

City of Wilmington Project Selection Criteria (Underwriting)
Evaluation of proposed HOME funded projects

The City of Wilmington has identified community development and housing needs and established goals in the City's adopted Five-Year FY2013-2017 Consolidated Plan for the use of CDBG and HOME funds, the City's Strategic Plan, the 10 Year Plan to End Chronic Homelessness, and/or other adopted City plans for neighborhoods and small areas. Additionally, the City has adopted a policy to ensure compliance with the FY2012 HOME Appropriations Law, and any subsequent federal regulations that maintain the requirements of the Act. The Act requires assessment of developer capacity, market analysis and project underwriting prior to the commitment of HOME funds to the development of homeowner or rental projects. The plans and policy noted above were adopted to help ensure that City resources are used to fund projects that are well thought out and planned, adequately financed, and meet a demonstrated need. To that end, the following criteria for evaluation and underwriting will be used for project selection. These criteria are a tool for project assessment, but are not the sole decisive factors for making funding decisions.

I. Market Analysis (10 points)

Up to ten points will be awarded based on the results of a market analysis which defines the primary market area and identifies competing existing and proposed development. Further, the Market Analysis should demonstrate demand for the project based upon the following: population, number of households within the eligible income range, number of cost-burdened households, waiting list for housing, and other pertinent data. Rental market studies should identify the primary market area, and include capture rate when applicable, timeline for rent-up, and a list of comparable properties by: rent per square foot, number of bedrooms, amenities and vacancy rate. A homeownership market analysis should include the primary and secondary market area. In addition, a homeownership market analysis should include a listing of unsold inventory, ownership ratio, and identify similar property by listing prices, selling prices, days on the market, and sales price per square foot.

The market analysis should answer the following questions:

- Has a demand for the type and number of housing units been convincingly demonstrated?
- If homebuyer units, will developer be able to sell the planned unit(s) prior to the six-month deadline?
- If rental units, will developer be able to lease-up the planned rental units as expected, e.g. within the timeframe specified in the project pro-forma?
- Will the development adversely impact existing affordable housing developments?

II. Project Scope (50 points)

Consistency with City Plans (5 points)

Up to five points will be awarded to a project that addresses need(s) identified in City Consolidated Plan, City Strategic Plan Welcoming Neighborhoods and Public Spaces Focus Area, 10 Year Plan to End Chronic Homelessness and/or other City neighborhood plans, i.e small area/neighborhood plans.

Community Support (5 points)

Up to five points will be awarded to a project that shows evidence of outreach and meeting(s) with community/neighborhood during project planning process to identify and address neighborhood concerns. Maximum points will be awarded to projects that have identified neighborhood support as demonstrated by letters of support or recommendation from neighborhood/community based groups.

Site Evaluation, Layout & Design (25 points)

Points will be awarded for site specific development proposals that include adequate design information including scaled site plan, building elevation and floor plan drawings, material specifications and energy efficiency elements.

Up to **ten points** will be awarded to projects meeting the following requirements:

- Energy efficiency – units must provide for 3rd party verification or certification of construction compliance with Energy Star, System Vision or other approved green building program, debris recycling, and water conservation strategies.
- Accessibility- projects with 5 or more units must include 10% of units as handicapped or fully accessible units.
- Utilities- water, sewer, and electric service must be available with adequate capacity to serve the site. Sites should be accessed directly by existing paved, publicly maintained roads.
- Site Appropriateness- site should be zoned for proposed development, compatible with adjacent land uses and primary market information. HOME funded multi-family new construction projects must meet the site and neighborhood standards of 24 CFR 983.6(b). Factors that may reduce points awarded include: locations impacted by environmental problems, proximity to wetlands; locations impacted by flooding; sites in fringe areas of the city not well served by public transit and basic business services; sites in saturated primary market; or other unsuitable conditions.

Quality of Design and Construction (10 points) – units constructed or rehabilitated under HOME program will be required to meet or exceed the specifications of the City’s written rehabilitation standards. Additionally, up to **ten points** will be awarded for projects that incorporate the following:

- The extent to which the design uses multiple roof lines, gables, dormers and similar elements to break up large roof sections, the extent to which the design adds visual appeal to the building elevations, the level of detail that is achieved through the use of porches, railings, and other exterior features.
- Interior considerations include: spacious room layouts, kitchens with an abundance of counter top working space and cabinets, number of bathrooms reflecting market norms, and storage space other than bedroom closets.
- Quality materials include low maintenance, high durability, energy efficient products and quality interior and exterior building components.
- Characteristics of good site design include attractive entryways, connected streets, consistent building setbacks, sidewalks, appropriate amenities and accessible open space areas.

Amenities (5 points) – up to five points will be awarded for projects that provide for availability of quality amenities within close proximity including, but not limited to, grocery store, pharmacy, medical services, community/senior center, public park and green space, library, church, sidewalks, public transportation and schools. Distance to amenities shall be considered in awarding points.

III. Project Funding and Operations (40 points)

A toolbox is provided with excel spreadsheet templates for rental pro-forma including: project summary, revenue, operating budget, operating cash flow, development budget, construction cash flow. Homeownership projects will use the excel spreadsheet for homeowner pro-forma including: project summary, development budget and construction cash flow. An analysis of the data provided in the pro-forma, along with market analysis and other project information will be used to underwrite the project as follows.

Development Budget/Cash Flow (15 points) - up to fifteen points will be awarded for complete and reasonable costs identified in the development budget. Reasonable costs shall be defined as cost estimates that are supported by examples of comparable costs within the area, and costs that would be typical in a project serving the defined market area and population.

Points will be awarded as follows:

- **Five points** - Homeowner project development cost does not exceed the average building cost per square foot for single family residential, plus land cost, soft costs and developer’s fee.
- **Five points** -Homeowner project developer fees not to exceed **20%**.
- **Five points** - Rental project development cost does not exceed the average building cost per square foot for single family residential or small multi-unit residential, plus land cost, soft costs and developer’s fee.

- **Five points** –Rental project developer fees not to exceed 20%.
- **Five points** - The rental project development budget should include reserves for rent-up and six months of operating, along with an initial replacement reserve contribution of \$500-750 per unit.
<http://www.realestateinvestmentcenter.com/locations/74572-north-carolina-wilmington>
- **Five points**- Cash flow projections illustrate uses of funds and the availability of the sources of funds within the project development timeline including any short-term construction loan used to cover the development cost and the repayment of the bridge loan at construction completion.

Operating Budget/Cash Flow (15 points) - for rental projects only, up to **fifteen points** will be awarded for complete and reasonable costs identified in the operating budget. Reasonable costs shall be defined as cost estimates that are supported by examples of comparable costs within the area, and costs that would be typical in a project serving the defined market area and population. Additionally, revenue estimates should be reasonable as demonstrated by calculation of rents based on HOME requirements and vacancy rates based on data for comparable properties in the market area. Points for small scale/scattered site rental projects will be awarded points as follows:

- **Two points** - Vacancy rates, including physical and economic, no less than 12-15% for scattered site and/or small scale rental development unless market analysis demonstrates lower vacancy rate is realistic based on survey of competing properties experience.
- **Two points** - Rent revenue is based on lesser of applicable HOME rent or “market” rent for area. Rent is competitive and viable market is identified, including waiting list of potential renters.
- **Two points** - Operating costs projections reflect higher costs associated with operating and managing scattered site and/or small scale rental, and should be based on comparable projects or documented estimates.
- **Three points** - Ongoing contribution to replacement reserves is included in the operating budget at \$500-750 per unit annually.
- **Two points** - Scattered site and/or small scale rental projects show an operating margin 5-12%. The operating margin is the ratio of cash flow to total operating costs, reserve deposits, and any debt service payments.
- **Two points** - Operating projections show annual increase in rent revenues at no more than 2%.
- **Two points** - Operating projections show the annual increase in expenses at no less than 3.5% annually. OR
- **Up to Fifteen points** - Large scale/multi-family rental projects will be underwritten according to NCHFA guidelines and reviewed by City staff.

Leverage of Non-City Funds (CDBG, HOME, General Fund) (5 points) - up to **five points** will be awarded to projects based on the percentage of non-City funds identified in the pro-forma worksheets toolkit. Points will be awarded as follows: City funds $\leq 15\%$ = 5 points; $\leq 25\%$ = 3 points; $\leq 50\%$ = 1 point; $> 50\%$ = 0 points.

Re-payment of City Funds (5 points) – up to **five points** will be awarded to projects that return city funds for reuse in other affordable housing activities. Points will be awarded as follows: repay $\geq 20\%$ of City funds = 5 points; repay 5% – 20% = 3 points; repay 1% - 4.99% = 1 point; no repayment = 0 points.

IV. Developer Capacity and Fiscal Soundness (10 points)

Up to ten points will be awarded to projects that demonstrate staff and developer capacity and fiscal soundness necessary to successfully undertake the proposed project. This evaluation shall be applied to Community Housing Development Organizations and to other affordable housing developers seeking City CDBG, HOME or General Funds.

Required information and documentation for assessing developer capacity and fiscal soundness includes, but is not limited to, the following:

- List of recently completed projects and projects currently underway and/or pending
- Development team resumes, copies of appropriate licenses and/or professional certifications
- W-2, W-4's for full-time and part-time staff of CHDOs on the development team
- Job descriptions for staff
- Contract and 1099 for contract staff
- Current balance sheet
- Current year budget with comparison of actual performance YTD vs. projections
- Most recent corporate audit or reviewed financial statements
- Most recent tax returns (990 for nonprofit developers)
- Professional and banking references
- List of board of directors and officers of corporation

Upon review of the information submitted by the CHDO/Developer the following questions must be successfully answered:

- Has the development team demonstrated the experience and skills to successfully complete the project?
- Has the developer successfully completed projects of a similar size and scope in the past?
- Does the developer have the financial resources available to complete the project?
- Does the developer have the net worth to take on a new project?