AFFORDABLE HOUSING FUND
GUIDELINES FOR RENTAL PROJECTS

I. PURPOSE

The purpose of this document is to supplement to the Affordable Housing Fund General Guidelines, with regulations specific to rental housing development.

II. AFFORDABLE HOUSING FUND

General Guidelines of the Affordable Housing Fund apply to this program in addition to those guidelines contained herein.

III. MARKET ASSESSMENT

A component of the underwriting process requires the review of current market demand for the proposed project. The market analysis should:

1. Evaluate general demographic, economic, and housing conditions in the community.
2. Delineate the market area by identifying the geographic area from which the majority of a project's tenants are likely to come. This may or may not coincide with census tract or neighborhood boundaries.
3. Quantify the pool of eligible tenants in terms of household size, age, income, tenure, and other relevant factors. Not all residents of the market area are potential or likely tenants of any given project.
4. Analyze the competition by evaluating other housing opportunities with an emphasis on other affordable rental developments in the market area, including those financed through other federal programs.
5. Assess the market for the planned units and determine if there is sufficient demand to rent the assisted housing within 18 months of project completion.
6. Evaluate the effective demand and the capture rate, usually expressed as a percentage (the project's units divided by the applicant pool). The capture rate is the percentage of likely eligible and interested households living nearby who will need to rent units in the proposed project in order to fully occupy it. The lower this rate, the more likely a project is to succeed.
7. Estimate the absorption period. Plan how many units can be successfully leased each month and how long it will take to achieve initial occupancy of the assisted units and stabilized occupancy for the project as a whole.

IV. PROJECT PROFORMA

All rental proposals must be accompanied by a project pro-forma, which must cover at least 30 years. When preparing the pro-forma, Project Sponsors must keep factors relevant to project feasibility (i.e., owner rate of return, vacancy rate, per-unit development costs, etc.) reasonable in order to minimize the amount needed from the Affordable Housing Fund. The pro-forma must also include rent levels, market vacancies and operating expenses. It should also specify the consequences of tax benefits, if any, and any other assumptions used in calculating the project cash flow. Upon the completion of construction a rental project, a minimum of 65% of net operating income (NOI) must be available for debt service (DS); and/or the operation of the project must result in a minimum debt coverage ratio (DCR) of 1.15 on an annual basis calculated as follows: NOI/DS=DCR. The County will evaluate the pro-forma to ensure it a project that meets a minimum DCR for the term of the affordability requirements, or longer if other funding sources require longer affordability terms.

In evaluating project proposals, a “subsidy layering analysis” will be conducted to certify that the County is not investing any more Affordable Housing Funds in combination with other governmental and/or non-governmental assistance than is necessary to make the projects feasible.

Below are the default assumptions that should be used in preparing a project pro-forma. Any proposed modifications must be supported by a written justification.

Vacancy Rate	7%
Growth Rate (Rent)	2%
Growth Rate (Other Income)	2%
Growth Rate (General Expenses)	3%
Growth Rate (Real Estate Taxes)	4%
Per-unit Annual Replacement Reserves	$400
Per-unit Monitoring Fee (every three years)	$100
Debt repayment and positioning of debt must be labeled	
Cash flow repayments must be labeled	

V. DETERMINING THE ASSISTED UNITS

The program distinguishes between the units in a project that have been assisted with AHF funds and those that have not. This distinction between assisted and unassisted units allows funds to be spent on mixed-income projects while still targeting AHF dollars to income-eligible households only.

1. The rent and occupancy rules apply only to assisted units.
2. The number of assisted units in a given project must be specified at project commitment.

VI. RENT AND OCCUPANCY REQUIREMENTS

In order to occupy an assisted unit, tenants must have incomes at or below certain percentages of the area median household income, adjusted for household size. Furthermore, their rent cannot exceed certain limits. Income and rent limits are determined annually by HUD. (Income limits are found in Appendix C of the General Guidelines. See Appendix A of these guidelines for current rent limits.) Rent and occupancy requirements vary between initial and subsequent occupants as follows:

1. Initial-Occupancy Requirements: When funds are used for rental housing, 90% of the occupants of assisted rental units must have incomes that are 60% or less of the area median income at the time of initial occupancy.

2. Long-Term Occupancy Requirements: After initial-occupancy requirements have been met, long-term occupancy requirements become effective and require occupants of assisted units must have incomes that are 80% or less of the area median income.

3. Five-Unit Project Rule: If the project contains five (5) or more assisted units, 20% of the tenants must have annual incomes at or below 50% of median income and pay no more than the low HOME rent, and 80% of the tenants must have annual incomes at or below 80% of median income and may pay no more than the high HOME rent.

4. Other: Other rent and occupancy restrictions may apply to the project depending on project underwriting.

Rents are strictly controlled during the Affordability Period. Annual rent limits are determined by the U.S. Department of Housing and Urban Development (HUD). The developer is responsible for obtaining rent schedules on an annual basis. The rent limits assume all utilities are included. Therefore, if certain utilities will be paid by tenants, the rent limits must be adjusted to determine the maximum allowable rents tenants may pay. See Exhibit C for more information regarding calculating utility allowances.

The County will enforce rent and occupancy requirements with recorded Covenants and Deed Restrictions. Assisted units retain their “assisted” designation for the entire period of affordability.

The following chart summarizes the above-described requirements:

Summary of Initial and Long-Term Occupancy Requirements				
% of AMI (Area Median Income)	**Initial Occupancy (1 to 4 Units)**	**Initial Occupancy (5 or More Units)**	**Long-Term Occupancy (1 to 4 Units)**	**Long-Term Occupancy (5 or More Units)**
At or Below 50% AMI	_____	20% (Must pay Low HOME Rents)	_____	20% (Must pay Low HOME Rents)
At or Below 60% AMI	90% (Must pay High HOME Rents)	70% (Must pay High HOME Rents)	_____	_____
At or Below 80% AMI	10% (Must pay High HOME Rents)	10% (Must pay High HOME Rents)	100% (Must pay High HOME Rents)	80% (Must pay High HOME Rents)
Above 80% AMI	Ineligible for initial occupancy	Ineligible for initial occupancy	Must pay 30% of adjusted monthly income	Must pay 30% of adjusted monthly income

VII. AFFORDABILITY PERIOD

Affordability restrictions remain in force, regardless of transfer of ownership, for the entire affordability period. Monitoring and site inspections will occur to ensure compliance; "desk" monitoring will occur at least annually, with site and unit inspections occurring on a three-year basis to ensure rental units are operated and maintained throughout the "period of affordability" in accordance with these program guidelines and contractual requirements relative to applicable federal and local regulations.

VIII. TENANT PROVISIONS

Owners/Managers must develop written tenant selection policies and criteria to ensure that tenants are selected for occupancy at the property in a fair and equitable manner. Tenant selection policies must be based on objective criteria that expressly prohibit bias. Tenant selection procedures should be clear and easily understood by prospective tenants.

Property owners must have written tenant selection procedures and policies that comply with the requirements of 24 CFR 92.253 (Tenant protections and selection):

1. Limit the housing to very low- income and low-income families;
2. Are reasonably related to the applicants' ability to perform the obligations of the lease (i.e., to pay the rent, not to damage the housing; not to interfere with the rights and quiet enjoyment of other tenants);
3. Limit eligibility or give a preference to a particular segment of the population if applicable (refer to 24 CFR 92.253);
4. Do not exclude an applicant with a certificate or voucher under the Section 8 Tenant-Based Assistance: Housing Choice Voucher Program (24 CFR part 982) or an applicant participating in a HOME tenant-based rental assistance program because of the status

of the prospective tenant as a holder of such certificate, voucher, or comparable HOME tenant-based assistance document;
5. Provide for the selection of tenants from a written waiting list in the chronological order of their application, insofar as is practicable;
6. Give prompt written notification to any rejected applicant of the grounds for any rejection; and
7. Comply with the VAWA requirements prescribed in § 92.359.

Property owners must include allowable provisions in written tenant leases. Property owners must offer a lease term of at least 1 year, unless tenant and owner mutually agree to a lesser term, but in no case less than 30 days. Provisions must address:

1. Owners/Managers may not terminate a tenant’s lease nor refuse to renew his or her lease without good cause. Even with good cause, the owner must provide the tenant with a thirty-day advance written notice before terminating the lease.
2. Owners must also comply with applicable state and/or local tenant-landlord laws.

An owner may not terminate the tenancy or refuse to renew the lease of a tenant of rental housing assisted under the Affordable Housing Fund, except in cases involving serious or repeated violations of the terms of the lease agreement, or the violation of applicable federal, state or local laws. Any termination or refusal to renew must be preceded by not less than 30 days written notice from the owner specifying the grounds for action. Certain lease terms are prohibited including the following:

1. Confession of Judgment. Consent by the Tenant to be sued, to admit guilt, or to a judgment in favor of the landlord in a lawsuit brought in connection with the Lease.
2. Treatment of Property. Agreement by the Tenant that the Landlord may take or hold the Tenant's property, or may sell such property without notice to the Tenant and a court decision on the rights of the parties.
3. Excusing the Landlord from Responsibility. Agreement by the Tenant not to hold the Landlord or Landlord's agent legally responsible for any action or failure to act, whether intentional or negligent.
4. Waiver of Legal Notice. Agreement by the Tenant that the Landlord may institute a lawsuit without notice to the Tenant.
5. Waiver of Court Proceedings for Eviction. Agreement by the Tenant that the Landlord may evict the Tenant Family (i) without instituting a civil court proceedings in which the Family has the opportunity to present a defense, or (ii) before a decision by the court on the rights of the parties.
6. Waiver of Jury Trial. Authorization to the Landlord to waive the Tenant's right to a trial by jury.
7. Waiver of Right to Appeal Court Decision. Authorization to the Landlord to waive the Tenant's right to appeal a court decision or waive the Tenant's right to sue to prevent a judgment from being put into effect.
8. Tenant Chargeable with Cost of Legal Actions Regardless of Outcome of the Lawsuit.

Agreement by the Tenant to pay lawyer's fees or other legal costs whenever the Landlord decides to sue, whether or not the Tenant wins.

IX. MONITORING

Rental units must be operated and maintained throughout the “period of affordability” in accordance with these program guidelines, contractual requirements, and applicable federal and local regulations. Projects/units will be monitored on an ongoing basis, with an annual review of rent and occupancy records and a physical unit inspection every three years.

X. MOVING ON STRATEGIES

As part of its strategic priority to end homelessness, HUD encourages communities to implement Moving On strategies aimed at facilitating the transition of clients from more-intensive permanent supportive housing (PSH) units to less-intensive affordable housing options. The underlying goal of such strategies is to foster greater independence for tenants that no longer need the robust and costly supportive services that come with PSH units, and to make those units available to other tenants in need. Project Sponsors funded under this opportunity will be required to include Moving On strategies within their tenant selection criteria and are expected to coordinate with the Continuum of Care for Kane County on implementing these strategies during the Period of Affordability. The County will assist Project Sponsors in establishing criteria that satisfy this requirement.

APPENDIX A

Rent Limits

Effective: 06-01-2021

	0 BR	1 BR	2 BR	3 BR	4 BR	5 BR	6 BR
Low HOME Rent0	$816.00	$874.00	$1,048.00	$1,211.00	$1,352.00	$1,491.00	$1,631.00
High HOME Rent	$1,012.00	$1,117.00	$1,299.00	$1,542.00	$1,700.00	$1,857.00	$2,015.00

Utility Allowances

The above rent limits assume all utilities are included. If any utilities are to be paid by tenants, the limits must be adjusted downward. The adjustments must be based on an established utility allowance schedule which is updated on an annual basis throughout the period of affordability. HUD's Utility Schedule Model can be used to determine the appropriate allowances. It can be found at https://www.huduser.gov/portal/resources/utilallowance.html. Applicants that use the model must submit a copy of the schedule they obtain from the website, along with back-up documentation for the assumptions/figures entered in the model.