

## 2008 – 2009 CDBG/HOME APPLICANT QUESTIONS AND RESPONSES

Name of Organization: **YMHA/SMHA**  
Project Title: **New Harmony, a.k.a. Owendale II**

**1. Would you provide a breakdown of what specific amounts you will use this upcoming year and for the various phases of the project through completion?**

We have, to date, expended almost \$100,000 of the City's already committed \$250,000 HOME loan. We expect to spend down the remaining \$150,000 of that loan on predevelopment costs in 2008, and then, later in 2008 and through 2009, expend no more than \$500,000 more in predevelopment costs out of the proceeds from the new loan. The remaining \$5.4 million of this new loan will be expended during construction on hard construction expenses and related soft costs. These funds will remain in the project as a permanent loan. We will work with city staff to create a more detailed chart of the timing and flow of funds.

**2. Please provide information about the timing of various funding commitments to the project.**

(Pending response due Tuesday, March 11<sup>th</sup>)

**At what point is it necessary to have the full funding commitment from the city of Davis/ Davis Redevelopment Agency and at what point do you anticipate spending the City/Agency funding?**

(Pending response due Tuesday, March 11<sup>th</sup>)

**3. Did you maximize other funding sources for this project?**

We are in the process of applying for funds from all sources available for this project. We will be applying for the maximum amount of Multifamily Housing Program funds from State Dept. of Housing and Community Development and the Federal Home Loan Bank's AHP Program. We will apply for the maximum tax credits available for the project under the Low Income Housing Tax Credit Program, and then obtain competitive bids from investors that can utilize the tax credits. The project also plans to carry a community reinvestment long term mortgage from Bank of America. We are currently working on a proposal for Prop 1C Infill Infrastructure funds, for a minimum of \$1,000,000. If successful, this grant will lower the amount of City financing required and lower the first mortgage.

**What funding sources are you looking into to assist with solar and other green features in this project?**

Enterprise offers a \$50,000 grant through the Green Communities program, and the project architects are currently evaluating the grant criteria in light of our current plans. In addition, the project is enrolled in PG&E's Multifamily New Homes Initiative, which makes us eligible for incentive funding for energy efficiency, as well as rebates on energy efficient appliances. In addition, our project team is working closely together to evaluate green measures as they will impact the project as a whole, with special attention to details that may cost more in one area but generate savings in another. Materials and fixtures, which require less maintenance costs over time, are also being considered.

For solar power, we are actively involved in identifying strategies that will bring the maximum amount of rebates from the California Energy Commission. This includes exploring the option of bringing a private investor to finance and own the PV system, which would bring the maximum tax credits from the Commission. These arrangements have been used successfully by the State of California in many government buildings, and provide more competitive utility costs, as well as an opportunity to purchase the PV system for a low or nominal price after 5 years.

**4. Do you hope to be funded as a CHDO? Will future negotiations of YMHA/SMHA aim to maintain local representation and retain CHDO status?**

Yes. SMHA currently has CHDO status in Sacramento County. Upon completion of the formal affiliation of YMHA with SMHA, we will be bringing four board members from YMHA to the SMHA board, and board members from SMHA will be added on the YMHA board. Thus, the affiliation is accomplished with partially overlapping boards. YMHA will continue to exist as a legal entity and remain a CHDO in Yolo County, and SMHA, with several members from Yolo County and Davis, will also meet the requirements of obtaining CHDO status.

**5. In unit amenities, it states that each unit will have laundry hook-ups or appliances (in addition to the laundry room), has a decision been made regarding whether appliances will be provided?**

We plan to provide hook-ups and adequate space that will allow people to include them if they wish. Our experience has been that including washers and dryers is a big operating expense over time. Once you include appliances they must be maintained and replaced through the life of the project.

**6. Your permanent funding sources place the City/Agency in 2<sup>nd</sup> position. Do you think it's likely the HCD will accept 3<sup>rd</sup> position?**

No. These two sources should have been listed in reverse order. This will be corrected on the pro forma.

**7. Do legal fees in the project budget include funds to cover the City/Agency legal expenses in drafting & reviewing project loan documents?**

No.

**8. How will the developer fee be shared between YMHA and SMHA?**

The negotiated split of developer fees is an equal split of net developer fee to each organization. Should the two organizations affiliate formally, as is planned, YMHA will be a permanently supported organization of SMHA. The combined developer fee would stay with the umbrella organization, SMHA, which will carry the responsibility of all organizational oversight expenses and staffing costs for both organizations in the future.

**9. Were the Development Impact Fees estimated recently, based on updated adopted amounts?**

Yes. SMHA staff spoke with City staff after the changes were announced. In addition, SMHA staff, on every project, periodically confirms impact and other City fees to ensure that budgets remain up to date.

**10. How was the developer fee calculated?**

State and federal funding programs establish maximum developer fees based on a percentage of total project costs. When one funding source is more restrictive than another, the developer can apply to the less restrictive source (in this case TCAC, with a 12% maximum) for the maximum amount, and then re-invest a portion of the fee into the project as a capital contribution. Thus, while the development budget shows a \$2,400,000 developer fee, the sources and uses page illustrates that over half of this amount will be invested in the project as a source during construction and permanent financing. Of the \$2,400,000, only \$961,051 will be taken as developer fee, in accordance with MHP requirements. Of the remainder, \$1,201,948 will be invested into the project as GP equity, and \$236,551 will provide equity in the form of deferred developer fee. MHP will allow the developer to take this fee over time, if cash flow is available.

**11. Have tax credit buyout costs been budgeted into the project's proforma (for year 15)?**

We structure the deal with the investor in a way that allows a buy-out of the limited partner's interest in the amount of outstanding debt plus investor's tax liability from the sale. Once projects are in operation, SMHA annually runs numbers to determine if losses should be re-allocated to minimize or eliminate the buyout costs/tax liability.

**12. Please include in operating expenses the City's annual monitoring fee of \$6,000. How will it be paid? Residual receipts? From the asset management fee? Other?**

This will be added in with the other Debt Service line items. We have reviewed our operating budget and found that the property management fee was factored in at a higher per-unit cost than is standard for SMHA properties. Adjusting this amount down will increase the amount available for debt service and provide for the addition of the \$6,000 monitoring fee.

**13. What steps have been taken to protect the project against cost overruns?**

SMHA and YMHA have already begun working with Sunseri Construction to obtain initial price estimates for construction, and to assist with value engineering. SMHA and YMHA will receive a binding bid from the Sunseri, the general contractor before commencing construction. Sunseri will be involved throughout the process, and together the development team will build and maintain a list of construction alternatives should the costs escalate for a given material or method. With the participation of the architect and experienced SMHA staff providing oversight during construction management, we will work to protect against cost over-runs.

**14. If cost overruns do occur with construction of the project, what steps will YMHA/SMHA take to ensure project completion?**

Given that this is one of the biggest risks in real estate development, SMHA has factored in a substantial construction contingency. Should we go through the contingency and still have overages, we will appeal to funders to share the costs of increases with us (from withdrawals from our developer fee) so that no one party takes the full hit.