, as described in this Guide.

**"Total Development Cost"** shall mean all costs and expenses paid or incurred that are in any way related to the development of a Project, including, but not limited to, acquisition, construction, financing, and other costs. A Project's Total Development Cost is calculated in the "Uses" tab of the Common Application.

**"Total Annual Operating Expenses"** shall mean the Project's budget for all management, administrative, operating, maintenance, and utility expenses, along with reserve fundings and tax and insurance payments, for Project operations after final closing, as calculated in the "Expenses" tab of the Common Application.

**"Unit"** means any accommodation containing separate and complete facilities for living, sleeping, eating, cooking, and sanitation (e.g., a residential dwelling consisting of one apartment, one single family home, one half of a duplex, etc.). Such accommodations may be served by centrally located equipment such as air conditioning or heating.

**"Use"** shall mean any cost associated with the development of a Project. These include, but are not limited to, acquisition costs, construction costs, relevant third-party fees, financing costs, reserve costs, and Developer Fee.

**"Website"** shall mean <http://www.ihda.org/>.





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