Course Objectives

- Identify the five phases of the development process.
- Become familiar with the various partners involved in the development process.
- Learn how to determine the financial feasibility of a project.
- Understand the factors that impact site suitability.
- Demonstrate awareness of ratios applied in analyzing financial projections.
- Understand how to develop and analyze an operating budget.
- Be able to name at least 5 key elements involved in the construction phase of the development process.
- Be able to prepare an operating budget using given data and assumptions.
Development Course: Session 1 Description

This course reviews the housing development process in Native communities from project formation to property management. Three sessions will be delivered covering the following:

- Development Process Overview
- Project Development Phase
- Project Operations

Participants will learn how to design and implement a housing development strategy, tailored to community needs and today’s financing environment. Different housing development approaches, such as rental, lease purchase, and homeownership will be discussed. Innovative financing strategies, site selection issues, contracting, construction management, and loan packaging will be examined. Operations and management issues, including financing, marketing, pre-leasing, leasing, and management will also be explored. The risks and rewards of several Native development models will be examined to illustrate today’s housing development process.
Section 1: Project and Program Development
Section 1: Project and Program Development

By the end of this Section you will be able to:

- Distinguish between projects and programs;
- List examples of projects; and
- List examples of programs.
What is a Program?

A program is:

– “a group of related projects managed in a coordinated way to obtain benefits and control not available from managing them individually”*

– A program manager provides leadership and direction for the project managers heading the projects within the program

Program Examples

- TDHE
  - Construction & Maintenance
    - Program: Rehab
    - Program: Weatherization
  - Housing Management
    - Program: TBRA
    - Program: Low Rent
  - Housing Counseling
    - Program: Housing Counseling
What is a Project?

- **A project** is “a temporary endeavor undertaken to create a unique product, service, or result”*

- Operations is work done to sustain the business

- Projects end when their objectives have been reached, or the project has been terminated

---

What is a Project?

• Clear goals
• Defined ownership/responsibility
• Timeline
• Dedicated team
• Defined methodology
• Controlled execution
• Completion evaluated based on original plan
• Linked to business objectives
• Supported by an organization’s management team
Project Examples

- Rehabilitation of 60 owner-occupied units in need of major energy improvements
- Construction of a rental housing subdivision
- Construct a community center
- Identify a site to construct a 20-unit low-income senior citizen facility
- Development of a housing counseling department
QUIZ: Which of the following are characteristic of a project? Select all that apply.

A. A project has a unique purpose
B. A single project typically lasts 20 years.
C. A project is always small in scope.
D. A project has specific, defined goals.
E. A project has a timeline
QUIZ: Which of the following are identified as programs? Select all that apply

A. Mutual homeownership assistance
B. Tribal designated housing entity
C. Accounting department
D. Housing construction
E. Down payment assistance
Management of Projects and Programs

- Project and program management address questions like:
  - Are we carrying out projects well?
  - Are projects on time and budget?
  - Do project stakeholders know what they should be doing?
Success

There are different ways to define success:

- The endeavor met scope, time, and cost goals.
- The endeavor satisfied the community/sponsor.
- The endeavor produced the desired results.
Typical Program/Project Constraints
What is Project Management?

- **Project management** is “the application of knowledge, skills, tools and techniques to project activities to meet project requirements.”*

Project Management is Art & Science of . . .

- Planning,
- Organizing, and
- Managing resources to get a particular project
  - done on time,
  - within budget, and
  - with the results that the organization set out to achieve.
The Five Process Groups

- Initiating
- Planning
- Executing
- Monitoring and Controlling
- Closing
IF YOU ALL YOUR BIDS REALLY EXCEED YOUR BUDGET!!!!!
QUIZ: The “Five Process Groups” include initiating, planning, executing, monitoring, and controlling, and _____.

A. Breaking ground
B. Closing
C. Re-evaluating
D. Asking for forgiveness
DESCRIBE HOW YOUR SUCCESSFUL PROJECT WILL LOOK ON OPENING DAY

Initiating
THIS IS A PROJECT
THIS IS NOW A PROGRAM. WHAT SHOULD IT BE NAMED?
Section 2: Overview of the Development Process
Overview of the Development Process

- Traditional Approach to Planning and Development
- Identify the five phases of the development process.
- Understand the elements of each phase of development.
- Cite circumstances where phases overlap.
## Traditional & Alternative Housing Development

<table>
<thead>
<tr>
<th></th>
<th>TRADITIONAL DEVELOPMENT PROCESS</th>
<th>ALTERNATIVE DEVELOPMENT PROCESS</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Investors</strong></td>
<td>HUD</td>
<td>Multiple sources of funds</td>
</tr>
<tr>
<td><strong>Planning</strong></td>
<td>- Driven by HUD requirements&lt;br&gt;- Scope limited and defined by fixed amount of funds&lt;br&gt;- Concept prescribed by HUD requirements&lt;br&gt;- Feasibility not an issue due to grant nature of funding and subsidies&lt;br&gt;- Profitability or break-even not considered&lt;br&gt;- Staff expertise limited to developing HUD projects</td>
<td>- Driven by tribal community needs&lt;br&gt;- Scope addresses multiple needs due to blending of public, private sources of funds&lt;br&gt;- Concept driven by community needs assessment&lt;br&gt;- Financial feasibility required due to debt associated with project&lt;br&gt;- Project must be profitable or break-even&lt;br&gt;- Requires numerous partners in addition to staff expertise in the leveraging</td>
</tr>
<tr>
<td><strong>Partners</strong></td>
<td>HUD, Tribe</td>
<td>HUD, Tribe, Private Funders, Lenders, etc.</td>
</tr>
<tr>
<td><strong>Developer’s Fees</strong></td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td><strong>Timing</strong></td>
<td>Simple</td>
<td>More complex due to multiple funders’ requirements</td>
</tr>
<tr>
<td><strong>Budget</strong></td>
<td>Straightforward goal</td>
<td>Reflects developer costs, multiple fees, in addition to housing costs,</td>
</tr>
</tbody>
</table>
Discussion: My tribe’s development process proceeds as follows:

- **STEP 1**: Someone got an idea.
- **STEP 2**: Someone on Council liked the idea.
- **STEP 3**: The idea got discussed at Council and became IDEAS.
- **STEP 4**: Council issued a resolution directing implementation of the IDEAS.
- **STEP 5**: Housing presents a plan to the Board and the Council.
Changing the Way We Do Business

- Marketing Plan
- Marketing Research Skills
- Innovative Leveraging
- Accessing Private Investment
- Development Fees
Section 3: Planning for Community Development
COMPREHENSIVE PLANNING
Comprehensive Planning

Comprehensive Planning Guide

- Begins with tribal leadership
- Includes all tribal components (land use planning, natural resources ordinances, etc.)
- Housing component
- Economic Development Component
- Census tract/age demographics
My tribe has a comprehensive plan that addresses housing.
# Today’s Development Process

<table>
<thead>
<tr>
<th>Concept</th>
<th>Predevelopment</th>
<th>Development</th>
<th>Construction</th>
<th>Operations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Determine need</td>
<td>More site studies</td>
<td>Appraisal</td>
<td>Build it</td>
<td>Sell homes</td>
</tr>
<tr>
<td>Identify site</td>
<td>Prelim A &amp; E</td>
<td>Full A&amp;E drawings</td>
<td>Manage issues</td>
<td>Rent units</td>
</tr>
<tr>
<td>Develop a vision</td>
<td>Site control</td>
<td>Bidding</td>
<td>Draw funds</td>
<td>Close perm loan</td>
</tr>
<tr>
<td>Political support</td>
<td>Enviro studies</td>
<td>Construction docs</td>
<td>Start marketing</td>
<td></td>
</tr>
<tr>
<td>Early site studies</td>
<td>Apply for funds</td>
<td>Funding secured</td>
<td>Qualify families</td>
<td></td>
</tr>
<tr>
<td>ID $ sources</td>
<td>Cost estimates</td>
<td>Close on funding</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Housing Counseling</td>
<td></td>
<td>Housing Counseling</td>
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<td></td>
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<tr>
<td>Housing Counseling</td>
<td></td>
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<tr>
<td>Housing Counseling</td>
<td></td>
<td>Housing Counseling</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Development Process

- Generally, the development process is nonlinear.
- The process includes five stages.
- Each stage contains
  - tasks,
  - products, and
  - decisions for market, site finance, and team.
- Expect tasks to overlap within stages.
Estimated Time by Phase

- Concept
  - 1 – 2 years

- Predevelopment
  - 2 - 5 years

- Development
  - 1 - 2 years

- Construction and Rent Up or Sale
  - 12 - 23 months

- Operations - Rental
  - 30 years, 55 years, or other depending on financing

- Sale - Homeownership
  - Possibly no involvement once homes are sold; however, there may be warranty/call back or resale issues
QUIZ: The development process chronological, continuous process.

a. True

b. False
ACTIVITY
Tribal Council
Directives
The Tribal Council reviewed the recently completed needs assessment and issued a directive to the NPTHA Board of Commissioners to create a 5-year Implementation Plan to address the following tasks with **Spirit Hills Subdivision infrastructure being the first priority**.

- Substantial rehab of 130 CAS rental units owned by the NPTHA that are single family detached 3-bedroom units;
- Rehabilitation of 60 owner-occupied units in need of major improvements;
- Build the new Spirit Hills Subdivision infrastructure to accommodate sites for single-family detached units of housing;
- Build 60 housing units in the Spirit Hills Subdivision;
- Continue to provide homeownership training and counseling to first-time homebuyers;
- Provide funds to mortgage-ready first-time homebuyers for down payment assistance and closing costs on existing single-family units on or near the Nez Perce Tribe Reservation;
Identify the order in which you might implement A thru F by indicating 1, 2, 3, 4, 5, & 6 in the blank. Some will be simultaneous and overlap.

A. Substantial rehab of 130 CAS rental
B. Rehabilitation of 60 owner-occupied
C. Build the new Spirit Hills Subdivision infrastructure
D. Build 60 housing units in the Spirit Hills Subdivision;
E. Continuous housing counseling to first-time homebuyers;
F. Down payment assistance and closing costs
Comprehensive 5-Year Implementation Plan

1. INFRASTRUCTURE PLANNING & CONSTRUCTION

2. HOUSING COUNSELING ONGOING

3. DOWNPAYMENT & CLOSING COSTS PROGRAM PLANNING & IMPLEMENTATION

4. HOUSING REHAB OF 130 CAS UNITS

5. HOMEOWNER HOUSING REHABILITATION REVOLVING LOAN

6. SPIRIT HILLS 20 UNITS HB CONSTRUCTION

7. BUILD LIHTC LEASE PURCHASE

8. BUILD LIHTC RENTALS
Completion Depends on . . .

- Financial & Political Environment
- Scope
- Partnerships
- Organizational Skills
Section 4: Menu of Resources
Financing System

Primary market

Homebuyer

Lender

Secondary market

Investor

Capital market

Wall Street
Private/Public Partnerships

➢ Use public funds to leverage private financing:
  ▪ Use private funding to capitalize development costs through loans
  ▪ Use grant funds to subsidize repayment of loans
  ▪ Use NAHASDA funding to provide match for other public and private funding

➢ Result: expand the number people receiving housing services
Explore Financial Resources

- NAHASDA
- Title VI
- Section 184
- ICDBG
- LIHTC
- State HOME Funds
- Affordable Housing Program
- ROSS
- Healthy Homes

- RD 502 Direct Loan
- RD 502 Loan Guarantees
- RD 504
- RD Self-Help
- 502 Mutual Self Help
- Self-Help Technical Assistance Grant
- 504 Home Improvement Loans and Grants Rural homeowners
- RD Housing Preservation Grants
- CDFIs
QUIZ: The capital markets includes transactions between Fannie Mae and housing mortgage lenders.

A. True
B. False
Title VI Basics

- Title VI allows IHBG recipients to leverage their annual IHBG funds to finance affordable housing activities by pledging a portion of their current and future grant funds to HUD as security for the Title VI guarantee.

- A private lender provides the financing and HUD provides a 95% guarantee as collateral to the lender.
Title VI Basics

The maximum commitment amount for the guarantee is five times the most recent Need Portion of the Tribe’s annual IHBG allocation.

For example, a recipient has an IHBG allocation of $900,000, which consists of:

<table>
<thead>
<tr>
<th>Grant Allocation:</th>
<th>$ 920,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less FCAS:</td>
<td>- $ 600,000</td>
</tr>
<tr>
<td>Need Portion:</td>
<td>$ 300,000  (Available For Leverage)</td>
</tr>
<tr>
<td>Multiplied by 5</td>
<td>x 5</td>
</tr>
</tbody>
</table>

Maximum Title VI amount: $1,500,000
QUIZ: Calculate the “Maximum Title VI Amount” with the following information:

IHBG Allocation: $1,200,000
FCAS: $400,000

___________ - ___________ = _____________ X 5 = _______________ (Maximum Title VI Amount)
TVI Loan Process Phases

1. Preliminary Letter of Acceptance
2. Planning and Document Preparation
3. Analysis
4. Closing, Construction & Servicing
QUIZ: The four phases of the Title VI loan process are: Closing, Construction, and Servicing; Planning and Document Preparation; Analysis; and __________________________?

a. Closing  
b. Predevelopment  
c. Capital Market Transaction  
d. Preliminary Letter of Acceptance
Indian Community Development Block Grant

- ICDBG program Title I of the Housing and Community Development Act of 1974, a HUD program
- Regulations described in 24 CFR Part 1003
- Funds are applied for directly through ONAP
- To develop viable Indian and Alaska Native communities by creating decent housing, suitable living environments & economic opportunities primarily for LMI persons
Eligible Applicants

- Indian tribe, band, group, or nation including Alaska Indians, Aleuts and Eskimos and any Alaska Native Village

- Tribal organizations submitting on behalf of tribes
Two Categories Of Funding

- Imminent Threat Grants (first come first serve)
  - Funds are used to remove imminent threats to health or safety.

- Single Purpose Grants
  - Competitive grant for many community development purposes.
Eligible Activities

- Housing Rehabilitation
- New Housing Construction
- Housing Infrastructure
- Land Acquisition for New Housing
- Homeownership Assistance
- Public Facilities & Improvements
- Economic Development
- Microenterprise Programs
ROSS Coordinator’s Service Design:

- Seeks to enable participating families to:
  - Increase earned income,
  - Reduce or eliminate the need for welfare assistance,
  - Make progress toward achieving economic independence and housing self-sufficiency, or;
  - In the case of elderly or disabled residents, help improve living conditions and enable residents to age-in-place.

- Seeks to promote the development of local strategies to coordinate the use of assistance under the housing program with public and private resources, for supportive services and resident empowerment activities.
QUIZ: An Indian Community Development Block Grant allows many eligible activities, please select all that apply.

a. Housing Rehabilitation  
b. Land acquisition for new housing  
c. Economic development  
d. Microenterprise programs  
e. Multi-purpose building
What are Low Income Housing Tax Credits?

- An IRS program giving credit against tax liability to investors in exchange for providing equity (cash) to develop affordable rental housing.
The Basics

- Administered by states
- For affordable rental housing, all at or below 60% AMI
- Home ownership only allowed after 15 years rental
- Equity investment (no repayment)
- Private funding, does not act like federal funds, does not trigger federal requirements
- Allocating agency publishes Qualified Allocation Plan (QAP) to govern the program
Lease Purchase Housing

- Must be rental for 15-year compliance period at a minimum
- Resident may voluntarily pay “de minimis” amount out of rent toward purchase
- Resident must receive purchase payments back if they move-out without purchasing
- Any units not purchased by tenants continue to be rental for extended use period (30 -50 years)
- Tenant purchase with right of first refusal terminates the extended use period for that home/unit
How LIHTC Projects Work

- TDHE/Tribe/Nonprofit will drive the project, will be general partner or GP.
- GP forms an entity to own the project – usually a Limited Partnership (LP), sometimes an LLC
- GP submits application for LIHTC
- LIHTC awarded to the owner entity
- GP chooses investor partner to join the owner entity
How LIHTC Projects Work

- GP gets
  - Day to day control, management
  - 0.1% or less ownership, share of LIHTC

- Investor gets
  - 99.9%+ ownership
  - 99.9%+ LIHTC for 10-year tax credit delivery period
  - Depreciation and other tax deductions
  - Veto power, right to step in when things go poorly
LIHTC Ownership Structure

Tax Credits

Limited Partnership (Owner Entity)

General Partner (Tribe/TDHE 0.01% owner)

Limited Partner (Investor) 99.9% owner

0.01% LIHTC

99.9% LIHTC

Management & Control

Equity $
Home Investment Partnership Act

- HOME is a HUD funded program
- Funds are applied for through state for rural housing needs
- Priorities established through state comprehensive, consolidated plan
- Has extensive regulations, rent limits, and income restrictions
- Plan to meet both use and reporting requirements
- Tribes have been successful accessing funds
Home Investment Partnership Act

- HUD provides HOME funds to participating jurisdictions (PJ’s)
  - To operate housing programs, or
  - To fund programs and projects by others
  - For Low Income and Very Low Income households
Home Activities

- The HOME Program addresses four housing programs
  - Homeowner Rehab
  - Homebuyer
  - Rental Development (New Construction or Rehab)
  - Tenant Based Rental Assistance (TBRA), which is not common
Federal Home Loan Bank AHP

- AHP is administered through 12 district Federal Home Loan Banks
- Funds are awarded from usually two competitive application rounds
- Priorities established by Bank and Advisory Council annually
- Applications made through member bank; usually drafted/prepared by non-profit
Rural Housing Programs
- Single Family Loans and Loan Guarantees
- Home Improvement Loans and Grants for Very Low Income Persons
- Mutual Self-Help Housing Loans
- Multi-Family Housing Loans and Loan Guarantees

Community Programs
- Water, Wastewater and Solid Waste Loans and Grants
- Distance Learning and Telemedicine Programs
- Community Facilities and Equipment Loans and Grants
- Telecommunications and Electricity Programs

Business Programs
- Renewable Energy and Energy Efficiency Grants
- Business and Industry Guaranteed Loans
- Intermediary Relending Program
- Value-Added Producer Grants

Native Village of Kwinhagak, Alaska
Mutual Self-Help Housing Program

- Families build their own homes and earn “Sweat Equity”
- RD finances a group of participating families through a 502 direct loan
- Program is run through a non-profit organization who provides the necessary technical assistance to the families in construction, budgeting and homeownership basics.
Section 504 Housing Repair & Rehab Loan & Grant

Up to $7,500 in Grant funds for homeowner-occupants over age 62.

Maximum lifetime total of $7,500

Grants are restricted to health and safety issues.
Loans up to $20,000

1% Interest rate up to 20-year amortization

Loans cannot be used to complete new construction.
Homeowner-occupant in very-low income category

Before & After
Resources for Development: Housing

- National Council of State Housing Finance Agencies [www.NCSHA.org](http://www.NCSHA.org)
  - Low-Income Housing Tax Credits (LIHTC)
  - HOME Partnership Program
  - Mortgage Revenue Bonds (MRB)
  - Housing Opportunities for People With Aids (HOPWA)
  - Emergency Shelter Grants (ESG)
  - Other innovative financing, such as Housing Trust Funds

- Community Development Financial Institutions (CDFI) [www.treas.gov](http://www.treas.gov)
  - Are unregulated community lenders--some are CDFI certified. The advantage of CDFIs is they will take on more risk and have more “local” understanding of underwriting in low-income communities
Financing Challenge

➢ To assemble multiple sources of financing while the following are in flux:
  ▪ The funding sources’ competitiveness and requirements
  ▪ All of the project’s aspects
    • Land, entitlements, design, market, community/political, sovereignty
Recipient as Developer Financing Model

NPTHA Obtains 184 Loan

Tribe Leases to NPTHA

NPTEC Leases Upon Debt Retirement

NPTHA Sells Home (Assigns)

NPTHA Rents Under Use & Occupancy Agreement
QUIZ: Home Investment Partnership Act funds are applied for through the state for ______________.

a. Rural Housing Needs
b. Municipal buildings
c. Urban development
d. Economic development
QUIZ: Public resources for housing development include (select all that apply)

a. Private equity
b. ICDBG
c. NAHASDA
d. Home Equity Loan
e. B and C
Section 5: Creating the Concept
Objectives

- Study the major tasks of the concept phase.
- Explain the benefits of planning.
- Provide examples of planning tasks.
- Conduct data analysis to prioritize needs.
- Assess overall management capacity as an indicator of development readiness.
- Identify financial resources available
Concept Process

- Establishes goals for the project.
- Determines type of project, potential location and target families.
- Considers sources of financing and how the project might be managed.
- Develops an understanding of community and local government support/opposition, concerns/needs.
- Evaluates site: cost and availability, technical and environmental issues.
- Decides whether to explore the concept further.
It Begins with Planning

A *pathway* or route toward a desired environment

A *decision-making process* through which a Recipient works toward achieving its goals

A *tool of* change: change from existing conditions

A *continuous* and *dynamic* process
Why Do We Need A Plan?

- For direction/policy development
- Assessing capacity and resource allocation (NAHASDA Example)
- Efficient use of funds
- Coordinate projects
- Resolve Problems
- Assure future resources
Creating Requirements and Deliverables

• Define what people expect to hold in their hands after the project is complete.
• Deliverables will help you set clear expectations at the beginning of your project and maintain a clear idea of what you are doing as you execute the project.
Planning Phases

- Planning the Plan
- Preparing the Plan
- Implementing the Plan
- Evaluating the Plan
Planning Benefits . . .

- Identifies alternatives;
- Provides a rational basis for choosing a feasible alternative;
- Selects alternatives that are consistent with the goals of tribal development;
- Assists tribe in self-determination; and
- Justifies required funding for proposed projects.
It Starts with an Idea
About How Maximize
Your Resources
CONCEPT: BUILD & THEY WILL COME!!!
A DEVELOPMENT BY THE
NEZ PERCE TRIBAL HOUSING AUTHORITY

SPIRIT HILLS SUBDIVISION
LAPWAI, NEZ PERCE RESERVATION, IDAHO

CONCEPT STUDY
Concept Phase - Preliminary Planning Tasks

- Conduct needs assessment
- Develop mission, goals and objectives
- Develop planning team and identify additional resources needed
- Determine preliminary course of action
- Collect information and continuously organize and analyze data
- Prepare preliminary list of sources of funds to investigate
- Prepare rough development budget
Tribal Profile

- Total Indian Population for Area
- Number of Indian Families
- Number of Elders
- Number of Enrolled Members
- Number of Families in Substandard Housing
- Number of Families in Over-Crowded Conditions
- Number of Families with rent burden
- Number of Persons Homeless
- Employed/Unemployed
Data Sources

- Waiting Lists
- Environmental Reviews
- Grant applications
- Comprehensive Plans
- Census
- Tribal Census
- Surveys
- TANF Data
- TERO Data
- Human Resources
- IHS Sanitation Priorities
- Public Meetings
- General Council Meetings
- News Reports
- Monitoring Reports
- Tribal Finance Reports
- Audits
- Physical Inventories
Supportive Community Services Assessment
Data Analysis

- Allows you to prioritize issues that need to be addressed.
- Empowers you plan for the future by determining consistent patterns or emerging housing trends.
- Prevents you from concentrating valuable resources on minor or imagined housing needs.
<table>
<thead>
<tr>
<th>TYPE OF APPLICATION</th>
<th>AGENCY NAME</th>
<th># OF APPLICATIONS BY BDRM SIZE</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>1</td>
</tr>
<tr>
<td>LOW RENT</td>
<td>QHA</td>
<td>37</td>
</tr>
<tr>
<td>MUTUAL HELP</td>
<td>QHA</td>
<td>16</td>
</tr>
<tr>
<td>VOUCHER</td>
<td>QHA</td>
<td>10</td>
</tr>
<tr>
<td>TSALI-ELDERLY</td>
<td>QHA</td>
<td>17</td>
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<tr>
<td>BIA-HIP</td>
<td>BOYS CLUB</td>
<td>0</td>
</tr>
<tr>
<td>CHEROKEE NURSING HOME</td>
<td>ECI</td>
<td>50</td>
</tr>
<tr>
<td>CHILDREN'S HOME</td>
<td>EBCI</td>
<td>NA</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td></td>
<td>130</td>
</tr>
</tbody>
</table>
## Waiting List by Income Level

<table>
<thead>
<tr>
<th>INCOME LEVEL</th>
<th>1 BRM</th>
<th>2 BRM</th>
<th>3 BRM</th>
<th>4 BRM</th>
<th>5 BRM</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>VERY LOW INCOME</td>
<td>37</td>
<td>159</td>
<td>559</td>
<td>81</td>
<td>12</td>
<td>848</td>
</tr>
<tr>
<td>LOW INCOME</td>
<td>16</td>
<td>14</td>
<td>257</td>
<td>13</td>
<td>0</td>
<td>300</td>
</tr>
<tr>
<td>MODERATE INCOME</td>
<td>2</td>
<td>4</td>
<td>15</td>
<td>2</td>
<td>0</td>
<td>23</td>
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<tr>
<td>TOTAL</td>
<td>55</td>
<td>177</td>
<td>831</td>
<td>96</td>
<td>12</td>
<td>1171</td>
</tr>
</tbody>
</table>
Capacity – Tribal Members

- Homeownership vs. renting vs. lease purchase
- Credit Awareness
- Homeownership education
- Excite membership about future development
Inventory Available Land for Residential Development

Types of Land

- Fee Land
- Tribal Trust
- Individual Allotted Trust
The Loan Process

- Land Assignment
- Lease
- Mortgage

$
ACTIVITY
Working With Data
Use the Waiting List Handout and fill in the number of families who might qualify for the following programs based on income. Assume that credit is not an issue, and anyone making $30,000 or less will need a rental.

- Column 1 indicates: Adjusted gross annual income
- Column 2 indicates: Adjusted gross monthly income
- Column 3 indicates: The amount of a principal, interest, taxes, and insurance (PITI) a family can afford at 25% of Column 2
- Column 4 indicates: The amount of a loan the family can qualify for based on income only
### Income

<table>
<thead>
<tr>
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<th>MONTHLY GROSS INCOME</th>
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### Programs

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<tr>
<td>Section 184</td>
<td>Loan</td>
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<tr>
<td>Down Payment Assistance</td>
<td>Lease with Option to Purchase</td>
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<td>Low Rent Housing</td>
<td>TOTAL</td>
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</table>
QUIZ: Conducting a needs assessment; developing mission, goals, and objectives; determining preliminary course of action; and preparing a rough development budget are all examples of:

A. Concept stage
B. Operations
C. Mortgage Backed Resolutions
D. Construction Stage
E. None of the above
MANAGEMENT CAPACITY
Management Capacity Overview

Successful development involves the following:

- Organizational structure
- Relationship to the Tribe and/or Tribally Designated Housing Entity (TDHE)
- Capacity to administer or use NAHASDA
- Development capacity
- Project management capacity
Organizational Options

- The tribe may elect to create a TDHE through a tribal or state ordinance.

- The tribe may decide to directly administer NAHASDA funds by establishing a tribal housing department.

- The Tribe may subcontract with an entity to administer NAHASDA funds.

- Whichever organization structure chosen by the Tribe, the recipient may develop housing through a loan, grant, or investment in a development corporation or nonprofit housing entity.
Tribe as Recipient - Housing Department

- Tribal Council
  - Tribal Administrator
    - Housing
    - Education
    - Social Services
Administrative Capacity

- Do you have the policies and procedures to ensure compliance with applicable tribal, state, and federal laws
  - accounting systems,
  - personnel policies and procedures, and
  - operational systems.

- Do you have internal controls to ensure management has the capacity to operate and achieve its objectives?
### A. ORGANIZATIONAL DOCUMENTS ON HAND

<table>
<thead>
<tr>
<th>Number</th>
<th>Description</th>
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</thead>
<tbody>
<tr>
<td>1.</td>
<td>Ordinance Creating TDHE</td>
</tr>
<tr>
<td>2.</td>
<td>Articles of Incorporation, Organization</td>
</tr>
<tr>
<td>3.</td>
<td>By-laws/Operating Agreement (certified)</td>
</tr>
<tr>
<td>4.</td>
<td>501(c)(3) Determination</td>
</tr>
<tr>
<td>5.</td>
<td>Audits or Financial Statements (last 3 years)</td>
</tr>
<tr>
<td>6.</td>
<td>Board/Council Roster with Names, Addresses, Titles</td>
</tr>
<tr>
<td>7.</td>
<td>Board/Council Member Bios</td>
</tr>
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<td>8.</td>
<td>Organizational Chart</td>
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<td>9.</td>
<td>Organization Background</td>
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<tr>
<td>10.</td>
<td>Description of Relevant Experience</td>
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<tr>
<td>11.</td>
<td>Resumes of Key Staff</td>
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<tr>
<td>12.</td>
<td>Job Descriptions</td>
</tr>
<tr>
<td>13.</td>
<td>Resolutions and Minutes of Board/Council</td>
</tr>
<tr>
<td>14.</td>
<td>Code of Ethics</td>
</tr>
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</table>

Totals for this section
Project Management Capacity

➢ It is important to establish your project team as early as possible in the conception phase.

➢ The number of people on the team depends on the following:

  ▪ Nature, size and complexity of the project
  ▪ Experience and level of expertise within the organization
  ▪ Availability of time to commit to the project
HANDOUT – Housing Development & Management Expertise
Development Capacity

- Experience and expertise in the use of debt and alternative equity financing
- Experience with multi-leveraged housing development projects;
- Financial systems that track expenditures by fund, subtasks, budget categories,
- Understanding of community’s needs; and
- Tribe’s willingness to manage sovereignty in order to attract capital and investment
Must Consider

- Political Environment
  - Full Tribal Leadership support?
- Support services
- Legal Infrastructure
  - Lease process
  - Assignment
  - Trained court/recording system
- Tribal Ordinances
  - TERO
  - Housing
- Land use plan
ACTIVITY

Is Your Organization Ready for Development?

HANDOUT
Types of Land

- Fee Land
- Tribal Trust
- Individual Allotted Trust
Site Suitability Issues

- Flood Zone
- Coastal Management Zone
- Cultural Significance
- Access to the site
- Access to water and sewer
- Drainage
- Soil Composition
- Underground Springs
- Existing Easements/rights of ways
- Zoning
- Covenants
- Topography
Site Suitability

- What site issues do you see here?????
Design Considerations

- Target population
- Amenities
- Density (Dwelling units per acre, etc.)
- Easements
- Height limits
- Set back requirements
- Parking
- Construction Type
What Happens Before a Project Starts?

Needs Assessment & Community Planning
Identify need, programs, facilities, land

Organizational commitment and understanding from governing body
Identify human & financial resources to implement the project

Form of commitment
Official resolution
Official minutes
ACTIVITY

Outline Your Concept

HANDPOUT
Section 6: Predevelopment Phase
Goal of Predevelopment Phase

- Analysis of all assumptions regarding market, site, operation pro forma, development pro forma, financial requirements, financing, team and roles, environmental, site control. including suggested modifications for the concept to be feasible.
Feasibility: Tasks and Products

- Market: evaluate the waiting list
- Site: environmental, initial design and costs, tribal/public approval
- Finance: sources and uses of $$
- Identify project team: how much will be done by us vs. others; get architect, lawyer, estimator

Test the assumptions of your concept with hard data.
Predevelopment Tasks

- Identify governmental, regulatory requirements
- Select project team and define tasks
- Test cost assumptions
- Feasibility projections
- Commence funding commitments
- Create preliminary implementation schedules
- Numerous studies

- Refine Project Scope
- Preliminary architectural & engineering
- Site control and supporting legal documents
- Survey
- Environmental
  - Appraisal
  - Infrastructure – Assess need for roads, water, sewage disposal, and power, and any costs
PREDEVELOPMENT

ENVIRONMENTAL CONSIDERATIONS
Environmental Factors

- National Environmental Policy Act of 1969 (NEPA)
- Choices
  - 24 CFR Part 50 - Tribes request HUD to retain review responsibility
  - 24 CFR Part 58 - Tribes assume review responsibility
Environmental

Must be completed prior to the commitment of any funds!

References

- §1000.18 What environmental review requirements apply?
- §1000.20 Is an Indian tribe required to assume environmental review responsibilities?
- §1000.21 Under what circumstances are waivers of the environmental review procedures available to tribes?
- §1000.22 Are the costs of the environmental review an eligible cost?
- §1000.24 If an Indian tribe assumes environmental review responsibility, how will HUD assist the Indian tribe in performing the environmental review?
- 24 CFR Part 58 & Part 50
NEPA Applicability

- All proposals for Federal actions that have the potential to affect the quality of the human environment.
  - Natural and physical, as well as social and economic
- Federal actions include funding and insuring (e.g., loan guarantee, program income).
  - No “trigger level” – all levels of funding are covered.
Relevant Laws and Authorities

- The NEPA process requires that you look at ALL federal laws that address the environment:
  - Air
  - Water
  - Land
  - Flora
  - Fauna
  - Human health & safety
Major Relevant Laws & Authorities (24 CFR Part 58.5)

- Sole Source Aquifers
- Endangered Species Act
- Wild and Scenic Rivers Act
- Clean Air Act
- Farmland Protection Policy Act

- National Historic Preservation Act
  - Historic structures and archaeological sites
- Clean Water Act
  - Wetlands
- Coastal Zone Management Act
Other Requirements (24 CFR 58.6)

- Flood Disaster Protection Act
  - Flood insurance coverage
- Coastal Barrier Resource Act
- Runway Clear Zone or Clear Zone (24 CFR Part 51, Subpart D)
  - Disclosure statement
Limits on Activities Prior to Clearance

Neither a recipient nor any participant may commit or expend HUD funds prior to receiving HUD approval of their certification (unless the activity is exempt or categorically excluded not subject to §58.5).

- “Participant” includes public or private nonprofit or for-profit entities or their contractors.
Limits on Activities Prior to Clearance

- Neither a recipient nor any participant may commit or expend non-HUD funds (even local $) on an activity prior to approval IF:
  - the activity would have an adverse environmental impact, or
  - limit the choice of reasonable alternatives.
Limits on Activities Prior to Clearance

- Recipients considering applications from prospective subrecipients or beneficiaries must ensure actions are not taken prior to receiving HUD approval.

- Commitment does not include (and therefore is OK to make...):
  - A statement of funding reservation (i.e., IHP, ICDBG Application.
  - A non-legally binding agreement (i.e., option agreement).
Limits on Activities Prior to Clearance

- For land acquisition projects, an option agreement (to purchase land) is allowable prior to HUD approval only when:
  - It is subject to a RE determination of environmental desirability, and
  - The option payment is of a nominal amount.

- One exception – When required by 24 CFR Part 42, relocation funds may be committed before approval of the certification.
QUIZ: 24 CFR Part 58.5 includes the following major laws and authorities (select all that apply):

A. Endangered Species Act
B. Clean Air Act
C. Clean Water Act
D. Coastal Zone Management Act
E. National Prehistoric Management Group
QUIZ: Regulations for implementing NEPA state that ______________ shall be interpreted comprehensively to include the natural and physical environment and the relationship of people with that environment.

A. Human interaction
B. Human contradiction
C. Human greed
D. Human malfeasence
PREDEVELOPMENT

PROCUREMENT AND INDIAN PREFERENCE
Procurement Requirements

- Ensure fair and equitable treatment
- Document procurement procedures reflecting applicable federal, state, and Tribal laws and regulations
- Assure that goods and services procured efficiently and economically,
- Avoid purchasing unnecessary or duplicative items, and at the most favorable prices and the highest quality.
- Ensure compliance with Indian preference
- Promote competition
- Award contracts only to responsible, qualified contractors
- Provide safeguards for maintaining a procurement system of quality and integrity
- Provide oversight ensuring contractors and vendors perform in accordance with terms, conditions, and specifications of their contracts or purchase orders.
- Maintain written standards of conduct covering conflicts of interest, and governing selection, award, and administration of contracts.
Indian Preference Final Rule

- The Final Rule amended 24 CFR Sections 1000.48, 1000.50, and 1000.52 to provide for tribal preference in employment and contracting.

- 24 CFR 1000.52(a) TDHE certifies that they have policy that will afford Indian preference that is consistent with ISDEA 25 USC 450e(b)
  - OR solicit bids from Indian owned & controlled entities only
  - OR use two-stage process (more...)

- Program Guidance 2013-07 (R) dated July 11, 2013, provides additional information on administering these revisions.
Tribal Action

- Tribe passes adopts law, code, or regulations regarding Tribal Preference.
- Such law may provide preferential treatment
  - over other Indians that are not members of the tribe in employment and Contracting
  - in reductions in workforce and layoffs.
Absence of Tribal Preference Law

➢ Lack of Tribal law, code, or regulation will require the following:
  ▪ Compliance with Section 3 requirements,
  ▪ a recipient must, to the greatest extent feasible, give preference and opportunities for training and employment in accordance with the Indian preference requirements of Section 7(b) of the Indian Self-Determination and Education Assistance Act
Indian Preference

- Certify policies and procedures (§1000.52)
- Preference clauses must be incorporated into contracts
- Include Indian Preference reference in notices and advertisements
NAHASDA Indian Preference and Non-Discrimination Regulations

- **24 CFR 1000.12** What nondiscrimination requirements are applicable?

- **24 CFR 1000.42** Are the requirements of section 3 of the Housing and Urban Redevelopment Act of 1968 Applicable?
Importance of Indian Preference

- Provides special opportunities for Indian contractors in selection
- Mandates additional preference that contractors must offer Indian laborers, subcontractors, and suppliers
- Economic opportunities for Indians, tribes, Recipients, and your communities
- NOT required to hire an Indian individual / firm
Preference in Solicitation Process

- Required by federal (and often tribal) law
- Clarify preference standards in your procurement policy
- Clarify preference standards from the outset
Indian Preference Is Different From Other Preferences

- NOT racially or affirmative action based
- Political status of Recipients, Tribes, and tribal members
- Arises under different federal law
Indian Self-Determination and Education Assistance Act

- To the greatest extent feasible, preference in selection, subcontracting, job training and employment
- Federal law 25 USC 450e(b)
- NAHASDA regulations 24 CFR 1000.48 to 54
- Supreme Court *Morton v. Mancari*
Who is Eligible for Indian Preference?

- Members of federally recognized tribes
- Federally recognized tribes
- Entities at least 51% owned AND controlled by such members or tribes
QUIZ: ___________ TDHE certifies that they have a policy that will afford Indian preference that is consistent with ISDEA 25 USC 450e(b)...

A. 24 CFR 1500.55(c)
B. 24 CFR 3300.52(e)
C. 24 CFR 1000.52(a)
D. 26 CFR 2400.54(z)
Need to Qualify Bidders, Proposers, Vendors

- **Specifically determine** if the individuals and entities are qualified to receive Indian preference.

- **Do not rely** on determinations and certifications made by others.
51% Ownership & 51% Control

- Control includes voting rights, management, decision making, and allocation of profits.
  - Entity owned by a tribe or a tribal member must show evidence of 51% ownership AND 51% control.
Preference Must Be Requested

- Advise all bidders, proposers, and vendors Indian preference is required in contract awards
- Parties seeking preference must request preference
- When feasible, provide interested parties with an Indian Preference Qualification Application
Various Ways to Determine Eligibility

- Variety of approaches based on the size, regularity, and nature of the procurement
- More thorough the process, the better
- On large procurements, make the determination prior to the submission of the bid or proposal
- Shall include a determination that bidder is responsible
Additional Information

a. For each Indian owner to provide percent of ownership, amount of investment in the firm, method of investment, (cash, equipment, loan or promissory note indicating who the loan is from, percent of voting control and position in the firm.)

b. For each non Indian owner, percent of ownership amount of investment in firm, method of investment (cash, equipment, loan or promissory note indication who the loan or note is from, percent of voting control, position in firm, name of all other firms owner holds in other than publicly-held corporations and similar ownerships solely for investments, or a management position in.)
Management

For each owner of more than 50% interest, all senior management personnel and members of the Board of Directors provide the following:

1. Name, address and social security number. If Indian, tribe and enrollment number.
2. Present position (description of all duties).
3. Previous business experience.
4. Previous work experience in areas in which firm intends to engage.
5. Other previous work experience.
6. Education and training.
7. Other jobs presently held.
Control

Identify by name, race, sex and title on company those individuals (owners and non-owners) who are responsible for day-to-day management, including, but not limited to, those with prime responsibility for:

1. Financial decisions.
2. Management decisions, such as:
   a. Marketing and sales;
   b. Hiring and firing;
   c. Purchase of major equipment of supplies;
   d. Supervision of field personnel.
Common “Fronting” Practices

- Disguise how little profit tribe or member receives
- Indian tribe or member appears on paper as 51% owner, but management/control are with non-Indian
- Less than truthful in explaining resources that each owner brings to entity
Carefully record decision in writing

Make a brief decision in writing

Be prepared to provide further explanation to anyone you disqualify

Explain to any disqualified party that they may still submit a bid or proposal
Reserve the Right to Reconsider

- **Reserve the right to disqualify** anyone (even if you have already qualified them) right up until the award of the contract in case you become aware of new information and/or the entity’s structure changes.

- **Add contract provisions** for termination if the entity loses its Indian ownership or control during the contract period.
Indian Preference

The Two-Stage Method

• 1 – solicit **statements of intent** from Indian owned & controlled entities

• 2 – If two or more are received from qualified entities, then solicit bids/proposals from Indian owned & controlled entities only

  – Otherwise, solicit bids/proposals from all entities using your established method of applying Indian preference
Indian Preference

24 CFR 1000.52(b)

- If any method of Indian preference results in only one bid or proposal being received, then
  - Re-advertise using any approved method of Indian preference under (a), OR
  - Re-advertise to all entities using Indian Preference Policy OR
  - Ask HUD-ONAP for approval (remember, you must justify!)
Sample Policy Methods for Exercising Indian Preference
## X – Factor Example

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<td>At least $200,000 but less than $300,000</td>
<td>8% of that bid or $21,000</td>
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<td>At least $300,000 but less than $400,000</td>
<td>7% of that bid or $24,000</td>
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<td>At least $400,000 but less than $500,000</td>
<td>6% of that bid or $25,000</td>
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<td>At least $500,000 but less than $1 million</td>
<td>5% of that bid or $40,000</td>
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<tr>
<td>At least $1 million but less than $2 million</td>
<td>4% of that bid or $60,000</td>
</tr>
<tr>
<td>At least $2 million but less than $4 million</td>
<td>3% of that bid or $80,000</td>
</tr>
<tr>
<td>At least $4 million but less than $7 million</td>
<td>2% of that bid or $105,000</td>
</tr>
<tr>
<td>$7 million or more</td>
<td>1.5% of the lowest responsive bid</td>
</tr>
</tbody>
</table>
Negotiation Example

- If the bid from the qualified Indian-owned economic enterprise or organization is within the 10% range of the lowest, non-Indian firm, the Indian-owned firm will be given the opportunity to meet the lowest bid price. Should the Indian-owned firm refuse to meet this lower price, the bid shall then be awarded to the responsive and responsible low bidder for the project.

- Bidder # 1: $120,000.00  Non-Indian Firm
- Bidder # 2: $110,000.00  Indian Firm
- Bidder # 3: $105,000.00  Non-Indian Firm
- Bidder # 4: $116,000.00  Indian Firm
Negotiation Example

Assume all bidders are qualified. Identify the qualified Indian economic business who is within the 10% range of the lowest, non-Indian firm.

a. Bidder # 1: $250,000.00 Non-Indian Firm
b. Bidder # 2: $275,000.00 Indian Firm
c. Bidder # 3: $260,000.00 Non-Indian Firm
d. Bidder # 4: $278,000.00 Indian Firm
PREDEVELOPMENT

AFFORDABILITY
Market

- Projected rents must be affordable to target population
  - How do project rents compare to other affordable deals serving a similar population?
- Project rents must meet requirements of all funding sources
  - Use most restrictive regulation when leveraging
Gap Analysis

• There are four important and frequent questions a housing organization should ask itself:
  1. Where are we now?
  2. Where do we want to be?
  3. How will we get there?
  4. When will we get there?
Introduction to Affordability

- Who are your customers/clients?
- How much can they afford?
Affordability

Gap

= 

Need for

Subsidy

What Can I Afford To Pay?

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Household income</td>
<td>$30,000</td>
</tr>
<tr>
<td>Divided by 12 (monthly income)</td>
<td>$2,500</td>
</tr>
<tr>
<td>Allowable installment debt (back end ratio 41%)</td>
<td>$1,025.00</td>
</tr>
<tr>
<td>Less existing family installment debt (monthly)</td>
<td>$150</td>
</tr>
<tr>
<td>Available for PITI</td>
<td>$875</td>
</tr>
<tr>
<td>plus rental income</td>
<td>$0</td>
</tr>
<tr>
<td>total PITI</td>
<td>$875</td>
</tr>
<tr>
<td>Less insurance (monthly)</td>
<td>$50</td>
</tr>
<tr>
<td>Mortgage interest rate</td>
<td>6.00%</td>
</tr>
<tr>
<td>Sustainable Mortgage Amount</td>
<td>$145,943</td>
</tr>
<tr>
<td>House Price</td>
<td>$225,000</td>
</tr>
<tr>
<td>GAP or NEED FOR SUBSIDY</td>
<td>$79,057</td>
</tr>
</tbody>
</table>

What Am I Willing to Pay?

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Household income</td>
<td>$30,000</td>
</tr>
<tr>
<td>Divided by 12 (monthly income)</td>
<td>$2,500</td>
</tr>
<tr>
<td>Allowable installment debt (back end ratio 41%)</td>
<td>$1,025.00</td>
</tr>
<tr>
<td>Less existing family installment debt (monthly)</td>
<td>$150</td>
</tr>
<tr>
<td>Available for PITI</td>
<td>$875</td>
</tr>
<tr>
<td>plus rental income</td>
<td>$0</td>
</tr>
<tr>
<td>total PITI</td>
<td>$875</td>
</tr>
<tr>
<td>Less insurance (monthly)</td>
<td>$30</td>
</tr>
<tr>
<td>Market Tolerances</td>
<td>$250</td>
</tr>
<tr>
<td>Mortgage interest rate</td>
<td>6.00%</td>
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<tr>
<td>Sustainable Mortgage Amount</td>
<td>$41,698</td>
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<tr>
<td>House Price</td>
<td>$225,000</td>
</tr>
<tr>
<td>GAP or NEED FOR SUBSIDY</td>
<td>$183,302</td>
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</table>
The Affordability Gap = Need for Subsidy

### OPERATING EXPENSE BUDGET

<table>
<thead>
<tr>
<th>Project Name: Easy Street</th>
<th>Total Units: 25</th>
<th>Per Unit Cost</th>
<th>Total</th>
</tr>
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<tbody>
<tr>
<td><strong>INCOME</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Annual Rental Income</td>
<td></td>
<td>$ 54,600</td>
<td></td>
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<tr>
<td>Less Vacancy</td>
<td>7.0%</td>
<td>$ 3,822</td>
<td></td>
</tr>
<tr>
<td>Plus Other Income</td>
<td></td>
<td>$ -</td>
<td></td>
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<tr>
<td><strong>TOTAL INCOME</strong></td>
<td></td>
<td>$ 50,778</td>
<td></td>
</tr>
<tr>
<td><strong>EXPENSES</strong></td>
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<tr>
<td>Administrative Expenses</td>
<td></td>
<td>$ 21,250</td>
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<tr>
<td>Operating Expenses</td>
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<td>$ 15,000</td>
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<tr>
<td>Maintenance Expenses</td>
<td></td>
<td>$ 16,250</td>
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<tr>
<td>Fixed Expenses</td>
<td></td>
<td>$ 11,250</td>
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<tr>
<td>Reserve for Replacement/Other</td>
<td>$ 12,500</td>
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<tr>
<td><strong>TOTAL EXPENSES</strong></td>
<td></td>
<td>$ 76,250</td>
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<tr>
<td><strong>NET OPERATING INCOME/LOSS</strong></td>
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<td>$(21,650)</td>
<td></td>
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### RENT SUMMARY

<table>
<thead>
<tr>
<th>Section A</th>
<th>Restricted Units at <strong>60</strong>% of Median</th>
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<tbody>
<tr>
<td>Number BR/Unit: Efficiency</td>
<td>1-BR</td>
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<tr>
<td>Sq. Ft./Unit</td>
<td>900</td>
</tr>
<tr>
<td>Number of Units</td>
<td>10</td>
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<tr>
<td>Gross Monthly Rent/Unit(1)</td>
<td>$ 250</td>
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<tr>
<td>Minus: Utility Allowance</td>
<td>$ 95</td>
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<tr>
<td>Net Monthly Rent/Unit</td>
<td>$ 155</td>
</tr>
<tr>
<td>Annual Rental Income (All Units)</td>
<td>$ 18,600</td>
</tr>
</tbody>
</table>
Higher Interest Rates = Need for More Subsidy

- Target Market: $20,000 income
  - Can afford monthly housing payment of $500
  - Minus insurance – monthly housing payment of $480
  - 5.5% interest rate - $84,538
  - 7.0% interest rate - $72,147
  - Interest rate increase means need for subsidy increases – by over $12,000
  - ...or you have to raise your income targets
Interest Rates and Reaching Income Targets

<table>
<thead>
<tr>
<th>Loan @ 5.5%</th>
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</thead>
<tbody>
<tr>
<td>Mortgage Loan</td>
<td>$100,000</td>
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<tr>
<td>Interest Rate</td>
<td>5.50%</td>
</tr>
<tr>
<td>Term (years)</td>
<td>30</td>
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<tr>
<td>Housing Payment</td>
<td>$567.79</td>
</tr>
<tr>
<td>Affordable to a Family Earning (567.79 / 30% x 12 mo.)</td>
<td>$22,711.56</td>
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</table>

<table>
<thead>
<tr>
<th>Loan @ 7.00%</th>
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</thead>
<tbody>
<tr>
<td>Mortgage Loan</td>
<td>$100,000</td>
</tr>
<tr>
<td>Interest Rate</td>
<td>7.00%</td>
</tr>
<tr>
<td>Term (years)</td>
<td>30</td>
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<tr>
<td>Housing Payment</td>
<td>$665.30</td>
</tr>
<tr>
<td>Affordable to a Family Earning ($665.30 / by 30% x 12 mo.)</td>
<td>$26,612.10</td>
</tr>
</tbody>
</table>
ACTIVITY
Affordability for Program Design
PREDEVELOPMENT

Preliminary Budgeting
What are the Operational Costs?

- Debt service costs
- Management costs
- Operational pro-forma
- Reserves – replacement/operating
- Net Operating Income - NOI
- Debt Coverage Ratio - DCR
Purpose of Budgets

- Guide the operation of a property
- Indicate whether operations are efficient
- Serve as the foundation of the overall management plan
- Measure performance of the manager and property management
Purposes of Budgets

- Monitor achievement of cash-flow requirements
- Provide a sense of the property’s financial health
- Forecast future income and expenses
Budgeting

- Compare budgeted income and expense items with actual income and expenses
- Work account by account
- Take corrective measures
Does the project “work”?  

- Does the projected income cover costs or projected expenses?  
- For construction?  
- For operation of completed project?  
- What are the gaps?  
- What are the sources to fill the gaps?
How do we make projects feasible?

- Reduce costs
- Reduce debt service
- Identify other funding sources
  - ICDBG, Title VI, Section 184 Loan Guaranty, HOME, FHLB AHP, LIHTC, USDA RD, Housing Trust Funds, private funds, CDFIs
Phases of Financing

Why are there so many lenders in one project?
- Lenders typically provide financing for one or more phases of development
  - Predevelopment vs. Construction vs. Permanent
- Funding gap requires multiple sources of financing to make a project financially feasible
PREDEVELOPMENT

Leveraging
Leveraging for Housing

- Development Budget
  - A planning tool that forecasts development-related expenses during project construction.
  - A comprehensive estimate of the total costs to construct or rehabilitate a residential property.

- Sources and Uses Statement
  - Ensures there are sufficient resources to cover the costs of development: Sources=Uses
  - Timeline shows when sources are available to show "gap"
  - Uses are allocated to sources based on eligible

- Operating Budget and Pro-forma
  - Prediction of income and expenses over the life of the project
QUIZ:

- **Calculate Cash Flow and Cash Flow Per Month**
  - Net Operating Income = $50,000
  - Maximum Debt Payment = $41,666

$50,000 - $41,666 = $8,333 = Annual Cash Flow
$8,333 / 12 = $694 = Cash Flow Per Month
QUIZ:

- Calculate Break-Even Ratio
  - Expenses = $47,000
  - Debt Service = $9,550
  - Gross Rent = $58,000

\[
\frac{($47,000 + $9,550)}{$58,000} = 97.5\% = \text{Break-Even Ratio}
\]
Leveraging Basics

- Leverage defined: Using a resource or asset to *encourage* other partners to loan, invest or grant their money or donate their time or assets to a program or project.

- Why Leverage?
  - Increases affordable housing production
  - Increases availability of services and programs
  - Decreases financing risk
  - Increases employment
  - Increases small business/economic development
  - Meets Indian Housing Plan goals
Leveraging Rules – Know your market

- **People:**
  - What can people afford? What are people willing to pay?
  - Household size and composition?

- **Price:**
  - Rental – will revenues meet expenses to operate and enable payment of mortgage?
  - Homeownership – What price and resulting mortgage will people pay?
  - What is the affordability gap? The “reality” gap?

- **Product:**
  - What type of housing meets what people want (home, property size, amenities, design features)
  - Given what people can afford and are willing to pay, what type of product can you provide

- The bigger the gap, the bigger the “subsidy” that is needed!
Conventional Debt Underwriting

- Ability to Repay
- Security
- Loan to Value
- Borrower Track Record & Financial Strength
- Development Team Record
- Market
Construction Loans

- Monthly principal disbursement during construction – “loan draws”
- Monthly interest payments paid from loan
- Usually 12 to 24 month term
- Typically interest rate floats during term; can be fixed for a fee
- Principal paid down completely by the permanent financing
  - Combination of conventional permanent loan and other funds (i.e., tax credit equity, grants)
A Menu of Resources

- There are federal, state, local and private sector sources you can use for leveraging, but first..

- Make sure you use the “right” resource
  - Know your market
  - Learn the Programs--the regulations and rules
    - Eligible Applicants
    - Eligible Beneficiaries
    - Eligible Uses
    - Maximum rents and housing payments
    - Maximum subsidy/per unit costs
    - Funding Levels
    - Cost to Implement and Manage
    - Federal requirements
    - Monitoring
Blending Resources

➢ The Bad News
  ▪ Program rules and requirements vary
  ▪ Underwriting criteria varies
  ▪ Every lender, funder has their own form and applications

➢ The Good (?) News
  ▪ There are “cross-cutting” requirements, particularly with federal programs
    • See PIH 2006-34 on combining, leveraging NAHASDA
  ▪ While some blends, like LIHTC, HOME, NAHASDA are complex, there are models and lessons learned
ACTIVITY
Predevelopment Budget
**Preparing the Preliminary development budget**

**Line items to consider**

<table>
<thead>
<tr>
<th>Line Item</th>
</tr>
</thead>
<tbody>
<tr>
<td>Project Staff</td>
</tr>
<tr>
<td>Procurement</td>
</tr>
<tr>
<td>HUD Environmental Assessment</td>
</tr>
<tr>
<td>Survey Costs</td>
</tr>
<tr>
<td>Soils Study (Geotechnical Study)</td>
</tr>
<tr>
<td>Project Management (Owner)</td>
</tr>
<tr>
<td>Construction Supervision (Owner)</td>
</tr>
<tr>
<td>Architecture Fees</td>
</tr>
<tr>
<td>Engineering Fees</td>
</tr>
<tr>
<td>Fees &amp; Permits</td>
</tr>
<tr>
<td>Infrastructure Hard Costs</td>
</tr>
<tr>
<td>Sewer</td>
</tr>
<tr>
<td>Streets, paths, retention pond, access roads, guardrails</td>
</tr>
<tr>
<td>Misc. Site work hard costs</td>
</tr>
<tr>
<td>Infrastructure Contingency</td>
</tr>
<tr>
<td>Direct Home Construction</td>
</tr>
<tr>
<td>Construction Contingency</td>
</tr>
<tr>
<td>Soft Cost Contingency</td>
</tr>
<tr>
<td>Appraisal Costs</td>
</tr>
<tr>
<td>Legal Expense</td>
</tr>
<tr>
<td>Funding Application Fees</td>
</tr>
<tr>
<td>Market Study</td>
</tr>
<tr>
<td>Marketing</td>
</tr>
<tr>
<td>Occupancy Ramp Up Reserve</td>
</tr>
</tbody>
</table>

| Totals                                         |
HANDOUT: HOUSING CONSTRUCTION ESTIMATES

- Preparing the Preliminary development budget
- Line items to consider

<table>
<thead>
<tr>
<th>Estimated Budget</th>
<th>Uses Before Construction Starts</th>
<th>Total Predev</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Concept</td>
<td>Predevelopment</td>
<td>Development</td>
</tr>
<tr>
<td></td>
<td>$</td>
<td>$</td>
<td>$</td>
</tr>
<tr>
<td></td>
<td>$</td>
<td>$</td>
<td>$</td>
</tr>
<tr>
<td></td>
<td>$</td>
<td>$</td>
<td>$</td>
</tr>
</tbody>
</table>
Estimate the Financing Gap

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
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<tbody>
<tr>
<td>Total Development Costs</td>
<td>$4,300,000.00</td>
</tr>
<tr>
<td>Less Estimated Equity</td>
<td>$(3,779,236.50)</td>
</tr>
<tr>
<td>Less Estimated First Mortgage</td>
<td>$(224,170.89)</td>
</tr>
<tr>
<td>Gap Remaining</td>
<td>$ 296,592.61</td>
</tr>
</tbody>
</table>

WHERE’S THE MONEY COMING FROM TO FILL THE GAP??????
Ways to Fill the Gap

- Deferred Development Fee (almost all projects)
- Cost Savings (development or acquisition)
- Modification of First Mortgage Terms (lower interest rates, etc)
- Income or Expense
- Subsidies-Loans, Grants
Leveraging for Homeownership

- Development Budget and Sources and Uses are similar to Rental
- Sources and Uses: includes sales projections in timeline
  - Make sure families are “ready” to buy
- Affordability Analysis will determine the income levels or targets your homes can serve
# Sources and Uses: Development Anticipated Funding

<table>
<thead>
<tr>
<th></th>
<th>USES</th>
<th>SOURCES</th>
<th>NAHASDA</th>
<th>184 Loan</th>
<th>WAMU</th>
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<tbody>
<tr>
<td>22</td>
<td>A/B</td>
<td>C</td>
<td></td>
<td></td>
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<tr>
<td>23</td>
<td>Construction</td>
<td>2,444,075</td>
<td>874,404</td>
<td>1,569,671</td>
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<tr>
<td>24</td>
<td>Contingency</td>
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<tr>
<td>25</td>
<td>A/E</td>
<td>60,000</td>
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<td>Clearing</td>
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<td>27</td>
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<td>8,000</td>
<td>8,000</td>
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<td>28</td>
<td>Closing Costs</td>
<td>80,000</td>
<td>40,000</td>
<td>40,000</td>
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<tr>
<td>29</td>
<td>City Hookup</td>
<td>11,250</td>
<td>11,250</td>
<td>0</td>
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<tr>
<td>30</td>
<td>TOTAL</td>
<td>2,859,732</td>
<td>1,250,061</td>
<td>1,569,671</td>
<td>40,000</td>
</tr>
</tbody>
</table>

You will do your budgets, over and over and over and over.
QUIZ: Select one method to fill the financing gap.

A. Cost Savings (development or acquisition)
B. Community recycling efforts
C. 100% renewable energy project
D. State allocated lottery funds
E. Car wash fund raising events
Project Selection Reasons

- Alternatives
- Payback Analysis
- Financing
Payback Analysis

- **Payback period** is the amount of time it will take to recoup—in the form of net cash inflows—the total dollars invested in a project.
- **Payback analysis** determines how much time will lapse before accrued benefits overtake accrued and continuing costs.
- **Payback** occurs in the year when the cumulative benefits minus costs reach zero.
- The shorter the payback period, the better.
Section 7: Development Phase
Development Goals

- Evidence of project feasibility
- Ongoing consultation between project team and the community.
- Prepare and submit financing/loan applications
- Secure permanent financing
- Secure construction financing
- Solicit and review construction bids.
- Obtain planning approvals, environmental approvals
- All funds identified and, ideally, committed
- Procurement of contractor complete.
Development Phase Deliverables

- Final site control
- Updated TSR
- Final A/E plans and specifications
- Appraisal
- HUD Release of Funds for environmental
- Construction contract documents
- Refined development and operating budgets
- Applications for funding
- Final operational policies and procedures
- One-on-one housing counseling
- Various closings
- Approved marketing plan
- Executed
SPIRIT HILLS HOUSING DEVELOPMENT
NEZ PERCE TRIBAL HOUSING AUTHORITY

PROJECT 1

PROJECT 2

Wyatt Engineering, Inc.
Engineers & Surveyors
Dealmaking: Decisions

• Final team selection
• Accept financing package; X Others
• Lenders- terms, amount
• Tribal - resolutions
Section 8: Construction Phase
Construction Phase Overview

- From construction start to conversion to operations
  - Implementation schedule

- Typical tasks include
  - Sticks & bricks
  - Construction compliance & monitoring
    - Implementation schedule
    - Davis-Bacon
    - Indian Preference
    - Inspections
    - Warranty enforcement
    - Insurance
    - Construction budget
    - Change orders
Construction: Tasks and Products

- Marketing: leases; contracts; homebuyer counseling and maintenance training
- Financing: complete information for financing
- Delivery: typical construction delivery methods
- Team: manage team
- Goals: manage implementation schedule;
- Administer: contract management activities
Construction Methods

- Typical construction delivery methods in Indian housing:
  - Design-Build
  - Conventional
  - Force Account
Conventional Method

RECIPIENT

- Development Coordinator
- Architect

General Contractor

Superintendent

- Crew
- Sub
- Sub
- Sub
- Sub
Design-Build (DB) Delivery Method

- Conceptual Design
- Contractor Selection
- Design/Construction
Force Account Delivery Method
Construction: Decisions

- Changes to design/construction work
- Plan for when things go bad
- Lenders - more funds, if needed
Construction Management Activities

- Inspect the work being performed
- Monitor the work for timeliness of completion according to the contract construction schedule.
- Monitor the budget:
  - Issue Certificate of Completion
  - Issue Certificate of Occupancy
  - Execute the Permanent Loan, if applicable
  - Negotiate certificate of substantial completion
  - Manage construction close out
<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td>Lots 1-5</td>
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<tr>
<td>Lots 16-21, 38</td>
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<tr>
<td>Lots 39, 40, 48-50</td>
<td></td>
<td></td>
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<tr>
<td>Lots 52, 53, 60, 62, 63</td>
<td></td>
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<td></td>
</tr>
</tbody>
</table>
CONSTRUCTION DOCUMENTS

- Plans/Specs
- Site Map/Plot Plan
- Construction Schedule/Draws
- Builders Contract
- Builders Certification
- Section 184 Applicant Acknowledgment
- Construction Loan Rider/Agreement
- HUD 4128 - Environmental
POST ENDORSEMENT DOCUMENTS

- Compliance Inspection Reports
- Final Pictures
- Warranty of Substantial Completion
- Draw Requests
- Mortgagor’s Letter of Completion
- Clearance docs (i.e. CO, well/septic)
- Final Release to be signed by HUD
QUIZ: The ________________ delivery method provides a popular alternative to the other deliver methods. The process is analogous to a one-stop shop approach. It involves contracting with a single entity that offers design, building, and construction management services.

A. Conceptual Design
B. Design-Build
C. Conventional
D. Force Account
CONCEPT IMPLEMENTING CONSTRUCTION
Section 9: Operations Phase
BUY LOT & BUILD YOUR OWN HOME
Overview

Property & Asset Management

- Planning
- Organizing
- Staffing
- Controlling
- Monitoring
# HANDOUT: Are You Ready to Operate

<table>
<thead>
<tr>
<th>OPERATIONAL DOCUMENTS</th>
<th>NA</th>
<th>I don't know what this is!</th>
<th>This is in my office.</th>
<th>I'll have to get it, make it or pay for it.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Property Management Plan</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Project Operating Budget (15-30 years)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Proposed Rent Structure</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. Proposed Homebuyer Purchase Structure</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. Social Services Plan (if applicable)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6. Evidence of Social Services Funding</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7. Policies</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>8. Maintenance Plan</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Role of the Property Manager

- Occupancy/Operations
- Marketing the units
- Applicant screening
- Leasing document signing
- Orienting new residents
- Collecting rents, deposits and fees
- Purchasing supplies
- Paying bills
- Accounting for income and expenses

- Maintaining and inspecting the property
- Enforcing the lease and rules
- Collections, evictions, when necessary
- Protecting the safety and security of residents and staff
- Handling move-outs and unit turnover
- Hiring and supervising staff and contractors
- Budgeting
- Reporting
Role of the Asset Manager

- Oversight of the property manager
- Development of strategic plan property goals
- Responsible for hold, sell, refinance decisions
- Cash management and reserves
- Communicating with investors
- Hiring accountants, lawyers and contractors

- Recipient’s executive director assisted by the finance and housing management staff functions as the asset manag
Staffing Requirements

• Depends on
  • Scope of project
  • Type of project
    • Rental
    • Homebuyer
  • Location of project
    • Subdivision
    • Scattered
Maintenance Staff

Carpentry

Plumbing

Electrician

Labor

Groundskeeper

Crew Forman

Maintenance Director
Establish Property Management Goals:

- Comply with all Tribal and applicable Federal, State, and local laws and regulations,
- Build capacity to provide an array of services tailored to the needs of the community,
- Provide excellent service to all residents,
- Maintain the property in superb condition,
- Keep expenses within the operating budget,
- Explore opportunities for revenue growth or expense reduction, and
- Assess and address capital needs proactively.
- Access funds and services to enhance the ability to meet community housing needs.
Do you have a current Admissions & Occupancy Policy?

How many staff will you need?

What are your maintenance needs?

Do you have an accounting system that complies with 2 CFR Part 200 standards?

What type of housing counseling services do you need to assist families?

Do you have annual goals and performance objectives?
Operations

- **Property Management**
  - Day to day operations
    - Rents, repairs, reports

- **Asset Management**
  - Long-term planning to protect asset
    - Supervise property management
    - Analyze financial performance
    - Evaluate physical condition
WHAT PROPERTY MANAGEMENT FUNCTIONS DO WE NEED TO PRACTICE TO ENSURE EVERYONE IS HAPPY?
QUIZ: Select all the phases of property & asset management:

A. Planning  
B. Organizing  
C. Staffing  
D. Controlling  
E. Monitoring  
F. None of the above
What is a Pro Forma?

- A spreadsheet with multiple pieces of inter-related information for a **single** project
  - Income (generated by rents and other)
  - Expenses (to operate and maintain the housing)
  - 15-30 year cash flow (to show long term sustainability)
  - Sources (to develop the project)
  - Uses (development costs)
  - Any debt and how to repay it
Rental Proforma Map

Income
- Gross Rents
  - Utility Allowance = Net Rent
  - Vacancy Rate = Effective Gross Rent
- Income

Expenses
- Operating Expenses & Reserves & Social Services

NOI
- Income - Expenses = NOI
- Debt Service = PV (PMT, I, n) = Bank Loan
- DCR

Sources
- Bank Loan
- Public Agency Loan (i.e. gap financing)
- Tax Credit Equity

Uses
- Acquisition
- Hard Costs
- Soft Costs
- Lender Fees & Expenses
- Developer Fee

15 Year Cash Flow
- Income - Expenses = NOI
- DCR
In Contrast to Recipient Budget

- Recipients have an annual budget for all operations
  - Includes all the operations, management and maintenance costs for your housing stock
  - Includes RECIPIENT administration, housing counseling, consultants, development, and many others
  - Revenue sources are:
    - Annual IHBG allocation
    - Rents, house payments, other income
    - Other grants
Why A Pro Forma?

- For **stand-alone** project analysis
- Lenders, LIHTC, HOME, AHP, state funds
  - Want to test feasibility for one project only, not Recipient’s overall housing stock
  - Want to see that this one project covers all its expenses
Many Programs Provide Only Development $

Many common leverage programs provide only funding to develop housing, not to operate or maintain:

- Bank/CDFI Loans
- Federal Home Loan Bank AHP
- HOME Investment Partnerships Program
- Low Income Housing Tax Credits
- Most State Programs
- Most USDA funding for new housing
Many Programs Provide Only Development $ (cont’d)

- These funders assume since they won’t put more money into the project in the future, nobody else will either.
- Want to see project is self-sustaining.
- Want to see rents collected will cover all project operations, maintenance and capital replacements for 30-50 years.
- Want to see either rental assistance or operating support to cover anything that rents don’t cover.
  - If LIHTC, want formal written contract.
Proformas Start with People

• Proformas start with ideas about:
  ▪ Who are you trying to serve?
  ▪ How many units?
  ▪ What size/type of units?

Example: Families with less than $36,000/year income, which is $3,000/month
Need 10 homes, all 3-bedroom duplexes.
Practice

Who Do You Want to Serve?
What Can They Afford?

Household Income

\[ \times 30\% \text{ (or } .30) \]

= Affordable Housing Cost

(according to HUD and many funding programs)
But is That Really Affordable?

$3,000/mo income x 30% = $1,000 for housing
Leaves $2,000/month for everything else.

*Workable.*

$600/mo income x 30% = $200 for housing
Leaves $400/month for everything else

*Doesn’t work so well at lower incomes.*  
*Lower % may be better.*
Other Affordability Levels

• What about 25% of income?

• What about 20% of income?
Different Approaches to Setting Rents

• Recipient Rent Policies
  ▪ A Recipient may set policies for minimum rent, provided that nobody in IHBG funded homes pays more than 30% of income
  ▪ A Recipient may set policies for maximum rent
    ◆ Financially beneficial to set higher max rents for higher income households
    ◆ But, political pressure for equal treatment
    ◆ Low rents incentivize people to live there
  ▪ Have to ensure adopted policies allow for compliance with any funding used.
Different Approaches to Setting Rents

• Depends on the funder requirements:
  ▪ IHBG – Residents cannot pay more than 30% of *actual* adjusted household income.
  ▪ LIHTC, HOME – Gross rents cannot exceed published amounts (30% generally) for the *targeted* income level.
    ❖ But tenants pay the whole rent, even if that’s more than 30% of their actual income.
    ❖ You can always offer *lower* rents than the max allowed
What About Utilities?

• Utility Allowances
  - IHBG – Recipient choice of whether utilities are included in the 30% rent cap or not
  - LIHTC, HOME – Must deduct a utility allowance from allowable gross rent to get max net rent.
Rent Considerations

• Compete with nearby market-rate rentals
• Wise to be at least 10% below market-rate rents
  ▪ This is applicable where there IS a competing market – nearby town, off-reservation housing.
  ▪ Especially if using funds allocated by the state – wise public relations.
Example – If Using LIHTC

• LIHTC can serve families up to 60% AMI
• Our example family at $36,000 for a family of four or five is eligible

<table>
<thead>
<tr>
<th>2016 California County</th>
<th>One Person</th>
<th>Two Person</th>
<th>Three Person</th>
<th>Four Person</th>
<th>Five Person</th>
</tr>
</thead>
<tbody>
<tr>
<td>MENDOCINO</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>50% AMI</td>
<td>$25,620</td>
<td>$29,280</td>
<td>$32,940</td>
<td>$36,540</td>
<td>$39,480</td>
</tr>
<tr>
<td>50% AMI</td>
<td>$21,350</td>
<td>$24,400</td>
<td>$27,450</td>
<td>$30,450</td>
<td>$32,900</td>
</tr>
</tbody>
</table>
Example – If Using LIHTC

• Then, check rent chart for maximum rents by unit size. Assume 1.5 people per unit.

<table>
<thead>
<tr>
<th>County</th>
<th>1 BR</th>
<th>2 BR</th>
<th>3 BR</th>
<th>4 BR</th>
<th>5 BR</th>
</tr>
</thead>
<tbody>
<tr>
<td>MENDOCINO</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>60% Rent Level</td>
<td>$686</td>
<td>$823</td>
<td>$950</td>
<td>$1,060</td>
<td>$1,170</td>
</tr>
<tr>
<td>50% Rent Level</td>
<td>$571</td>
<td>$686</td>
<td>$791</td>
<td>$883</td>
<td>$975</td>
</tr>
</tbody>
</table>

Max for 3 BR, 60% AMI is $950
Subtract utilities - $125
Net LIHTC rent maximum = $825

• Can always offer lower rents
Example – If Using IHBG

• IHBG can serve families up to 80% AMI
• Our example family at $36,000 is eligible regardless of size (using national data)

<table>
<thead>
<tr>
<th>2016 United States Median Family Income Limits</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Person</td>
</tr>
<tr>
<td>----------</td>
</tr>
<tr>
<td>80%</td>
</tr>
</tbody>
</table>
Example – If Using IHBG

• Then calculate max IHBG rent based on income (*assuming 0 deductions*)
  
  \[
  \begin{align*}
  \text{\$36,000 / 12 months} & = \text{\$3,000} \\
  \text{\$3,000/month x 30\%} & = \text{\$900 rent} 
  \end{align*}
  \]

• But if Recipient has policy to use 25%
  
  \[
  \begin{align*}
  \text{\$3,000 x 25\%} & = \text{\$750 rent} 
  \end{align*}
  \]
Example – IHBG What Will People Pay?

• If rents are set at $750, and a family with income of $25,000 and no deductions applies:
  - Are they eligible?
    - YES, they are below the maximum income allowed by IHBG
  - What will they pay for rent?
    - $25,000 / 12 months = $2,083 monthly
    - $2,083 x 25% (recipient policy) = $520 rent
Practice
What Rents Will You Offer?
Project Revenue

• Determining revenue:
  ▪ Rent income for all units
  ▪ Other income
  ▪ Subtract vacancy rate
Other Income

• Laundry machines
• Late fees
• Interest on operating bank account
• An estimate of 1% of rental income is commonly used
  ▪ But if you think you’ll have less, be conservative and use zero.
Vacancy Rate

• Used for financial underwriting by lenders and state programs
• Anticipates loss of planned rent while homes are vacant
• Also includes loss from unpaid rent/TARS
• 5% is industry standard
• Can be 3% if rents are very low, or have rental assistance.
Rental Project Revenue

Gross Rent
+ Other Income
– Vacancy
= Effective Gross Income
Example - Rental Project Revenue

Gross Rent $750 x 10 units = $7,500
+ Other Income ($15,000 x 1%) + $75
Total Revenue = $7,575
– Vacancy ($15,150 x 5%) - $379
= Effective Gross Income = $7,196
Practice
Effective Gross Income
Rental Proforma Map

Income
- Gross Rents
- Net Rent
- Vacancy Rate
- Effective Gross Income

Expenses
Operating Expenses & Reserves & Social Services

NOI
Income - Expenses = NOI
+ DCR
= Debt Service
PV (PMT, i, n) = Bank Loan

15 Year Cash Flow
Income - Expenses = NOI
DCR

Uses
- Acquisition
- Hard Costs
- Soft Costs
- Lender Fees & Expenses
- Developer Fee

Sources
- Bank Loan
- Public Agency Loan
  (i.e. gap financing)
- Tax Credit Equity
Operating Expenses

• Determining Operating Expenses
  ▪ Admissions & occupancy staff
  ▪ Maintenance staff
  ▪ Maintenance supplies & contracts
  ▪ Utilities
  ▪ Insurance
  ▪ Legal/evictions
  ▪ Property taxes, if any
  ▪ Management fee (if outside mgmt. company)
Reserves

• Many funders require that money be set aside every year to fund future capital replacements
  ▪ Such as appliances, carpet, roof, water heaters
• Meant to make the project self-sustaining
• Typical:
  ▪ $200 to $300 per unit, per year
  ▪ More for housing for large families, $350+
### Sample Operating Costs from Other Affordable Properties

<table>
<thead>
<tr>
<th></th>
<th>Annual Expenses</th>
<th># of Units</th>
<th>Per Unit Per Year</th>
<th>Per Unit Per Month</th>
</tr>
</thead>
<tbody>
<tr>
<td>Family</td>
<td>$102,048</td>
<td>24</td>
<td>$4,252</td>
<td>$354</td>
</tr>
<tr>
<td>Senior</td>
<td>$186,000</td>
<td>50</td>
<td>$3,720</td>
<td>$310</td>
</tr>
</tbody>
</table>

### Sample Replacement Reserve Deposits

<table>
<thead>
<tr>
<th></th>
<th>Per Unit Per Year</th>
<th>Per Unit Per Month</th>
</tr>
</thead>
<tbody>
<tr>
<td>Family</td>
<td>$350</td>
<td>$29</td>
</tr>
<tr>
<td>Senior</td>
<td>$250</td>
<td>$21</td>
</tr>
</tbody>
</table>
Practice
Set Operating Expenses
Rental Proforma Map

**Income**
- Gross Rents
  - Utility Allowance
    - Net Rent
  - Vacancy Rate
    - Effective Gross
  - Income

**Expenses**
- Operating
- Expenses & Reserves & Social Services

**NOI**
- Income - Expenses = NOI
- NOI + DCR = Debt Service
- PV (PMT, i, n) = Bank Loan

**15 Year Cash Flow**
- Income - Expenses = NOI
- DCR

**Uses**
- Acquisition
- Hard Costs
- Soft Costs
- Lender Fees & Expenses
- Developer Fee

**Sources**
- Bank Loan
- Public Agency Loan (i.e. gap financing)
- Tax Credit Equity
Net Operating Income

Effective Gross Income
- Operating Expenses
  - Reserves
= Net Operating Income
Example - Net Operating Income

Effective Gross Income = $7,196

– Operating Expenses -$3,540

– Reserves - $290

= Net Operating Income = $3,366
Practice

Net Operating Income
If NOI is Positive

• NOI can go toward paying off a loan
  ▪ This is leverage!
  ▪ Loan helps pay to build the project

• Cash Flow
  ▪ Also called profit, return to owner, etc.
If NOI is Negative

• Project needs help covering ongoing expenses
• Two main ways to structure it:
  - Recipient absorbs it – “Operating Deficit Guarantee”
  - Rental Assistance
• Both of these mean you are taking IHBG revenue from one bucket and putting it in the other!
Absorb It

• Recipient covers whatever is needed
  ▪ For Current Assisted Stock, Recipient gets CAS allocation, which may not be sufficient
  ▪ For everything else, Recipient uses Need allocation, or any other revenue available
• But when LIHTC investors involved, they require a formal written agreement.
  ▪ Known as an Operating Deficit Guarantee
Net Operating Income

Effective Gross Income
– Operating Expenses
– Reserves
= Net Operating Income
+ Operating Deficit Funding
Rental Assistance Model

• Sometimes required by LIHTC investors
• Set rent at a level that covers all ongoing costs
• Rental Assistance Contract pays the difference between that rent and what the family can afford
• Example:

  Family Income $1,200 \times 25\% = $300
  Actual Rent $750
  Rental Assistance Contract pays $450
Recap
Rental Proforma Map

**Income**
- Gross Rents
- Utility Allowance
  - Net Rent
- Vacancy Rate
- Effective Gross Income

**Expenses**
- Operating Expenses & Reserves & Social Services

**NOI**
- Income - Expenses = NOI
- DCR
- Debt Service
- \( PV(PMT, i, n) = Bank \ Loan \)

**15 Year Cash Flow**
- Income - Expenses = NOI
- DCR

**Uses**
- Acquisition
- Hard Costs
- Soft Costs
- Lender Fees & Expenses
- Developer Fee

**Sources**
- Bank Loan
- Public Agency Loan
  (i.e. gap financing)
- Tax Credit Equity
What is Financial Feasibility?

• Answering yes to these three questions:
  ▪ Is there enough income to pay expenses, reserves, and any debt service?
  ▪ Over 15-30 years, is there enough income to pay expenses, reserves and debt service?
  ▪ Are there enough funding sources to pay development costs?
Early Financial Feasibility

• Estimate rent structure and operating expenses to determine if project covers its own expenses
• Determine supportable loan amount
• Estimate development costs
• Determine financing gap
• Prepare 15-30 year cash flow
CASE STUDY
Operating Budget
## HANDOUT: OPERATING BUDGET

### Total Units: 40  
### Total Budget Per Unit Cost:

#### INCOME

<table>
<thead>
<tr>
<th>Description</th>
<th>Annual Rental Income Per Schedule B/Section F</th>
<th>Less Vacancy @ 7.00%</th>
<th>Parking Income</th>
<th>Less Vacancy @ 7.00%</th>
<th>Commercial Space Income</th>
<th>Less Vacancy @ 7.00%</th>
<th>Laundry Income</th>
<th>Other Income (Specify)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>189,000</td>
<td>13,230</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

#### TOTAL INCOME (Lines 1, 3, 5, 7, and 8 Minus 2, 4, and 6): 175,770

#### EXPENSES

<table>
<thead>
<tr>
<th>Description</th>
<th>Subtotal</th>
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</thead>
<tbody>
<tr>
<td><strong>ADMINISTRATIVE EXPENSES</strong></td>
<td>46,009</td>
</tr>
<tr>
<td>10 Accounting and Audit</td>
<td>12,000</td>
</tr>
<tr>
<td>11 Advertising</td>
<td>120</td>
</tr>
<tr>
<td>12 Legal</td>
<td>2,000</td>
</tr>
<tr>
<td>13 Property Management Fee @ 5.00%</td>
<td>8,789</td>
</tr>
<tr>
<td>14 Management Salaries/Taxes</td>
<td>11,500</td>
</tr>
<tr>
<td>15 Office Supplies and Postage</td>
<td>4,000</td>
</tr>
<tr>
<td>16 Telephone</td>
<td>6,000</td>
</tr>
<tr>
<td>17 Annual Compliance Fees</td>
<td>1,900</td>
</tr>
<tr>
<td><strong>SUB-TOTAL</strong> (Sum of Lines 10 through 19)</td>
<td>46,009</td>
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</table>

<table>
<thead>
<tr>
<th>Description</th>
<th>Subtotal</th>
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<tbody>
<tr>
<td><strong>OPERATING EXPENSES</strong></td>
<td>6,000</td>
</tr>
<tr>
<td>20 Fuel (Heat and Water)</td>
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<tr>
<td>21 Electricity</td>
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<tr>
<td>22 Water and Sewer</td>
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<tr>
<td>23 Gas</td>
<td>0</td>
</tr>
<tr>
<td>24 Garbage/Trash</td>
<td>0</td>
</tr>
<tr>
<td>25 Other (Specify)</td>
<td>0</td>
</tr>
<tr>
<td><strong>SUB-TOTAL</strong> (Sum of Lines 20 through 26)</td>
<td>6,000</td>
</tr>
</tbody>
</table>

<table>
<thead>
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</thead>
<tbody>
<tr>
<td><strong>MAINTENANCE EXPENSES</strong></td>
<td>61,000</td>
</tr>
<tr>
<td>27 Elevator</td>
<td>0</td>
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<tr>
<td>28 Laundromat</td>
<td>4,000</td>
</tr>
<tr>
<td>29 Garage</td>
<td>8,000</td>
</tr>
<tr>
<td>30 Repairs</td>
<td>16,000</td>
</tr>
<tr>
<td>31 Maintenance Salaries and Taxes</td>
<td>17,000</td>
</tr>
<tr>
<td>32 Maintenance Supplies</td>
<td>12,000</td>
</tr>
<tr>
<td>33 Pool</td>
<td>0</td>
</tr>
<tr>
<td>34 Snow Removal</td>
<td>6,000</td>
</tr>
<tr>
<td>35 Decorating</td>
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</tr>
<tr>
<td><strong>SUB-TOTAL</strong> (Sum of Lines 27 through 35)</td>
<td>61,000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Description</th>
<th>Subtotal</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>FIXED EXPENSES</strong></td>
<td>10,000</td>
</tr>
<tr>
<td>37 Real Estate Taxes</td>
<td>0</td>
</tr>
<tr>
<td>38 Property Taxes</td>
<td>0</td>
</tr>
<tr>
<td>39 Other Tax Assessments</td>
<td>0</td>
</tr>
<tr>
<td>40 Insurance</td>
<td>10,000</td>
</tr>
<tr>
<td>41 Other (Specify)</td>
<td>0</td>
</tr>
<tr>
<td><strong>SUB-TOTAL</strong> (Sum of Lines 37 through 41)</td>
<td>10,000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Description</th>
<th>Subtotal</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>RESERVE FOR REPLACEMENT/OTHER</strong></td>
<td>13,000</td>
</tr>
<tr>
<td>43 Reserve for Replacement (Actual)</td>
<td>12,000</td>
</tr>
<tr>
<td>44 Other (Specify)</td>
<td>1,000</td>
</tr>
<tr>
<td>45 Other (Specify)</td>
<td>0</td>
</tr>
<tr>
<td>46 Other (Specify)</td>
<td>0</td>
</tr>
<tr>
<td>47 Other (Specify)</td>
<td>0</td>
</tr>
<tr>
<td><strong>SUB-TOTAL</strong> (Sum of Lines 43 through 47)</td>
<td>13,000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Description</th>
<th>Subtotal</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>TOTAL EXPENSES</strong></td>
<td>136,000</td>
</tr>
<tr>
<td>49 INET OPERATING BUDGET (Lines 9 Minus Line 40)</td>
<td>29,770</td>
</tr>
</tbody>
</table>

1. **$250/unit/year** for all other new construction and rehabilitation projects.  
2. **$300/unit/year** for Senior Housing (new construction only), a $250/unit/year for all other new construction and rehabilitation projects.
Section 10: Development Process Recap
TEST YOUR KNOWLEDGE ABOUT THE DEVELOPMENT PROCESS FOR OUR NATIVE COMMUNITIES. WE CAN DO IT!!!!!!!!!!!!!!!
DIRECTIONS:

Indicate the phase or phases of development for each of the documents listed below. Assume this is a subdivision accommodating 30 homes.
Wrapping It Up

- Pluses and wishes
- Evaluations
- Certificates