

## **EXHIBIT 4.04 FINANCIAL NOTES & ASSUMPTIONS**

### **NOTES & ASSUMPTIONS DESCRIBING THE BASIS FOR ALL MAJOR LINE ITEMS**

Provide a brief narrative on a separate sheet of paper regarding each of the major line items listed in Exhibit 4.03 and the general financial assumptions and reserve requirements noted below. Deviations from these assumptions must be justified in Notes and Assumptions and are subject to HCD approval. Notes and Assumptions should follow each financial exhibit. See example provided.

### **General Financial Assumptions to be reflected in Development Proforma are noted below:**

1. Vacancy Rate of 10% shall be used for SRO or special needs housing projects, except where a significant project based public rent subsidy is available. In such cases, a vacancy rate of 5% may be utilized for units covered by such rent subsidies.
2. Rental Income Inflation rate of 2.5% per annum
3. Operating Expenses Inflation rate of 3.5% per annum
4. Debt Coverage Ratio of 1.15. For low-income housing tax credit projects, applicants shall use either the TCAC required rate or the current rate.
5. Annual Partnership Management Fee of up to \$25,000 may be paid from project cash flow, prior to residual receipts payments. This fee may only be paid during the tax credit compliance period and includes payment to both the general partner(s) and the limited partner. No annual escalations are permitted. Unpaid Partnership Management Fee cannot be accrued.
6. Maximum of 3% interest on the deferred developer fee.
7. Marketing shall not exceed \$1,500 per unit.
8. Common area furnishings shall not exceed \$1,000 per unit.
9. Social Services Fee or costs of Social Service Coordinators shall not exceed \$3,000 per unit per year or \$4,000 per unit per year for units restricted to the chronically homeless, which are to be paid from project rents prior to payment of residual receipts.

### **All developments, except MHSA Funded developments, shall use the following assumptions for reserves:**

1. Replacement Reserve required for all projects. Minimum annual deposits to replacement reserves shall equal \$250 per unit per annum for new construction and \$300 per unit per annum for rehabilitation. Annual deposits to replacement reserves shall not exceed \$400 per unit per annum.
2. A Capitalized Replacement Reserve is permitted for rehabilitation projects based on Capital Needs Assessment
3. A minimum capitalized operating reserve shall equal the amount required to pay three (3) months of operating expenses and three (3) months of mandatory debt service.

### **All MHSA funded developments shall use the following assumptions for reserves:**

1. Capitalized operating expense reserve, at a minimum, shall equal 25% of the first year's approved operating and reserve budget (for entire development; all units).
2. Capitalized operating subsidy reserve ("COSR") shall be required for projects without rental assistance vouchers (or other rental subsidies) to subsidize operating costs for the MSHA Regulated Units. COSR's must be funded to allow for operating cost subsidies for a minimum of 17 full years unless waived. The recommended maximum

COSR limit is \$184,230.23 per assisted unit (with a suggested increase up to 4% per year).

3. New construction projects shall have a capitalized replacement reserve of at least \$500 per unit/annually for **all units** in a project, increasing by 5% every five years. Capitalized replacement reserve for rehabilitation projects shall be based on a physical needs assessment and/or one or more Building Inspection Reports and a Replacement Reserve Needs Analysis.
4. Transition or Tenant Rent & Utility Reserve may be required by County on a case by case basis to be funded by the Developer by Certificate of Occupancy for the development. The Reserve should provide 2 to 3 years rental income for the MHSA-assisted units (assuming rents that include utilities at 30% of SSI/SSP).

## PART 1 DEVELOPMENT COSTS

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**Project Name:**  
**Project Address:**  
**Developer:**

**Number of Dwelling Units:**  
**Gross Land Area (sf)**

### 1. LAND COSTS:

Purchase Price (a)  
Closing Costs (b)  
Appraisal (c)  
Holding Costs (d)

**TOTAL LAND COSTS**

### 2. FEES/PERMITS & STUDIES

Building Fees and Permits (a)  
Surveys/Soils/Variance (b)  
Environmental Documentation/Toxic  
Report (c)  
Arch. & Engineering Fees  
Design (d)  
Reimbursable (e)

**Subtotal:**

**TOTAL FEES/PERMITS & STUDIES**

### **SAMPLE NOTES & ASSUMPTIONS**

Provide a brief narrative on a separate sheet of paper regarding each of the major line items listed in Exhibit 4.03-A. Each page has its own reference key.

#### **EXAMPLE**

1(a) Land was donated to the ABC Non-Profit Corporation to fulfill an inclusionary housing requirement of the City of Lakewood.

1(c) Appraisal costs are \$5,000, which is normal and customary.

2(a) Building Fees & Permits include \$12,000 for building permits and \$180,000 in impact fees. See fee breakdown attached to this exhibit.

2(b) Surveys/Soils/Variance includes \$43,000 for soils testing due to possible site contamination.