

## **F. Appendix 3: Sources and Uses Budget Instructions and Definitions**

Because the sample budget template includes budget line items to address every kind of homeownership plan (whether involving new construction, or sale of existing public housing units, or only offering direct financing to the purchaser), any given PHA will find line items that do not apply to its plan. For example, PHAs only offering direct financing to purchasers need not consider line items for general development costs. The PHA should enter a “0” or “N/A” in those line items that do not apply to their plan.

### **SOURCES AND USES BUDGET LINE ITEM DEFINITIONS**

#### **PROGRAM ADMINISTRATION COSTS**

##### **Program Management Services:**

Services procured by a PHA to represent its interests and to assume responsibility for coordinating all participants including the PHA, HUD, third-party consultants, and financing sources. Program managers are paid a fee for their services, typically a fixed fee based on specific tasks and responsibilities. A program manager may, for example, be responsible for assisting the housing authority develop its homeownership plan.

##### **PHA Staff:**

Housing Authority staff costs. Depending on the scale and scope of the homeownership program, a number of housing authority staff may participate in the project. This may include a portion of, or all of, the time provided by the executive director, deputy director, HOPE VI coordinator, director of homeownership programs, case managers, staff from the asset management and/or financial departments, and a relocation coordinator.

##### **Homeownership Counseling:**

All costs associated with the provision of homeownership counseling to potential purchasers. Recommended stages of counseling include: 1) counseling on the responsibilities of owning a home; 2) credit counseling/budgeting and qualifying potential buyers to meet mortgage lending requirements; 3) post-purchase counseling to assist homeowners with monthly budget maintenance, seasonal maintenance, repairs, and how to handle difficult financial times. These counseling services may be provided by PHA staff or by a local organization that is experienced in assisting low-to-moderate income households purchase a home.

##### **Legal Fees:**

Cost of legal services incurred by the housing authority. The housing authority may incur legal costs as part of developing and implementing its homeownership program. For example, the homeownership plan that is submitted to HUD must include an opinion from counsel certifying that the housing authority will adhere to specific local, state and federal laws and regulations. In addition, legal counsel may be necessary as part of the acquisition of offsite parcels of land on which homeownership units may be developed. Finally, a housing authority may want to use legal counsel to draft and/or review any of the evidentiary documents associated with its homeownership plan.

##### **Relocation Expenses:**

Cost of relocating current residents of public housing units that will be converted into homeownership units. Regardless of the type of homeownership program that a housing authority chooses, all current residents of public housing units that are not interested in or eligible to become a homeowner, are entitled to relocation assistance. This budget line item includes the actual cost of moving a household from their public housing unit to a new unit (and the associated utility costs), and housing authority staff costs (relocation coordinator, case manager) associated with overseeing the relocation effort.

**Fair Market Value Assessment:**

An assessment of the value of the property to be sold to the homebuyer based on an analysis of comparable properties in the area. This may be performed by a real estate market study consultant or an appraiser, but is not an actual certified appraisal.

**Total Program Administrative Costs:**

The sample budget template calculates Program Administrative Costs as a percentage of the Total Permanent Use of Funds.

**ACQUISITION COSTS**

**Land:**

For those homeownership projects that include the acquisition of non-public housing land on which new homeownership units will be developed, the cost of acquiring this land should be included in this line item. The purchase price of the land must be at or below appraised value.

**Building Acquisition:**

Cost of acquiring a building (or buildings) not including any associated land. The purchase price of the building(s) must be at or below appraised value.

**GENERAL DEVELOPMENT COSTS**

**Financing for Second Mortgages:**

The costs associated with the provision of subordinate financing (e.g. second mortgages) to income eligible homebuyers.

**Construction Hard Costs (Residential):**

The costs associated with the construction of a development, including labor and materials.

**Construction Hard Costs (Non-residential):**

The costs directly associated with the construction of a non-residential space, such as a recreational facility, community building, standalone laundry facilities, or parking structures.

**Contractor Overhead, Profit and General Conditions:**

Contractor overhead includes the cost of the contractor's central office operations. Contractor profit represents the fee the contractor receives in excess of its costs. General conditions include the cost of the contractor's construction site office operations (e.g., construction trailer, construction superintendent). The sample budget template calculates the percentage Contractor Overhead and Profit constitutes of the sum of Residential Hard Construction Costs, Non-Residential Construction Costs, and the Hard Cost Contingency.

**Hard Costs Contingency:**

Funds budgeted for unforeseen hard costs, such as additional labor and materials. This is frequently calculated as a percentage of the budgeted construction hard costs.

**Environment Inspection:**

Costs incurred to conduct an analysis of the land upon which a development is or will be constructed to determine if there are any environmental hazards. The PHA and its consultants should identify, evaluate, and develop a remediation plan for any hazardous materials or adverse environmental conditions that may exist on the proposed site(s), including contaminated soil, asbestos, lead paint, wetlands, or floodplain conditions, etc.

**Environmental Remediation:**

The projected cost of abating environmental hazards or adverse environmental conditions that may exist on the proposed site(s), including contaminated soil, asbestos, lead paint, wetlands, or floodplain conditions, etc.

**Demolition:**

Cost of demolishing existing structures, including foundations, utilities, paving, and related infrastructure. This line item also includes the cost of removing the demolished materials.

**Site Planning:**

Cost of services by land planners and developers to design a construction site. This plan considers a variety of items such as topography, geology, road layouts, drainage, and other factors.

**Architect Fees:**

Funds for design services and oversight during construction. Design services may include development of a preliminary site plan, schematic drawings leading to design development documents, and construction documents. The construction contractor will use the construction documents to determine the final construction price.

**Engineering Fees:**

Includes funds for civil, structural, mechanical or electrical engineering services. Generally, the architect may coordinate these engineering services and engage them as sub-consultants. Alternatively, some engineering services may be provided directly under contract to the owner.

**Survey, Permit, Tests:**

The cost of property survey, building permits, or other. Survey—Every lender requires a property survey, which delineates the proposed property boundaries for each potential homebuyer's lot. The survey is also necessary for the transfer of property. Permit The local jurisdiction will require building permits before either rehabilitation or new construction may commence. The local building department typically charges a fee for the permit which pays for a portion of the cost of their subsequent inspections of the progress and quality of construction to ensure that it will meet all local building codes. Tests—Other tests relating to the site and construction may be required.

**Legal Fees:**

The cost of legal services incurred by the developer. Legal services may include negotiating loan documents for construction financing, negotiating construction contracts with homebuilders,

executing sales documents with the buyers, as well as drafting and negotiating contractual documents between the authority and the developer.

**Accounting and Cost Certification:**

Funds for certification of total development costs at time of project completion. Public funders often require a cost certification at the conclusion of development to verify the actual development cost of the project, that public monies were spent in accordance with their approved use, and to permit close-out of the grant. This line item may also include costs for accounting services during the development process.

**Title and Recording:**

Cost of recording transfer of property. A number of documents must be recorded with the local registry of deeds to prove ownership and establish the rights in real estate being conveyed from buyer to seller. These costs are paid to a recording agent, usually an attorney, and to the local registry of deeds. Each property transferred to a new homeowner must be recorded and title of ownership transferred.

**Market Study/Appraisal:**

A study that projects the demand for a homeownership unit based on an analysis of the market and economic conditions of the project area. An impartial agent experienced in real estate, economics and marketing should conduct the study. The lender or other agency may require that this be performed by a certified appraiser.

**Real Estate Taxes:**

During the construction phase of the project, the owner of the property must continue to pay property taxes to the locality. These taxes are typically based on the assessed value of the property as established by the locality and are calculated as a percentage of the assessed value.

**Insurance:**

The cost of insurance during the development period. The owner must arrange for property insurance during the development period to cover the liability of damage or destruction to the project during construction.

**Construction Period Interest:**

Interest incurred on construction loan during the construction period. The lender who provides the loan to finance the construction will charge interest on the portion of the construction loan that has been drawn down. Generally, a construction loan is structured so that payments are made only for interest on the loan (i.e., a non-amortizing loan).

**Construction Financing Fees:**

The sum of the construction lender's fees paid for architect, engineering, loan processing, legal, are charged to borrower. The construction financing fee is generally calculated as a percentage of the total construction loan.

**Marketing Expense:**

Cost of creating sales brochures and other marketing materials (e.g., furnishing a sample unit) and compensation for the sales staff. The developer or housing authority may provide marketing services with its own staff or may engage a third party to market the homes.

**Reserves:**

An account maintained to provide funds for anticipated future capital expenditures. A reserve is typically required by lenders and may be funded up-front and supplemented over time by the homeowner.

**Soft Cost Contingency:**

Funds budgeted for unforeseen soft costs. These include unexpected non-“brick and mortar” costs incurred in the development of a project such as design and legal fees, taxes, insurance, or construction loan debt service.

**DEVELOPER’S FEE**

**Developer’s Fee:**

The amount charged by a developer as profit, usually determined as a percentage of the overall development costs. The developer fee varies according to the level of risk incurred by the developer. The sample budget template calculates the percentage the developer’s fee is of the sum of General Development Costs (less Reserves) and Acquisition Costs.