



IHCDA

Project Based Voucher

Subsidy Layering Review Policy and Procedures

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Introduction

In IHCD's capacity as the Housing Credit Agency for the State of Indiana, HUD has granted IHCD the authority to conduct Subsidy Layering Reviews (SLR) for any project receiving a Project Based Voucher (PBV) award from an Indiana Public Housing Authority (PHA). The PHA providing the Project Based Voucher Award (the "awarding PHA") is responsible for submitting all materials outlined in the SLR application.

An IHCD SLR is conducted pursuant to the HUD SLR Guidelines most recently updated in FR Notice, Vol. 88, No. 48, March 13th, 2023. IHCD does not have the authority to waive any of these SLR Guidelines.

PHA Submission Guidelines

Request for an IHCD SLR must be made by the PHA providing the PBV award. To request an SLR the PHA must submit to IHCD all items listed in IHCD's "SLR Submission Checklist" spreadsheet. While many of these items are most likely to come from the project owner/developer, it is the responsibility of the awarding PHA to initiate the SLR request and to submit the complete package to IHCD for review.

Once IHCD receives a request for SLR, the PHA will be provided with access to a OneDrive folder to submit the required documentation.

IHCD will provide a SLR Certification Letter or Denial Letter within 30 business days of all required documents being submitted.

In the case where IHCD is the awarding PHA, IHCD will pull all available documents from the applicable LIHTC or HOME application. Any remaining documents needed to complete the SLR will be requested from the owner/developer.

Required Documents for Subsidy Layering Review

The PHA is responsible for collecting and submitting all documents listed below. All documents are required by HUD SLR Guidelines and must be submitted before the SLR can be completed.

1. PHA Cover Letter

- a. Letter from awarding PHA requesting IHCD conduct the SLR. Letter must include the PHA Number, PHA contact person including phone number and email address, project owner contact person including phone number and email address, and project name. (See sample in PIH Notice 2013-11)

2. Narrative Description of the Project

- a. Narrative must identify project ownership, type of activity (rehab, new construction, etc.), the project location, description of services to be provided, target population (veteran, elderly, low-income families, persons experiencing

homelessness, etc.), total units in the project by bedroom size, total number of PBVs awarded to the project, and the percentage of units receiving PBVS.

- b. If greater than 25% of units in the project are receiving PBVs, the narrative must specify the exception to the 25% project cap that is being met under 24 CFR 983.56.

3. Statement of Permanent Sources and Uses of Funds

- a. Indicate type of each source (loan or grant) and terms. Only include permanent financing. Construction and interim financing should be included in item 3 below (Description of Funding Sources)
- b. Identify detailed uses, avoiding broad categories such as “soft cost.” Acquisition cost should distinguish the purchase price from related cost such as appraisal, survey, and related fees. Sources must equal uses.
- c. Following requirements must be met:
 - i. General Contractor Fees as % of Hard Costs $\leq 6\%$
 - ii. Contractor Overhead as % of Hard Costs $\leq 2\%$
 - iii. Builder’s Profit as % of Hard Costs $\leq 6\%$
 - iv. Developer Fee as a % of Total Costs (Eligible Basis) $\leq 15\%$
- d. Complete and submit HUD Form 50156

4. Description of Funding Sources

- a. Short narrative describing details for each funding source including construction, bridge, and permanent financing as applicable. Narrative should include the following information for each funding source:
 - i. Principal
 - ii. Interest rate
 - iii. Amortization
 - iv. Term
 - v. Any accrual, deferral, balloon, or forgiveness provisions
 - vi. Reserve or escrow requirements for any debt
 - vii. Any requirement to pay a portion of debt service as cashflow

5. Commitments for all Funding Sources

- a. Commitment letters, conditional commitment letters, grant agreements, or loan agreements for each funding source.
 - i. Must be commitments, not letters of interest or letters of intent.
 - ii. Closing conditions are acceptable.
 - iii. Must include all significant terms of the funding
 - iv. Must match the sources listed under Items #3 and #4 above

6. Development Commitment Letter or Development Agreement

- a. Agreement must delineate any agreements, contributions, donations, significant terms, or transfer of funds from the developer and/or participating partners such as deferred developer fees, cash contributions, land donations, and equity investment

7. Supportive Services Commitment

- a. If the project is claiming exception to the regulatory 25% unit cap due to services being available, submit a signed Memorandum of Understanding describing services, frequency, terms of services, and resident service eligibility.

8. Appraisal Report

- a. Appraisal establishing “as is” value of the property before construction and without implications of tax credits. Appraisal must be dated within 18 months of the SLR submission date.
- b. An appraisal is required with all SLR submissions, even if there are no acquisition costs.

9. Stabilized Operating Pro Forma

- a. Use IHCD template Pro Forma if receiving IHCD LIHTC or HOME funds
 - i. If no changes since the LIHTC or HOME application was submitted to IHCD, may resubmit the original pro forma and acknowledge no changes
 - ii. If there have been changes, resubmit an updated pro forma
- b. Proforma meets following requirements:
 - i. DCR between 1.1-1.45,
 - ii. Cashflow <10% total expenses,
 - iii. Income trending 1-3% years 1-5 and 3% years 6-15
 - iv. Expense trending 1-3% years 1-15,
 - v. Replacement Reserves trending 3% (IHCD Policy)
 - vi. Vacancy Rate 4-7% (IHCD Policy)

10. Low-Income Housing Tax Credit Allocation Letter (if applicable)

- a. IHCD will upload this letter into folder, PHA does not need to provide

11. Historic Tax Credit Letter (if applicable)

- a. Submit award letter identifying the tax credit award amount

12. HOME or Housing Trust Fund Commitment Letter (if applicable)

- a. Submit signed award letter clearly identifying requirements of HOME or HTF-designated units and intended rents

13. Equity Contribution Schedule (if LIHTC project)

- a. Provide an equity investor commitment letter with detailed contribution schedule or a copy of the Limited Partnership Agreement (LPA) containing this information

14. Form HUD-2880- Applicant/Recipient Disclosure/Update Report

- a. Submit copy of HUD Form fully completed and signed by the project owner.
 - i. Note: Under Applicant/Recipient Information- line 4 “amount of HUD assistance requested” can be left blank. Per the instructions, this line is to be completed if the Applicant is requesting competitive HUD funds.

15. PBV Award Letter

- a. Letter must be on PHA letter head and include the number of units and bedroom sizes for which PBV will be awarded.
- b. If the term of the PBV award is less than 20 years the award letter must state that no extension of the HAP contract will be considered until the contract approaches expiration

16. PHA Rent Certification Letter

- a. Letter must be on PHA letterhead and include the following:
 - i. Proposed initial contract rents
 - ii. Utility Allowances
 - iii. Gross rental amounts for assisted units
 - iv. Rent reasonableness documentation or comparability analysis as evidence of rent determination and certification

17. Environmental Clearance

- a. Submit evidence that a Part 58 environmental review has been completed by providing HUD Form 7015.16 Authority to Use Grant Funds

18. SLR Submission Checklist

- a. Submit completed copy of IHCD's SLR Submission Checklist spreadsheet
 - i. Fill out cells B1, B2, and B3
 - ii. Complete the “external check” fields in Column C

Completion and Approval of SLR

The SLR package will be reviewed by the assigned IHCD underwriter, the Director of Housing Choice Programs, and the Chief Real Estate Development Officer. Once any issues or missing documentation have been resolved, the IHCD review team will sign off on the “Internal Summary and Approval of Subsidy Layering Review” document and update the project file.

IHCD will then issue a “Subsidy Layering Review and Certification” letter to HUD’s Housing Voucher Financial Management Division in DC. The awarding PHA will be copied on the letter.

If IHCD is the awarding PHA, IHCD will notify the owner/developer that the SLR is complete and will begin preparing the Agreement to Enter into a Housing Assistance Payment (AHAP). IHCD will work directly with the owner/developer to complete and execute the AHAP.

If another PHA is the awarding PHA, that PHA is responsible for notifying the owner/developer that the SLR is complete and is also responsible for preparing and executing the AHAP.

In either case, the SLR must be complete and the AHAP must be fully executed prior to closing or beginning of construction.

Sample Pro Forma and Budget Screenshots

The following screenshots show samples from IHCD's LIHTC application to demonstrate key pieces of information used during the SLR.

| ITEMIZED COSTS | Project Costs | 30% PV [4% Credit] | 70% PV [9% Credit] |
|--|-------------------|-----------------------|-----------------------|
| a. To Purchase Land and Buildings | | | |
| 1. Land | 305,000 | | |
| 2. Demolition | | | |
| 3. Existing Structures | | | |
| 4. Other(s) (Specify below.) | | | |
| | | | |
| b. For Site Work | | | |
| 1. Site Work (not included in Construction Contract) | | | |
| 2. Other(s) (Specify below.) | | | |
| | | | |
| c. For Rehab and New Construction (Construction Contract Costs) | | | |
| 1. Site Work | 1,144,512 | | 1,144,512 |
| 2. New Building | 7,121,408 | | 7,121,408 |
| 3. Rehabilitation** | | | |
| 4. Accessory Building | | | |
| 5. General Requirements* | 484,510 | | 484,510 |
| 6. Contractor Overhead* | 161,503 | | 161,503 |
| 7. Contractor Profit* | 484,510 | | 484,510 |
| 8. Hard Cost Contingency | 403,758 | | 403,758 |
| | | | |
| d. For Architectural and Engineering Fees | | | |
| 1. Architect Fee - Design* | 352,000 | | 352,000 |
| 2. Architect Fee - Supervision* | 30,000 | | 30,000 |
| 3. Consultant or Processing Agent | | | |
| 4. Engineering Fees | 70,000 | | 70,000 |
| 5. High Performance Building Consultant | 22,000 | | 22,000 |
| 6. Other Fees (Specify below.) | | | |
| | | | |
| e. Other Owner Costs | | | |
| 1. Building Permits | 15,000 | | 15,000 |
| 2. Tap Fees | 92,147 | | 92,147 |
| 3. Soil Borings | 5,000 | | 5,000 |
| 4. Real Estate Attorney | | | |
| 5. Developer Legal Fees | 50,000 | | 50,000 |
| 6. Construction Loan - Legal | 25,000 | | 25,000 |
| 7. Title and Recording | 25,000 | | 25,000 |
| 8. Cost of Furniture | 55,000 | | 55,000 |
| 9. Accounting | 10,000 | | 10,000 |
| 10. Surveys | 5,000 | | 5,000 |
| 11. Other Costs (Specify below.) | | | |
| | | | |
| SUBTOTAL OF THIS PAGE | 10,861,348 | - | 10,556,348 |

Hard Costs

GC Fees

* Designates the amounts for those items that are limited, pursuant to the Qualified Allocation Plan

** Please provide a rehabilitation budget in Tab L that lists the cost of furniture, construction of community building, and common area amenities.

| ITEMIZED COSTS | Project Costs | [4% Credit] | [9% Credit] |
|---|-------------------|-------------|-------------------|
| SUBTOTAL OF PREVIOUS PAGE | 10,861,348 | 0 | 10,556,348 |
| f. For Interim Costs | | | |
| 1. Construction Insurance | 60,000 | | 60,000 |
| 2. Construction Period Interest | 600,000 | | 510,000 |
| 3. Other Capitalized Operating Expenses | | | |
| 4. Construction Loan Orig. Fee | 98,000 | | 98,000 |
| 5. Construction Loan Credit Enhancement | | | |
| 6. Construction Period Taxes | 1,000 | | 1,000 |
| 7. Fixed Price Contract Guarantee | | | |
| g. For Permanent Financing Fees & Expenses | | | |
| 1. Bond Premium | | | |
| 2. Credit Report | | | |
| 3. Permanent Loan Orig. Fee | 18,500 | | |
| 4. Permanent Loan Credit Enhancement | | | |
| 5. Cost of Iss/Underwriters Discount | | | |
| 6. Title and Recording | | | |
| 7. Counsel's Fee | 40,000 | | |
| 8. Other(s) (specify below) | | | |
| HUD App Fee, Lender App Fee, Inspection Fee | 47,050 | | 47,050 |
| h. For Soft Costs | | | |
| 1. Property Appraisal | 1,800 | | 1,800 |
| 2. Market Study | 10,100 | | 10,100 |
| 3. Environmental Report | 5,250 | | 5,250 |
| 4. IHEDA Fees | 81,500 | | |
| 5. Consultant Fees | | | |
| 6. Guarantee Fees | | | |
| 7. Soft Cost Contingency | 15,000 | | 15,000 |
| 8. Other(s) (specify below) | | | |
| Construction Inspection | 3,000 | | 3,000 |
| i. For Syndication Costs | | | |
| 1. Organizational (e.g. Partnership) | 50,000 | | |
| 2. Bridge Loan Fees and Expenses | | | |
| 3. Tax Opinion | | | |
| 4. Other(s) (specify below) | | | |
| j. Developer's Fee | | | |
| 35 % Not-for Profit | | | |
| 65 % For-Profit | 1,082,100 | | 1,082,100 |
| k. For Development Reserves | | | |
| 1. Rent-up Reserve | 50,000 | | |
| 2. Operating Reserve | 155,500 | | |
| 3. Other Capitalized Reserves* | | | |
| *Please explain in footnotes. | | | |
| l. Total Project Costs | 13,180,148 | - | 12,389,648 |

Developer Fee

Eligible Basis

Housing Commercial

Headnotes

| | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | 14 | 15 | Totals |
|---|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|-----------|
| Income | | | | | | | | | | | | | | | | |
| Potential Gross Income | 526,920 | 537,458 | 548,208 | 559,172 | 570,355 | 581,762 | 593,398 | 605,265 | 617,371 | 629,718 | 642,313 | 655,159 | 668,262 | 681,627 | 695,260 | 5,112,247 |
| Less: Vacancies | (11,813) | (12,248) | (12,893) | (13,550) | (14,221) | (14,906) | (15,604) | (16,316) | (17,042) | (17,783) | (18,539) | (19,310) | (20,096) | (20,898) | (21,716) | (166,733) |
| Effective Gross Income | 495,305 | 505,211 | 515,315 | 525,621 | 536,134 | 546,857 | 557,794 | 568,950 | 580,329 | 591,935 | 603,774 | 615,849 | 628,166 | 640,730 | 653,544 | 8,565,512 |
| Expenses | | | | | | | | | | | | | | | | |
| Administrative | 47,395 | 48,817 | 50,281 | 51,790 | 53,343 | 54,944 | 56,592 | 58,290 | 60,039 | 61,840 | 63,695 | 65,606 | 67,574 | 69,601 | 71,689 | 881,496 |
| Maintenance | 23,200 | 23,896 | 24,613 | 25,351 | 26,112 | 26,895 | 27,702 | 28,533 | 29,389 | 30,271 | 31,179 | 32,114 | 33,078 | 34,070 | 35,092 | 431,495 |
| Operating | 230,448 | 237,361 | 244,482 | 251,817 | 259,371 | 267,152 | 275,167 | 283,422 | 291,925 | 300,682 | 309,703 | 318,994 | 328,564 | 338,421 | 348,573 | 4,286,083 |
| Other | | | | | | | | | | | | | | | | - |
| Less Tax Abatement | | | | | | | | | | | | | | | | - |
| Total Expenses | 301,043 | 310,074 | 319,377 | 328,958 | 338,827 | 348,991 | 359,461 | 370,245 | 381,352 | 392,793 | 404,577 | 416,714 | 429,215 | 442,092 | 455,355 | 5,599,073 |
| Net Operating Income | 194,262 | 195,137 | 195,939 | 196,664 | 197,307 | 197,865 | 198,333 | 198,705 | 198,976 | 199,142 | 199,197 | 199,135 | 198,951 | 198,638 | 198,190 | 2,966,440 |
| Debt Service - 1st Mort. | 133,100 | 133,100 | 133,100 | 133,100 | 133,100 | 133,100 | 133,100 | 133,100 | 133,100 | 133,100 | 133,100 | 133,100 | 133,100 | 133,100 | 133,100 | 1,996,500 |
| Debt Service - 2nd Mort. | 31,061 | 31,061 | 31,061 | 31,061 | 31,061 | 31,061 | 31,061 | 31,061 | 31,061 | 31,061 | 31,061 | 31,061 | 31,061 | 31,061 | 31,061 | 465,915 |
| Debt Service - 3rd Mort. | | | | | | | | | | | | | | | | - |
| Debt Service - 4th Mort. | | | | | | | | | | | | | | | | - |
| Debt Service - 5th Mort. | | | | | | | | | | | | | | | | - |
| Total Debt Service | 164,161 | 164,161 | 164,161 | 164,161 | 164,161 | 164,161 | 164,161 | 164,161 | 164,161 | 164,161 | 164,161 | 164,161 | 164,161 | 164,161 | 164,161 | 2,462,415 |
| Operating Cash Flow | 30,101 | 30,976 | 31,778 | 32,503 | 33,146 | 33,704 | 34,172 | 34,544 | 34,815 | 34,981 | 35,036 | 34,974 | 34,790 | 34,477 | 34,029 | 504,025 |
| Total Combined DCR | 1.183 | 1.189 | 1.194 | 1.198 | 1.202 | 1.205 | 1.208 | 1.210 | 1.212 | 1.213 | 1.213 | 1.213 | 1.212 | 1.210 | 1.207 | 1.206 |
| Deferred Dev. Fee Payment | 30,101 | 30,976 | 31,778 | 32,503 | 15,734 | | | | | | | | | | | 141,092 |
| Surplus Cash | (0) | (0) | (0) | (0) | 17,412 | 33,704 | 34,172 | 34,544 | 34,815 | 34,981 | 35,036 | 34,974 | 34,790 | 34,477 | 34,029 | 362,933 |
| Cash Flow/Total Expenses (not to exceed 10%) | 0% | 0% | 0% | 0% | 5% | 10% | 10% | 9% | 9% | 9% | 9% | 8% | 8% | 8% | 7% | 5% |
| EGI/Total Expenses | 1.65 | 1.63 | 1.61 | 1.60 | 1.58 | 1.57 | 1.57 | 1.56 | 1.56 | 1.55 | 1.55 | 1.54 | 1.48 | 1.46 | 1.44 | 1.53 |

DCR

CF/OPEX

| | | |
|-----------------------------------|----|---------|
| Annual Income (Market Rate Units) | \$ | - |
| Potential Gross Income | \$ | 526,920 |
| Less Vacancy Allowance | \$ | 31,615 |
| Effective Gross Income | \$ | 495,305 |

Vacancy

Default annual % increase in income over the Compliance Period? 2%

W. Annual Expense Information

(Check one) Housing OR Commercial

| <u>Administrative</u> | | <u>Other Operating</u> | |
|--|-------------|-------------------------------|------------|
| 1. Advertising | 1,920 | 1. Elevator | 2,000 |
| 2. Management Fee | 29,575 | 2. Fuel (heating & hot water) | |
| 3. Legal/Partnership | 2,400 | 3. Electricity | 9,440 |
| 4. Accounting/Audit | 4,000 | 4. Water/Sewer | 28,800 |
| 5. Compliance Mont. | 1,100 | 5. Gas | |
| 6. Office Expenses | 8,400 | 6. Trash Removal | 3,600 |
| 7. Other (specify below) | | 7. Payroll/Payroll Taxes | 72,000 |
| Total Administrative | \$ 47,395 | 8. Insurance | 28,248 |
| | | 9. Real Estate Taxes* | 33,600 |
| Maintenance | | 10. Other Tax | |
| 1. Decorating | \$ 1,600 | 11. Yrly Replacement Reserve | 14,400 |
| 2. Repairs | \$ 12,800 | 12. Resident Services | 18,200 |
| 3. Exterminating | \$ 2,400 | 13. Internet Expense | 20,160 |
| 4. Ground Expense | \$ 6,400 | 14. Other (specify below) | |
| 5. Other (specify below) | | Total Other Operating | \$ 230,448 |
| Total Maintenance | \$ 23,200 | | |
| Total Annual Administrative Expenses: | \$ 47,395.0 | Per Unit | 987 |
| Total Annual Maintenance Expenses: | \$ 23,200.0 | Per Unit | 483 |
| Total Annual Other Operating Expenses: | \$ 230,448 | Per Unit | 4801 |
| TOTAL OPERATING EXPENSES (Admin+Operating+Maint): | \$ 301,043 | Per Unit | \$ 6,272 |
| Default annual percentage increase in expenses for the next 15 years? | | | 3% |
| Default annual percentage increase for replacement reserves for the next 15 years? | | | 3% |

Operating Expense Trending

Replacement Reserve Trending

* List full tax liability for the property. Do not reflect tax abatement.