SUPPLEMENTAL DOCUMENT 7

LACDA UNDERWRITING GUIDELINES

Item	Underwriting Guideline	Notes
Accessibility	A minimum of 11% of the units in the project (by unit type) must be accessible to persons with mobility impairments. A minimum of 4% of the units in the project (by unit type) must be accessible to persons with sensory impairments.	CASp review required at various stages, as identified in the Affirmative Fair Housing and Accessibility Requirements Supplemental Document. Units must be distributed throughout the project. Project shall adhere to the accessibility requirements that are most restrictive according to project funding sources. The LACDA's minimum number of mobility and sensory units is lower than CTCAC requirements, therefore, tax credit projects must adhere to the stricter standards.
Accounting / Audit Fees by Accountant – Operating	$7,500 to $12,000	Audits are required for all properties. Therefore, all operating budgets must include an audit cost line item. Line item includes both the annual audit and tax returns. Audit must be a single-asset audit. For mixed-use projects, the financials for non-residential uses (i.e., commercial, retail, etc.) must be separate from that of the residential uses.
Accounting / Audit Fees by Accountant – Capitalized (included in the Development Budget)	$15,000 to $25,000	Line item includes the cost certification, organization accounting and other accounting needs (i.e., interim financial and tax return preparation). Audit must be a single-asset audit. For mixed-use projects, the financials for non-residential uses (i.e., commercial, retail, etc.) must be separate from that of the residential uses.
Acquisition	Acquisition costs included in the Development Budget shall not exceed Fair Market Value (FMV) of the land, as established by an "as-is" appraisal. Such an appraisal must establish the market value of the property using the condition existing as of the date of the Appraisal establishing the value. The appraisal must be no older than six (6) months as of the date of the purchase contract (i.e., Purchase and Sale Agreement or Disposition and Development Agreement).	Note Regarding Acquisition Loans - Allowable Acquisition Loan Costs: • Interest and other loan fees (e.g., origination costs, etc.) are allowable as project costs as long as the lender is a commercial lender with a recognized loan program <u>AND</u> standard documentation of the loan, acceptable to the LACDA, is provided; (i.e. a loan agreement and promissory note); payment of interest and other loan fees will not be permitted without the standard documentation (regardless of whether LACDA or another source would be reimbursing the interest expense or fees). • If the lender is <u>not</u> a known commercial lender with a recognized loan program (i.e., an entity related to the project borrower) then interest and other fees associated with the "loan" are <u>not</u> allowable as project costs and must be removed from the project budget (regardless of whether LACDA or another funding source would be reimbursing the interest expense or fees).

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Affordability	Homeless and Special Needs units must be restricted to households earning at or below 30% AMI, unless applicant provides justification (acceptable to the LACDA) for 35% AMI. Income targeting for units assisted by PBVASH Vouchers may be at or below 50% of AMI.	Affordability Term: • Permanent Loans – 55-year term • Construction and Predevelopment Loans – 55-year term, following recordation of LACDA's Certificate of Completion Loan term: • 55-year term used for permanent loans. • 57-year term used for predevelopment and construction loans. HUD rent and income limits apply.
Appraisal	$15,000	$5,000 for acquisition $10,000 for construction loan appraisal The acquisition appraisal must be conducted prior to acquisition of the property.
Attorney - Developer	$50,000 - $100,000	Cost varies depending on complexity of deal and Tax Opinion Letter requirements. Developer's Bond attorney costs are included here. Developer's attorney reviews acquisition, loan, tax credit investment / syndication and partnership documents, bond documents and other business issues.
Attorney - Syndication	$35,000 - $45,000	Syndication Attorney represents the tax credit investor. Should be included in gross equity number.
Attorney - Bank (Lender Legal Paid by Applicant)	$30,000 - $50,000	
Attorney(s) - Bond deals - Borrower	$40,000 - $60,000	This applies to total bond legal cost.

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Bond Deals Cost of Issuance	Min: $300,000 Max: 4-6% of bond amt.	Projects in unincorporated Los Angeles County must use the LACDA (on behalf of the County of Los Angeles) as the conduit bond issuer. If a project is located within an incorporated city that (a) is providing financing for the project, and (b) is a conduit issuer of mortgage revenue bonds, that city (or Housing Authority) may be the conduit issuer. If the project is located in an incorporated city that does not have authority to issue bonds, then the LACDA must be the conduit issuer. The LACDA is not part of any Joint Powers Authority related to bond issuance.
Bond Fees assessed by LACDA	Application - $17,500 (good faith deposit) Issuer - 25 basis points of the original bond amount (one time, paid at bond closing) Annual - Greater of either 12.5 basis points (0.125%) of the outstanding bond amount or $6,000 (annual fee paid until the end of the “qualified project period” or end of the term of restrictions contained in CDLAC resolution)	Although the presented guidelines are based on transactions where LACDA has acted as the conduit issuer, other issuers will assess comparable fees. Please note, these fees are subject to change without notice. Certain fees are estimated. A trustee is required on all LACDA issued Tax-Exempt Bond transactions.
Cash Flow	Project must demonstrate a positive cash flow for 15 years. Projects with Operating Subsidy must demonstrate positive cash flow for 20 years. Projects with a Capitalized Operating Subsidy (COS) must demonstrate positive cash flow throughout the term of the subsidy.	Income from residential portion cannot be used to support the negative cash flow of commercial portion, and vice versa.
Construction Manager Fee	$6,500 per month	The construction manager is assumed to be a consultant who is not part of GC’s contract or staff. If the construction manager is part of developer’s staff, then this cost is part of the Developer Fee and is not charged as a separate budget item.
Debt Service Coverage Ratio (DSCR)	Year 1: 1.15 to 1.20 DSCR, unless a senior lender has a higher requirement. Remaining Years: 1.15 minimum DSCR, unless a senior lender has a higher requirement.	Projects are required to maximize private debt. Subject to senior lender requirements, if the project maintains a DSCR 1.20 or more throughout operations, LACDA will require that the permanent debt be resized.

Item	Underwriting Guideline	Notes
Developer Fee	For 9% CTCAC projects the maximum developer fee that may be paid from project sources and/or cash flow is $2,200,000. Restrictions: For 4% CTCAC/CDLAC projects / Bond Projects, the maximum developer fee that may be paid from project sources and/or cash flow is $2,500,000; a larger developer fee may be included in a project's eligible basis for tax credit purposes, but any fee in excess of $2,500,000 must be contributed as equity to the project or paid out of the Borrower's share of residual receipts. The maximum developer fee for projects, regardless of tax credit type, that are developed as multiple simultaneous phases or multiple phases over time will be subject to an overall limit on total allowable developer fee. For purposes of this limitation, "simultaneous" refers to projects consisting of a single building; projects on the same parcel or parcels within ¼ mile of each other that were split into more than one project for financing purposes; projects on the same parcel or on parcels within ¼ mile of each other and with construction start dates within six months of each other, or with completion dates that are within six months of each other; or multiple phases of a project on land owned by the County or the LACDA. Interest associated with developer fee payments is disallowed.	Common pay-in schedule: • 25% at Construction Start • 25% during Construction • 50% after 6 months of stabilized occupancy The developer fee includes all payments, fees and compensation due to the developer, co-developers and general partners; no additional compensation for such partners may be included in the development budget. The developer fee includes all funds paid at any time as compensation for developing the proposed project, and shall include all processing agent fees, developer overhead and profit, construction management oversight fees (if provided by the developer), personal guarantee fees, syndicator consulting fees, and reserves in excess of those customarily required by multi-family housing lenders. The LPA and Development Services Agreement must show the developer, co-developers and/or co-general partners as being paid from developer fee. The maximum developer fee that may be included in eligible basis is 15% of the project's unadjusted eligible basis. For projects that do not use tax credit financing, a maximum of 12% of hard costs is allowed. NOTE: the Developer Fee guideline for 9% CTCAC projects applies only to projects approved for funding after January 1, 2022, and cannot be applied retroactively to projects awarded funding in earlier NOFA rounds.

Item	Underwriting Guideline	Notes
Developer Fee – Deferral	Developer Fee can be deferred for the purpose of paying other development costs. Up to ten (10) years is the maximum deferral period unless a longer period is allowed in the borrower's partnership agreement. If that is the case, LACDA staff will review to determine the maximum pay-off period that will be granted to the project. Once the pay-off period is expired, residual receipt payments will take priority over any remaining deferred fee. No interest allowed on the deferred fee.	Deferral of the Developer Fee is not required.
Development Consultant (Outside Staff)	$75,000 to $100,000	The cost of in-house staff is disallowed. Consultants are those who are not part of developer's in-house staff (including but not limited to financial consultant, project management, entitlement consultant, brokerage fee for site acquisition); otherwise, in-house consultant fees must be paid from the project's Developer Fee.
Disbursement Agents / Service	Cost of service is approx. 1-2% of Construction contract.	
Furniture Cost – In Unit (Homeless Units)	Studios and One-Bedrooms: $3,000/unit Two-Bedrooms or more: $2,000/bedroom/unit Optional: $650/unit for soft goods	Applicant must include costs to furnish all homeless units in the proposed development budget. At minimum, budget should provide for a bed, dresser, dining table with chairs, and a lamp.
Furniture Cost – Common Areas	$1,500/unit	

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General Conditions + Overhead + Profit	Maximum of 14%.	An overall cost limitation of fourteen percent (14%) of the cost of construction shall apply to builder overhead, profit, and general conditions, excluding builder's general liability insurance. For purposes of overhead and profit, the cost of construction includes offsite improvements, demolition and site work, structures, prevailing wages, and general requirements. For purposes of general conditions, the cost of construction includes offsite improvements, demolition and site work, structures, and prevailing wages. At project completion, the overhead and profit percentage must reflect the percentage agreed to / allowed at underwriting.
Green Building Certification (LEED, Green Point Rated, etc.)	Up to $75,000	Line item includes sustainability/energy consultant, program registration, and program compliance costs.
Hard Cost Contingency	<u>New Construction</u> 5% - 10% of Hard Costs (40+ units) 10% of Hard Costs (< 40 units) <u>Rehab</u> 10% to 15% of Hard Costs	Amount of contingency allowed depends on size of project and whether site has environmental remediation issues. The cost of the payment & performance bonds should be considered in the sizing of the Hard Cost Contingency.
Hard Costs	Davis Bacon or Prevailing Wage: $440-$775/SF (est.) Non-Davis Bacon or Prevailing Wage: $350-$620/SF (est.)	Applicants must solicit a minimum of three (3) bids for comparison of pricing and services offered. General Contractors working on funded projects must use a Guaranteed Maximum Price Contract (GMAX) wherein the basis for payment is the cost of the work plus a fee.
Holding Cost	$5,000 - $10,000 per year for vacant building or vacant land.	Includes security costs, fencing, landscaping, maintenance, and insurance costs incurred prior to the start of construction.
Income and Expense Escalators	Income: 2.5% annually Expenses: 3.5% annually	

Item	Underwriting Guideline	Notes
Income – Rent / Unit Mix / Income Restrictions / Occupancy Standard	All units assisted by the LACDA must be affordable to households at or below 30% AMI. HOME: Applicable HOME rents apply, as published annually, along with the associated occupancy standards.	Borrower is expected to construct the project and restrict the tenant incomes as presented in the Unit Mix and Rents section of the Application for Funding Supplemental Document. If other funding sources are subsidizing the LACDA-assisted units, the most restrictive rent limit applies. If the project has PBVs or PBVASH Vouchers, then the Payment Standard will take precedence over other Federal rent limits. In Unincorporated Los Angeles County, if the project has received a density bonus, only the density bonus units are restricted by density bonus rents.
Insurance	See NOFA for detailed insurance requirements.	
Interest Rate – LACDA Loans	3% Simple, 10% Default	
LACDA Fees – Loan Servicing & Compliance Monitoring Payment	LACDA will assess an annual loan servicing and compliance monitoring payment of $7,150, escalating at 2.5% annually.	The loan servicing & compliance monitoring payment is an annual above-the-line expense that is paid in connection with loan monitoring and certification activities. This payment cannot be waived, and shall be paid to the LACDA throughout the term of the loan. The $7,150 good faith deposit will be credited towards the first year's monitoring cost.
LACDA Fees – Changes to Standard Loan Documents	Actual sum of legal cost with an upfront, non-refundable deposit of $5,000.	If modifications to the loan documents are requested, a non-refundable deposit of $5,000 will be due upon written notification to the LACDA of the requested modification. The applicant will be charged all costs incurred by the LACDA. If the costs exceed $5,000, the balance owed must be paid prior to the execution of the loan agreement.
LACDA Fees – Loan Reservation Deposit	A nonrefundable reservation deposit of $7,150 is required to reserve the loan (applied to first year's asset management and compliance monitoring payment).	This fee is to be paid within 60 days of award notification date.
LACDA Fees – Material Change	Actual administrative costs with an upfront, non-refundable deposit of $5,000.	When a material change is made after application evaluation, a fee of $5,000 is due and payable to the LACDA upon submittal of the material change notification to the LACDA. This covers the costs related to the LACDA's review of the proposed project. If costs exceed $5,000, the balance owed must be paid upon written notification from the LACDA. Any remaining funds will be used for administration costs for the continued review and administration of the proposed project.

Item	Underwriting Guideline	Notes
Leasing Expense (Operating Deficit)	Equates to the negative cash flow during the lease-up period.	The lease-up time period assumption should be noted in the "Development Budget Notes & Assumptions" page included in the Application for Funding Supplemental Document.
Leasing Fee for Third Party Entity	Fee paid to property management company and/or service provider, for direct costs of tenant screening.	This is not a bonus or incentive fee. If this expense is included in the project's budget, the fee must be described in the "Development Budget Notes & Assumptions" page included in the Application for Funding Supplemental Document.
Manager's Unit	At least one manager's unit is required for all projects.	California Law requires an on-site manager when there are 16 or more units in a rental project. The on-site manager must be full-time and reside at the project. NOTE: for HOME funded projects, the manager's unit is not to be included as a HOME assisted unit or in calculating the maximum per unit subsidy.
Marketing	$20,000	Expenses such as advertising and promotion incurred during the Lease-Up period in order to attract tenants, including the Groundbreaking and Grand Opening ceremonies (within reason). Developer or Property Manager must register the vacant units (at initial lease-up and in the future) on the LA County Housing Resource Center website (housing.lacounty.gov) to assist housing locators in identifying vacant units. The Marketing expense should reflect the cost savings from utilizing the LA County Housing Resource Center.

<table>
<tr><th>Item</th><th>Underwriting Guideline</th><th>Notes</th></tr>
<tr><td>Minimum Operating Expenses (per unit per year)</td><td>Minimum Operating Expenses are derived from LACDA’s Housing Portfolio:

Type - Family
- Up to 50 Units: $7,600
- 51+ Units: $7,400

Type – Senior
- Up to 50 Units: $7,000
- 51+ Units: $6,300

Type – Special Needs
- Up to 50 Units: $9,300
- 51+ Units: $7,200</td><td>The LACDA will accept operating expenses below these minimums if justified with audited financial statements for the last two years for two comparable properties currently owned by the Developer. The properties should be similar in size, type, tenant population, and location to the proposed project.

Note that LACDA’s minimum operating expense calculation does not include the following expenses:
- replacement/operating reserves
- debt service
- supportive services staffing
- partnership management fees
- deferred developer fee

Portfolio expenses do include property taxes.</td></tr>
<tr><td>Offsite Improvements</td><td>Unincorporated County: $10,000 per unit

Other Jurisdictions: $5,000 per unit</td><td></td></tr>
<tr><td>Operating Reserves – Capitalized</td><td>Three (3) months of operating expenses and three (3) months of debt service. Up to six (6) months of operating expenses and six (6) months of debt service if a senior lender or investor has a higher requirement. No more than six (6) months will be allowed by the LACDA even if the senior lender or investor’s requirement is greater than six (6) months.</td><td>The reserve remains with the project throughout the term of the LACDA loan. Written approval from the LACDA is required prior to any withdrawal from the Operating Reserves.

HOME funds may not be used to capitalize the reserve.</td></tr>
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Item	Underwriting Guideline	Notes
Partnership Management Fee	An annual Partnership Management Fee of up to $25,000 may be paid from project cash flow, prior to residual receipts payments. This fee must be substantiated prior to the closing of the loan by the developer, cannot include charges for any office overhead for the development of the project or project operating expenses, and may only be paid during the tax credit compliance period. <u>No annual escalations are permitted, and unpaid Partnership Management Fees cannot be accrued</u>.	Applies to projects that are approved for funding after January 1, 2022, and includes payments to both the general partner(s) and the limited partner. Payments above $25,000 must either be made out of cash flow after residual receipts or from Borrower's portion of residual receipts.
Permanent Loan Fee Limits	Borrower shall not pay any loan origination fee, breakage fee, yield maintenance fee or other similar fee related to or arising from the Project's permanent financing exceeding 1% of the original principal amount of such permanent financing without the LACDA's prior written approval, which approval may be withheld at LACDA's sole discretion.	Borrower may, however, pay Permanent Loan Fees exceeding 1% from funds other than the Project's funding sources.
Predevelopment Loans	Interest rate 3-6% Origination Fee: 1-2% Legal Fees: $10,000	Interest and other loan fees (e.g., origination costs, etc.) are allowable as project costs as long as the lender is a commercial lender with a recognized loan program <u>AND</u> standard documentation of the loan, acceptable to the LACDA, is provided (i.e. a loan agreement and promissory note); payment of interest and other loan fees will not be permitted without the standard documentation (regardless of whether LACDA or another source would be reimbursing the interest expense or fees). If the lender is <u>not</u> a known commercial lender with a recognized loan program (i.e., an entity related to the project borrower), then interest and other fees associated with the "loan" are <u>not</u> allowable as project costs and must be removed from the project budget (regardless of whether LACDA or another funding source would be reimbursing the interest expense or fees). If the lender is related to the project borrower, then predevelopment costs will be reimbursed on an interest-free basis (subject to LACDA's review of the invoices and cancelled checks/bank statements).

Item	Underwriting Guideline	Notes
Prevailing Wages: Federal (Davis Bacon) and State	Premium: approximately 20% more than non-Prevailing Wage, as applied to the overall construction cost (including labor and materials). Applicant/Developer shall be responsible for complying with actual applicable wage scale.	Payment of prevailing wages is assumed. Applicant may submit a legal opinion that states the project is exempt from payment of prevailing wages. Possible triggers (non-exhaustive list): <u>Davis Bacon (Federal):</u> • Using HOME funds for <u>12 or more units</u> will trigger DB. (Section 92.354 Labor section of HOME Regulations) • Using PBVs or PBVASH of nine (9) units or more. <u>State:</u> • Utilization of fee waivers • Inclusion of State funding sources
Property Management Fees	Up to $65 per unit per month to the contracted Property Management Company. <u>No annual escalations are permitted.</u>	Item should not include on-site Manager (full-time or part-time) salary or unit rent. NOTE: the Property Management Fee guideline can be applied retroactively to projects awarded funding in earlier NOFA rounds.
Property tax expense – Capitalized and Operating Period	1.25% of acquisition cost per year; any tax refunds must go into reserves.	The Development Budget should include the estimated amount of Property Taxes paid from acquisition to lease-up Property taxes should be greatly reduced after receiving welfare exemption and should be reflected in cash flow.
Relocation (Permanent)	Budget should reflect the estimates from the relocation plan.	Staff will review the relocation plan and budget to ensure the amounts are justified.

Item	Underwriting Guideline	Notes
Replacement Reserve	Greater of: Multi-Family & Special Needs: Min $300/u/yr - new Min $350/u/yr – rehab Seniors & SRO Min $250/u/yr - new Min $300/u/yr - rehab OR Investor or senior lender's requirement	Borrower shall not deposit any more or less in the replacement reserve than what is allowed based on the greater of the LACDA requirement or the senior lender. HOME funds may not be used to capitalize the reserve. For mixed-use projects, the replacement reserve for non-residential uses (i.e. commercial, retail, etc.) must be funded with revenue from the non-residential uses.
Residual Receipts	50-50 split: • 50% to Borrower • 50% to all other public lenders	
School Fees	Include the impact fee assessed by the local school district. LAUSD Impact Fee, effective 7/9/2022: Residential – $4.79 / SF Commercial – $0.78 / SF	Some school districts waive or assess lower fees for 100% affordable and/or senior developments. Fees will vary between different school districts. School fees must be paid to Building and Safety prior to pulling building permit.
Section 3 (of the HUD Act of 1968 and associated regulations)	Required when Federal funds (i.e., HOME or CDBG) are being utilized by the project.	

Item	Underwriting Guideline	Notes
Security	Project shall provide after-hours and weekend coverage by either security personnel or property management staff. Applicant may submit a waiver for this security requirement if they determine that after-hour and/or weekend coverage isn't necessary based on the target population, location, or other circumstance. Additional security coverage would be subject to approval by the LACDA.	The site security plan should discuss security in place during both construction and operations of the building, and include an itemized budget. The security plan should discuss the proposed staffing (provider, on-site vs. remote, number of staff, hours/days of shifts, etc.) and infrastructure (CCTV cameras with(out) live monitoring, two-way video systems, etc.). The site security plan shall also include an incident response policy that prioritizes de-escalation, and a discussion of how security will be coordinated with the services and property management staff. Security personnel shall <u>not</u> be armed. The site security plan and budget are subject to review and approval by LACDA.
Soft Cost contingency	2% - 4% of soft costs	
Subordination	The LACDA will generally subordinate its loan, with right to cure, to construction loans and other public lenders with larger loan amounts. The aggregate sum of all LACDA's funding to the project will be used to determine the LACDA's lien priority.	Carveout - For HOME projects, 50% AMI on 20% of units is highly desired to survive subordination and language will need to be added to the subordination agreement to document this.

Item	Underwriting Guideline	Notes
Supportive Services	LACDA will permit supportive service costs (personnel and non-personnel) to be included in a project's operating budget, to the extent that the expense is justifiable, and the project maintains financial feasibility. Supportive service expenses paid with cash flow to assist homeless Special Needs (SN) units are meant to supplement the supportive services funded by the County of Los Angeles Department of Health Services (DHS) for units reserved for a homeless SN population.	Developers can expect to receive funding from DHS for all homeless SN units to cover personnel costs and majority of non-personnel costs. See Supportive Services spreadsheet for further information on allowed personnel and non-personnel costs. The budget must identify which services are funded by DHS versus project cash flow (or another agency subsidizing service provision, such as the VA for eligible veterans). Case Management for non-homeless SN units shall be paid out of project cashflow. <u>Required staffing ratio</u>: • Case Management: 1:20 for SN and non-homeless SN units. • Resident Services Coordination: 1:40 – 1:75 for general affordable units <u>Optional</u>: • Resident Services Coordination for SN units, subject to approval by LACDA. Staffing levels should be appropriate to the tenant population and size of the project. Staffing levels typically fall between 1:50 - 1:100.
Target Populations	Homeless and/or special needs households.	Borrower is expected to construct the project and restrict the tenant incomes as presented in the Unit Mix and Rents section of the Application for Funding Supplemental Document. Borrowers are required to use a Coordinated Entry System to fill homeless and special needs units. As applicable, lease-up and marketing should be coordinated with the Los Angeles County Department of Health Services and Department of Mental Health.
Tax Credit – Price/Factor	Projects must use reasonable assumptions for tax credit pricing.	A tax credit investor's letter of interest (LOI) is not required at NOFA submittal, but if available, applicants shall use this pricing (or pricing that is substantially similar) in project financing assumptions. If a Letter of Interest (LOI) is not available, applicants shall use pricing that is reasonably related to the Los Angeles County market. The LACDA will not approve a loan based on assumptions that are unreasonable or inconsistent with industry standards. The LOI must be submitted prior to the loan committee stage.

Item	Underwriting Guideline	Notes
Transition Reserves	OPTIONAL If required by a senior lender or investor, LACDA will permit one-year of transition reserve for the units subsidized with project based rental assistance. May be capitalized and/or funded through cash flow.	If contemplated, the Transition Reserve should remain with the project throughout the term of the LACDA loan. Written approval from the LACDA is required prior to any withdrawal from the Transition Reserve. Projects with financing from the California Department of Housing and Community Development (HCD) must utilize the pooled transition reserve.
Vacancy Rate	Family & Senior: 5% per year Special Needs: 10% per year Mixed Population: blended rate between 5% and 10%, with justification	