

TO: Andy Stern, Charlie McMillan, Jennifer Goldson
FROM: Judy Jacobson and Jeff Sacks
RE: Review of CPA Housing Projects
DATE: August 22, 2005

12/15/05 – annotations for Cambria Road in bold

As you know, we have been considering the appropriate scope of review for CPA housing projects as well as a new format for our recommendations to the Board of Alderman. Set forth below are the items that we believe should be analyzed when a housing project is seeking CPA funding. A narrative summary of these items, along with attachments as described below, should be submitted to the Alderman.

Project Sponsor – The capacity of the entity proposing the project is critical to the project's success. As such, the following should be analyzed: (1) track record (successfully completed similar projects?); (2) management capacity (both board of directors and staff; board members should be identified and evidence of their active involvement in the management of the organization reviewed); and (3) financial health of the organization (**financial statements should be reviewed and conclusions drawn relative to income and expenses and net assets**; analysis of other real estate owned). **Financial statements for 2004 should be obtained and reviewed (the 2003 statements submitted are old)**

Project Owner (if rental project) – Project sponsor or affiliated entity? If affiliated, the affiliation should be identified.

Property Background – **The “story” of the property should be summarized including prior owner and use as well as occupancy history.**

Public Purpose – The public purpose being served by the project should be identified. This should include the **demonstrated need** for the housing being developed. **Rob or Jennifer should be able to take care of this using Planning Dept data**

Community Support – Any letters of support submitted and testimony at public hearings should be summarized. Similarly, any negative feedback received about the project should be summarized.

Development Analysis – The **development pro forma submitted by the project sponsor should be analyzed** (1) to determine if it is complete and realistic (i.e. all “sources” of funding and their terms and conditions identified and all costs of development or “uses” identified); and (2) to determine if the identified costs are reasonable (for example, construction hard costs of \$125 - \$150 per square foot are common in the industry; there are similar benchmarks for most line items including developer fee and overhead). **Some thoughts from a quick**

look: We need to be sure that there will be permanent sources for all project costs. It's great that CAN-DO is planning to seek grant support but we should get more info re: the source of the grants; timing; likelihood of receipt; etc. CPA funding should be conditioned on the receipt of the other funds. The review of the development budget can't really be completed until the construction scope and capital needs assessment is reviewed by the Planning Dept (see below).

Acquisition Cost -- Is the purchase price supported by an appraisal? A check should be done with the assessor's records to see if the comparables used by the appraiser are the best comparables available. **Can Rob or Jennifer review the appraisal and the information supplied by the Assessor's office?**

Construction Scope – The property and the **proposed scope of work** (plans and specifications if new construction or substantial rehabilitation) **should be reviewed** by a professional in the construction field. He or she should provide a written evaluation to the CPC (a "front-end" analysis) addressing whether the scope is adequate (sufficient for the property to operate as affordable housing for the foreseeable future) and appropriate (i.e. level of finishes is appropriate for a publicly-supported development). Other matters such as compliance with handicapped accessibility requirements should be addressed. If the property is not going to be rehabilitated or will undergo moderate rehabilitation, the **construction inspector should assess the capital needs** of the property and recommend an appropriate level of replacement reserves. **Has the Planning Office reviewed the scope of work and provided a written report? We'll need verification that the \$10,000 that is proposed for the capitalized replacement reserve will be sufficient to meet all anticipated capital needs.**

Environmental Issues –The project sponsor's environmental report should be reviewed to determine if any environmental hazards (i.e. asbestos, underground storage tanks) are present. For properties built before 1977 evidence that lead paint has been removed or remediated in accordance with applicable law should be reviewed (non-elderly projects).

Relocation. If the project involves the temporary or permanent relocation of existing residents, the sponsor's relocation plan and budget should be reviewed and a determination made as to whether the Uniform Relocation Act is applicable (if federally funded). **Was anyone displaced as part of this acquisition?**

Development/Management Team. The qualifications of all members of the project team (including architect, contractor, attorney, property manager, etc.) should be reviewed. **If the project is a rental project and the sponsor is going to self-manage, the management plan should be reviewed including the capacity of staff to income-qualify tenants, make repairs, etc.**

Operating Budget (for rental projects) – The sponsor’s proposed operated budget should be analyzed to determine if revenue assumptions (including vacancy) are appropriate. The restricted rents, including a marketing window, should be identified. Expenses should be critically analyzed to determine if all appropriate line items are included, are realistic and are consistent with industry standards. The operating pro forma should project income and expenses over at least a 10 year period with conservative trending assumptions (revenue increasing very slowly, i.e. 2 or 3% per year; expenses increasing at a minimum of 5% per year). **The operating budget is very thin. No management expenses are included and there is no cushion (should be at least 1.00 or 1.15 coverage). The Planning Dept’s conclusions re: the future capital needs are relevant here (hard to believe that a \$10,000 RR will be adequate with no additional funding over time). How do these projected costs compared to the actual costs in CAN-DO’s other projects? Are the rents dependant on Section 8? (is that why affordability is 50% or 80% of median?)**

Market Analysis – If a rental project with market units, the sponsor’s analysis of market rents in the neighborhood should be critically analyzed. If a homeownership project, the proposed market prices should be analyzed using information from the assessor’s office with appropriate assumptions made about appreciation during the construction period (based upon historic appreciation figures).

Homeownership Projects – The restricted prices should be analyzed to determine if appropriate and the mechanism for maintaining affordability identified (deed rider). If a condominium the condominium budget should be analyzed and the percentage interest of the restricted units identified.

Affirmative Marketing Plan and Tenant Selection\Sales Plan. The sponsor’s **plan for advertising the availability of the units and for selecting tenants** or homeowners, as applicable, should be analyzed.

Project Timetable. The project timetable should be identified.

Special Conditions. Any recommended special conditions should be identified.

A narrative summary of each of these items should be part of the CPC’s recommendation to the Alderman along with the following attachments:

- Cover sheet with basic information such as amount of CPA funding requested; property address; brief project description; number of units; affordability levels
- Pictures of the property/site
- Site Plan (if new construction)
- Preliminary Plans and Elevations (if new construction)

- Development Budget
- Operating Budget (if rental project)
- Market Analysis

Although our current focus is on the CPC's review and analysis of housing projects and the format of our recommendation to the Board of Alderman, the various post-approval tasks need further attention and refinement as well. These include:

- Documentation of CPA funding
- Construction monitoring (if applicable)
- Project completion (including analysis of cost certification)
- Post-completion monitoring (i.e. affordability compliance; property condition)

Let's meet to discuss after you review.