

CITY OF CHICAGO UNDERWRITING STANDARDS GUIDE

I. Introduction

This Underwriting Standards Guide (“Guide”) describes the criteria of the City of Chicago (“City”), acting by and through its Department of Housing (“Department”) for evaluating the financial feasibility and underwriting assumptions of multifamily development proposals. The Guide also specifies the required financial criteria and documentation to be submitted for any multifamily development proposal seeking assistance provided by the City through grants, direct or indirect loans, or allocation of tax credits for the development of residential housing units (“City Financial Assistance”).

These requirements apply to Projects seeking Low Income Housing Tax Credits (“LIHTC”) governed by the City’s Qualified Allocation Plan (“QAP”) and any City Financial Assistance for multifamily rental development projects, including HOME Investment Partnerships funds, Illinois Affordable Housing Tax Credits, and Tax Increment Financing. Exceptions and additional guidelines for specific programs, such as Illinois Affordable Housing Tax Credits or the HOME Investment Partnerships program, are noted in the relevant sections of this Guide and on the City’s website.

The term “Project Sponsor” refers to the entity applying for City Financial Assistance. For development proposals utilizing a “twinning” structure (applying for both 9% and 4% LIHTC within one development plan), Sponsors should review the provisions pertaining to “twinning financing plans” in Section II.A.ii of the Guide.

All Preliminary Project Applications and Full Project Applications must include a completed Common Application, which provides detailed development and operating budgets. The City evaluates submitted Common Applications for compliance with financial feasibility and underwriting requirements in accordance with the standards set forth in this Guide. The application process involves submitting a Preliminary Project Application (“PPA”) followed by a Full Project Application. Details on these processes are available in the City’s Qualified Allocation Plan (“QAP”) and on the Department’s website. As more fully described in the QAP, Sponsors of Preliminary Project Applications that the City selects for further consideration will be invited to submit Full Project Application materials for their Projects. Sponsors must update the Common Application periodically to reflect changes in financing or operating projections as the Project approaches financial closing.

The Common Application and all required documentation must be submitted via the relevant application submission procedures set forth in the QAP and the Department’s website.

As used in this Guide, unless the context clearly requires otherwise: (i) words of any gender include all genders; (ii) the singular includes the plural and vice versa; (iii) “including” means “including without limitation”; (iv) references to any agreement, law, or document include amendments and supplements thereto; (v) references to a person or entity include successors and permitted assigns; (vi) headings are for convenience only and shall not affect interpretation; and (vii) defined terms shall be interpreted consistently throughout this Guide, and in the event of any inconsistency between an

inline definition and a definition set forth in Appendix A, the definition in Appendix A shall govern unless explicitly stated otherwise.

II. Sources

A. Low Income Housing Tax Credits

i. Maximum LIHTC Request

A Project may apply to the City for the lesser of:

- In connection with 9% LIHTC, an Allocation of \$1,800,000 (net of a Boost); or
- The LIHTC amount supported by the Project's Qualified Basis (net of a Boost for 9% LIHTC Projects only); or
- The LIHTC amount supported by the Equity Gap Method.

ii. Twinning Financing Plans

A "twinning financing plan" is a financing plan that contemplates a Project Sponsor applying for both 9% LIHTC and 4% LIHTC as financing for two or more separate Projects supporting a common development plan ("Common Development Plan"). Subject to the "City Rights" section of the QAP, all Project proposals are subject to the following provisions related to twinning financing plans:

- The Department will not consider any Preliminary Project Application related to a twinning financing plan or Common Development Plan for a single physical building. **Any Preliminary Project Application related to a twinning financing plan or Common Development Plan for a single physical building initially submitted by a Project Sponsor will be ineligible for City Financial Assistance.**
- The Department will not consider any Preliminary Project Application related to a twinning financing plan or Common Development Plan that proposes blending or mixing units that benefit from 4% Tax Credits and units that benefit from 9% Tax Credits in the same physical building(s) (a/k/a "checkerboard twinning"). **Any Preliminary Project Application related to a twinning financing plan or Common Development Plan that proposes checkerboard twinning submitted by a Project Sponsor will be ineligible for City Financial Assistance.**
- The Department will only consider Preliminary Project Applications that relate to a Common Development Plan when the Preliminary Project Applications relate to a Common Development Plan for separate physical buildings and do not anticipate checkerboard twinning and are submitted by the Sponsor in accordance with the provisions of the "City Rights" section of the QAP.
- None of the provisions of this section shall be interpreted as limiting any of the City's rights under the QAP.

B. Multifamily Gap Financing

The City of Chicago offers below-market financing for affordable housing developments through various funding resources. Subject to Section VII.A of this Guide, Multifamily Gap Financing sources (also called soft funds or, when provided as debt, Soft Loans) provided as debt have payment terms set at the City's discretion based on Project characteristics. Generally, the required annual payment will be the greater of:

- 25% of Surplus Cash (as defined in the City's loan documents before financial closing), or
- \$1,200 annually.

Alternative cash flow payment structures may be considered on a case-by-case basis when other government entities provide below-market financing. The Department may reduce or waive Multifamily Gap Financing debt service to maximize a private first-priority loan under the Community Reinvestment Act or under other circumstances at its sole discretion.

To support greater predictability for Sponsors and to help Sponsors appropriately size their proposals, at Preliminary Project Application, the Department will allow requests for Multifamily Gap Financing of up to 20% of Total Development Costs, excluding any 9% LIHTC Allocation up to \$1,800,000, and subject to the availability of funds and any relevant eligibility considerations. The Department reserves the right to limit total Multifamily Gap Financing requested per Project and change the limit at its sole discretion. The Department will consider any Multifamily Gap Financing requests above these limits at its sole discretion.

If the City provides a Source that is secured by a first-priority mortgage, it is not Multifamily Gap Financing. The City may require terms or conditions for a Source that is secured by a first-priority mortgage that differ from the provisions for Multifamily Gap Financing set forth in this section of the Guide.

i. Restructuring of Existing Financing or Regulatory Obligations

If a financing plan for a Project anticipates the restructuring of any existing City-held loans or grants or regulatory obligations that encumber any portion of the Project property, the anticipated restructuring activity must be disclosed appropriately in the Common Application submitted at the Preliminary Project Application stage.

When applicable, existing City-held loans or grants shall be represented as a Project Source in the Common Application, and when applicable, the assumption or repayment of any existing City-held loans or grants shall be represented as a Use in the Common Application.

C. Tax Increment Financing

Tax Increment Financing ("TIF") may be requested for a Project when the Project Site(s) are located in a TIF redevelopment plan area ("TIF District") and the redevelopment plan for the relevant TIF District ("Redevelopment Plan") permits the use of TIF for Uses contemplated in the Project budget.

TIF assistance from the City shall be disbursed as a reimbursement for qualifying TIF-eligible costs and may be provided in the form of a loan or a grant. If TIF assistance is provided as a loan, the loan of TIF funds may be secured by a mortgage in favor of the City.

TIF assistance for a Project shall be underwritten and sized by the City in connection with:

- Project costs that qualify as redevelopment costs authorized by the Illinois Tax Increment Allocation Redevelopment Act (as amended) (the "TIF Act");
- Eligible costs under the Redevelopment Plan that the City has agreed to pay for from TIF funds;
- The availability of sufficient tax increment financing funds to support the Project; and
- Verifying the Redevelopment Plan's general land use plan allows for residential usage.

Notwithstanding the eligibility of property acquisition and assembly costs under the TIF Act, any request for the inclusion of property acquisition costs in connection with the underwriting and sizing of TIF assistance by the City shall be considered an Underwriting Standards Waiver Request and subject to approval in the City's sole discretion. The acquisition costs for Projects where non-cash consideration such as seller financing comprises a substantial portion of the consideration provided for the cost of acquiring or assembling the property shall not be considered TIF-eligible costs.

The City strongly prefers that TIF assistance for any Project be disbursed as reimbursement for eligible Hard Costs and soft costs incurred at acquisition and during Project construction.

D. City Private-Activity Bond Volume Cap

For Projects using the City of Chicago's tax-exempt private activity bond ("Bond") volume cap with 4% LIHTC, the City requires the Bond volume cap awarded to a Project be at least 54% of the Project's aggregate basis at bond inducement or City Council approval to meet the 50% Test under Section 42 (the "54% Threshold"). Additionally, the City of Chicago generally requires that Bond prepayment occur no earlier than 24 months after the initial closing date. Prepayment earlier than 24 months requires City approval. The City of Chicago will consider exceptions to this policy on a case-by-case basis, at its sole discretion.

The City shall evaluate applications for Bonds and 4% LIHTC according to the evaluation requirements outlined in the QAP.

The City of Chicago reserves the right to:

- Limit Project volume cap to the amount needed to meet the 50% Test, or as required to meet the City's 54% Threshold underwriting standard.
- Restrict or eliminate the use of Bond volume cap for conduit Bond transactions.

See the "Project Fees" section for additional information on fees associated with the issuance of Bonds.

E. Deferred Developer Fee

The Department does not require any portion of the Base Developer Fee to be deferred. However, if a Project Sponsor proposes a Total Developer Fee that exceeds the calculated Base Developer Fee, any amount above the Base Developer Fee must be fully treated as Deferred Developer Fee, consistent with the City's underwriting policies. Such increases are considered only at the Full Project Application stage and are subject to approval at the Department's discretion through an Underwriting Standards Waiver Request.

Subject to Section III.E.v of this Guide, the only exception to this requirement applies to Permanent Supportive Housing Projects that request an increase to the Developer Fee for the purpose of establishing a services reserve or extremely low-income rent subsidy reserve. In those cases, the Department may, at its discretion and pursuant to an approved Underwriting Standards Waiver Request, permit an alternative structure that does not require full deferral of the increased amount.

In addition, the Department may request that a portion of the Developer Fee, whether within or above the Base Developer Fee amount, be deferred to improve Project feasibility, reduce the need for City

Financial Assistance, or resolve a budget imbalance. All Deferred Developer Fee will be evaluated in relation to projected cash flow, other funding source requirements, and overall financial viability.

Developer Fee limits, deferral requirements, and exceptions are described in detail in Section III.E of this Guide.

F. Evidence of Project Financing

The Full Project Application submitted to the City must include financing acknowledgment letters for all Project Sources, including all construction and permanent financing from all lenders, grantors, and equity providers. Provided letters must state that as of the Full Project Application submission date, the financing Source is either under consideration or has been approved as stated within the letter. The letters must demonstrate the level of commitment for each Project Source, including what, if any, approval processes are still pending for each source.

A written request for City resources shall not imply an award or future award by the City of any funding resources.

The following requirements will apply:

i. City Financial Assistance

Financing acknowledgement letters for Multifamily Gap Financing or Tax Increment Financing can be evidenced in the Full Project Application through a written request to the City for debt financing, Tax Increment Financing, or grant financing that includes all the following:

- Loan or grant amount(s).
- Loan or grant term(s).
- Loan amortization period(s), if applicable.
- The interest rate(s).
- The expected monthly or annual debt service payment for each Source of City Financial Assistance. The City of Chicago does permit requests for payments subject to the availability of Project cash flow. The City of Chicago may reduce or forgo debt service on City Financial Assistance (excluding Bonds) if doing so improves the Project's financial feasibility, subject to the underwriting standards expressed in this Guide.
- The expected wage standard (e.g., Illinois Prevailing Wage, Davis Bacon) that the Sponsor expects to use for the Project, and any relevant information about how funding Sources or related requirements might affect Project costs.

The City may use any available funding, including funds that must be implemented in the Project in the form of a grant, to provide City Financial Assistance or Multifamily Gap Financing. Multifamily Gap Financing will be secured by a mortgage in favor of the City or such other security or covenants that the City may deem acceptable in its sole discretion. Projects seeking Multifamily Gap Financing must comply with additional requirements, including environmental reviews, wage standards, material procurement requirements including the requirements set forth by the Build America, Buy America Act, income restrictions, rent restrictions, and/or occupancy restrictions. Actions that adversely impact the environment or limit alternatives ("choice-limiting actions") under 24 CFR Part 58, such as acquisition, demolition, or construction, may disqualify a Project.

Unless an alternate arrangement is requested by the Sponsor or Owner and approved by the Department, the Department requires that all Multifamily Gap Financing or Tax Increment Financing be disbursed through the Project escrow account in accordance with the City's standard escrow agreement, provided that the Department may permit the use of an escrow or disbursement agreement approved by the Illinois Housing Development Authority, HUD, or such alternate escrow or disbursement arrangements as the Department may allow on a case-by-case basis. The Department will apply a conservative approach in evaluating such requests and will require that federal funds, including but not limited to HOME, be disbursed through an escrow account at all times, without exception, unless otherwise approved by the Department in writing.

ii. Non-City Debt Sources

Acknowledgement letters from lenders of non-City of Chicago debt sources (e.g., construction loans, permanent loans, equity bridge loans, and existing debt assumptions) must include:

- Identity of entity providing the loan.
- Loan amount.
- Permanent loan term (minimum 15 years; for multiple components, the longest term must be at least 15 years).
- Loan amortization period.
- Estimated interest rate, including adjustment terms (may be 0.0% for below-market loans).
- Expected monthly or annual debt service payment.
- Financing fees associated with the debt source.

Acknowledgement letters must originate from the organization which is proposing to provide financing.

iii. Tax Credit Equity Sources

If a Project applies for 9% or 4% LIHTC or Illinois Affordable Housing Tax Credits from the City of Chicago, the Sponsor must provide a financing acknowledgment letter from the equity source for the requested tax credit type at the Full Project Application stage. If tax credits are anticipated from the Illinois Housing Development Authority or third parties (for example, Historic Tax Credits), acknowledgement letters must be included from both the tax credit issuer and the equity providers purchasing or syndicating the credits in the Full Project Application for the Project.

Equity letters must include investor-provided attachments with calculations and assumptions. All equity acknowledgement letters must specify:

- The anticipated total tax credit allocation.
- The per credit net raise rate, noting if equity pricing depends on providing debt for the Project.
- The total tax credit equity available to the Project.

The City's preferred equity pay-in schedule is as follows:

- **For Projects contemplating proceeds from the sale and transfer of IAHTC:** Notwithstanding the below pay-in schedule provisions for Projects without an equity bridge loan and for Projects with an equity bridge loan, all proceeds from the sale and/or transfer of IAHTC are to be available and disbursed for Project Uses at closing.

- **Without an equity bridge loan:** 15% of total cash equity from syndication proceeds available for Project Uses at financial closing, 55% of total cash equity from syndication proceeds available for Project Uses at construction completion, and the balance of total cash equity from syndication proceeds available for Project Uses at stabilization or issuance of Form 8609.
- **With an equity bridge loan:** At least 15% of total cash equity from syndication proceeds available for Project Uses at financial closing.

Any deviation from the City's preferred equity pay-in schedule will be considered on a case-by-case basis and requires submission of a formal Underwriting Standards Waiver Request by the Project Sponsor, subject to the City's review and approval at its sole discretion.

Sponsors are required to demonstrate that they have maximized the cash equity proceeds from syndication of LIHTC. Sponsors are required to submit a comparative analysis of a minimum of three (3) separate Investor syndication bids, including a comparison table of each Investor's terms, pay-in schedule, pay-in rate, fees, and guarantees required. The comparative analysis and comparison table are due before the Project will be presented to the Internal Loan Committee in connection with the Internal Loan Committee's review of the complete financing plan for the Project.

In the case of Projects applying within a Funding Round that are requesting an allocation of Illinois Affordable Housing Tax Credits, at the Full Project Application stage, Sponsors must submit at a minimum the following documentation:

- Evidence of commitment of Donation from Donor, provided that, in connection with the 2025 Funding Round, the City shall waive this requirement if the City is the proposed Donor and the Project Site(s) is/are directly owned by the City of Chicago.
- Donation Process Flow Chart showing how Donation will be placed into the Project.
- Valuation support consisting of an appraisal for any real property Donation or market-based valuation for other assets that supports the Donation amount, with the City of Chicago listed as an "intended user" of the applicable valuation report.

For projects relying on the calculation of eligible basis (e.g., LIHTC or Historic Tax Credits), Sponsors must itemize eligible basis in the "Development Costs-Uses" page of the Common Application to support the requested allocation.

Unless an alternate arrangement is requested by the Sponsor or Owner and approved by the Department, the Department requires that all cash proceeds from the sale or syndication of tax credits available as a Project Source to be disbursed through the Project escrow account in accordance with the City's standard escrow agreement, provided that the Department may permit the use of an escrow or disbursement agreement approved by the Illinois Housing Development Authority, HUD, or such alternate escrow or disbursement arrangements as the Department may allow on a case-by-case basis. Exceptions to the escrow disbursement requirement include:

- Proceeds that are used to pay or reimburse an Investor's customary costs of acquiring an interest in the Owner at financial closing;
- Proceeds that are used to fund reserve accounts, and
- Proceeds used to pay any installment of Realized Developer Fee that is conditioned upon issuance of Form(s) 8609.

iv. Construction-Period Income

If including construction-period income as a financing source for rehabilitation projects, the Sponsor shall submit property audits for the past three years and a narrative explaining assumptions. Approval to include construction-period income as a financing source is at the City's sole discretion.

G. Funding Holdbacks for City Resources

The City may require that a portion of awarded Multifamily Gap Financing funds or Tax Increment Financing funds or other City Financial Assistance be withheld until specific Project development milestones or conditions are met as set forth below.

The City may require a holdback of not less than ten percent (10%) of the total amount of the Multifamily Gap Financing funds or Tax Increment Financing funds until permanent loan conversion (or other comparable post-construction milestone). For the avoidance of doubt, the nothing in the foregoing sentence shall be interpreted as affecting any of the City's rights or policies in connection with retainage.

The City may require that a portion of City Financial Assistance for the Project be withheld until completion of any work needed to cure any REC or until a "No Further Remediation" letter from the Illinois Environmental Protection Agency is recorded on the title to the Site(s) in its sole discretion.

H. Closed Projects Funding Average

The following table provides average funding levels for Projects closed by the Department during the 2023–2024 period. These figures reflect typical levels of City investment across 9% LIHTC and 4% LIHTC developments. The data includes average allocations of LIHTC, Multifamily Gap Financing (e.g., HOME, AHOF, CRP), and TIF, along with the combined total City Soft Fund participation. Per-unit averages are included to support transparency and provide guidance on recent funding benchmarks for applicants and stakeholders.

2023-2024 DOH CLOSED PROJECT FUNDING AVERAGES			
Category	9% LIHTC Projects	4% LIHTC + TEB Projects	Per Unit Average
9% Low Income Housing Tax Credits	\$ 1,873,193	-	-
Multifamily Gap Financing (HOME, AHOF, CRP, etc.)	\$ 4,900,000	\$ 10,670,000	\$ 145,116
Tax Increment Financing	\$ 10,470,000	\$ 9,900,000	\$ 136,340
Total City Participation (MF Gap Financing + TIF)	\$ 10,190,000	\$ 16,450,000	\$ 217,504

III. Uses

A. Acquisition and Holding Cost Policies

i. Inclusion of Acquisition Costs in Project Budget

The Project budget in the Common Application may only include the acquisition costs attributable to the Project Site. As part of the Preliminary Project Application and Full Project Application, the Sponsor must provide Site Control documentation consistent with the QAP. The Site Control documentation must evidence the acquisition cost.

If Site Control covers a property larger than the Project site, the Sponsor must submit a narrative explaining the allocation method used to calculate the Site's price, including a per-square-foot

valuation based on a fair market appraisal or another methodology approved by the Department. Acquisition costs listed in the “Development Costs-Uses” page of the Common Application must align with the Site Control documentation and any supporting narrative.

ii. Reimbursement of Holding Costs and Predevelopment Costs

To support long-term Site Control, the Department may allow reimbursement of reasonable out-of-pocket expenses, including acquisition loan repayment and predevelopment costs essential to holding the property for Project development. Reimbursement is limited to Eligible Holding Costs (defined below) and acquisition costs incurred during the Qualifying Eligible Holding Cost Period (defined below) below and must comply with all applicable provisions of this Guide. For Sites already acquired by a Participant or Related Party, the reasonableness of acquisition costs will be evaluated based on the original purchase price plus allowable holding and settlement costs, as further defined below.

iii. Qualifying Eligible Holding Cost Period and Costs

a. Qualifying Eligible Holding Cost Period

The Qualifying Eligible Holding Cost Period defines the time during which acquisition costs and Eligible Holding Costs may be incurred and considered for inclusion in the Project budget. This period includes two distinct phases: the Pre-Application Holding Period and the Post-Application Holding Period, as set forth below.

Timing Category	Pre-Application Holding Period	Post-Application Holding Period
Projects applying in a Funding Round (e.g., the 2025 Funding Round)	Covers acquisition costs and Eligible Holding Costs incurred up to two (2) years prior to the Full Project Application deadline published in the City’s LIHTC Program Timeline. A longer period may be considered only upon submission of a formal Underwriting Standards Waiver Request. However, such waiver requests will generally not be accepted after the Preliminary Project Application stage unless the City determines, in its sole discretion, that the request is warranted based on demonstrated Project need or unusual circumstances beyond the control of the Project Sponsor.	Begins on the Full Project Application deadline published in the City’s LIHTC Program Timeline and continues until the earlier of: (a) the Project’s financing closing date, or (b) thirty (30) months after that deadline. A longer period may be considered only through a formal Underwriting Standards Waiver Request and Department approval.
Projects applying outside a Funding Round (rolling submissions, subject to relevant provisions contained in the QAP)	Covers acquisition costs and Eligible Holding Costs incurred up to two (2) years prior to the Sponsor’s Full Project Application submission date. A longer period may be considered only upon submission of a formal Underwriting Standards Waiver Request. However, such waiver requests will generally not be accepted unless the City determines, in its sole discretion, that the request is warranted based on demonstrated Project need or unusual circumstances beyond the control of the Project Sponsor.	Begins on the Sponsor’s Full Project Application submission date and continues for a period determined by the Department, not to exceed thirty (30) months. A longer period may be considered only through a formal Underwriting Standards Waiver Request and approval by the Department.

All other provisions set forth in this Section III.A of the Guide, including the definition of Eligible Holding Costs, documentation requirements, and evaluation criteria, apply equally to Projects applying in a Funding Round and Projects applying outside a Funding Round. All waiver decisions are at the Department's sole discretion.

b. Eligible Holding Costs

Eligible Holding Costs incurred during the Qualifying Holding Cost Period may include:

- Real estate taxes;
- Property insurance premiums;
- Costs associated with securing or boarding up the property;
- Utility expenses;
- Costs of emergency repairs necessary to prevent further deterioration of the property;
- Interest payments on loans from external financial institutions used to finance other expenses listed as Eligible Holding Costs herein;
- Legal fees directly related to property ownership, maintenance, or code compliance; or
- Building repairs necessary to preserve the structure integrity of the property or to address immediate health and safety concerns (e.g., emergency repairs to rear porches or failing exterior stairs)

Eligible Holding Costs do not include acquisition costs or any portion of the purchase price of the Site or of any larger property of which the Site is a part.

iv. Waiver Requests for Holding Cost Adjustments

Sponsors or Owners may submit Underwriting Standards Waiver Requests for adjustments to the eligible holding period:

- **For Pre-Application Holding Period adjustments:** The request must be made by the Project Sponsor or Owner at the Preliminary Project Application stage. The Underwriting Standards Waiver Request must include:
 - A detailed rationale;
 - An itemized breakdown of all relevant costs and the date costs were incurred; and
 - Any relevant information about how the costs are proposed to be settled or addressed at the financial closing for the proposed Project.

The Department may require additional supporting rationale and/or additional documentation for consideration. The Department shall not consider any request for Pre-Application Holding Period adjustments made by a Project Sponsor after the Preliminary Project Application stage.

- **For Post-Application Holding Period adjustments:** The request may be made by the Project Sponsor or Owner at any time before Project financial closing. The Department shall require supporting rationale and/or additional documentation for consideration.

v. Acquisition Cost Eligibility and Valuation Requirements

a. Lookback Period for Acquisition Costs

To be eligible for inclusion in the Project budget and considered for Eligible Basis or reimbursement purposes, acquisition costs must have been incurred no more than twenty-four (24) months prior to the Full Project Application submission date, unless otherwise approved by the Department.

Pursuant to an Underwriting Standards Waiver Request submitted by the Sponsor, exceptions to this lookback period may be granted at the Department's sole discretion if the Sponsor demonstrates that:

- The acquisition served a clear public interest (e.g., preserving affordability, preventing displacement, or safeguarding strategic or historic properties);
- The purchase price was supported by a contemporaneous, USPAP-compliant appraisal; and
- Site Control was continuously maintained by the Sponsor or an Affiliate.

b. Appraisal Requirements

- **Unrelated-Party Acquisitions:** The Sponsor or Owner must submit an appraisal substantiating the acquisition price prior to initial financial closing, provided that if an unrelated-party acquisition relates to a Donation, an appraisal for any real property Donation, with the City of Chicago listed as an "intended user" of the applicable valuation report, shall be submitted with the Full Project Application.
- **Related-Party Acquisitions:** An appraisal must be submitted at the time of Full Project Application.

The City will evaluate submitted appraisals for consistency with fair market value, comparable sales, and any prior purchase agreements, and retains sole discretion in determining whether the acquisition cost is permissible.

c. Seller's Note Requirement for Increased Property Value

If the Project Site or any portion thereof was previously acquired by a Sponsor, Owner, or Affiliate and has increased in value since acquisition, the Department generally expects the net proceeds from the increased value to be offset through a seller's note or other acceptable mechanism.

Net proceeds will be calculated as the difference between the original purchase price and the appraised value as of Full Project Application. Exceptions will only be considered upon submission of a formal Underwriting Standards Waiver Requires and are subject to Department approval at its sole discretion.

d. Eligible Acquisition Basis for Rehabilitation Projects

For Projects involving the rehabilitation of existing buildings, the City will use the "As-Is" appraised value to determine the allowable Eligible Basis for acquisition. The Department may consider alternative valuation approaches if the Sponsor provides documentation supporting the proposed method and justification for its use. Approval of any such exception is at the sole discretion of the Department.

B. Grand Total Construction Costs

For purposes of the Preliminary Project Application stage only, the Project Sponsor is not required to enter the values for specific site work and trades in the “Construction Costs” page of the Common Application.

In the Common Application submitted in connection with any Full Project Application, a Participant should enter the projected Construction Costs in the “Construction Costs” page of the Common Application. All costs that are expected to be reflected and contained in the Construction Contract should be entered in the “Construction Costs” page. Project costs that are paid outside of the scope of the Construction Contract (for example, if land remediation is to be paid outside of the scope of the Construction Contract) must be entered in the “Development Costs-Uses” page.

The Common Application will automatically populate (i) the Project’s total Construction Costs (“Grand Total Construction Costs”), and (ii) the Project’s construction contingency reserve (“Construction Contingency”) in the budget included in the Common Application’s “Development Costs-Uses” page. Note that the Grand Total Construction Costs does not include the budgeted contingency reserve costs.

At the time of financial closing for the Project, the Construction Costs budget reflected in the “Construction Costs” page of the Common Application must match the final Construction Contract figures.

Grand Total Construction Costs may not increase more than ten percent (10%) from City Council approval to closing. The City of Chicago generally will not cover cost increases beyond this limit but may consider exceptions at its discretion.

Projects contemplating Historic Tax Credits as a Source must demonstrate that costs required to complete the historic work do not exceed equity generated by the credits. The City will evaluate any cost overages due to historic rehabilitation work for reasonableness on a case-by-case basis and at its sole discretion.

As more fully described in the “Project Modifications” section of the QAP, the City of Chicago provides conditional awards of funding based on the information provided in the Preliminary Project Application and in the Full Project Application. Project modifications require re-evaluation of the Project Application and may trigger Internal Loan Committee and/or other City approval procedures such as Community Development Commission, or the revocation of the City Finance Assistance award. The City will evaluate these changes on a case-by-case basis and at its sole discretion.

i. Construction Cost Minimum Thresholds

When a Project proposes the rehabilitation of an existing building, the Department requires a minimum budget of the greater of (a) the amount prescribed by the Physical Needs Assessment submitted in connection with the Full Project Application or (b) \$40,000 in Hard Costs per residential unit, exclusive of any Construction Contingency (as hereinafter defined). The budget must minimally include all required project scope items for the project type as prescribed by the form of the ATSM in effect as of the Full Project Application deadline (e.g. without limitation, a back-up generator is required for all senior housing rehabilitation projects).

ii. Construction and Development Cost Benchmark Review

To support the efficient use of City resources and maximize affordable housing production, the Department will review Project cost efficiency using standard metrics such as hard construction cost per gross square foot and total development cost per unit as reported in the Common Application.

While the Department does not enforce fixed cost caps, benchmarks such as \$500 per square foot in Hard Costs or \$750,000 per unit in Total Development Cost may trigger additional review and may be considered infeasible unless accompanied by a compelling and well-documented justification. Projects exceeding these benchmarks should include a clear and detailed justification. The Department may require value engineering, cost containment strategies, or further documentation to assess the reasonableness of such costs. Requests may be considered on a case-by-case basis for Projects involving unique site conditions, historic rehabilitation, special construction types, or other documented factors, at the Department's sole discretion.

iii. Related Party Rehabilitation

For Projects involving property rehabilitation and acquired through a Related Party sale, the Department evaluates the ratio of Grand Total Construction Costs to funds received directly or indirectly by Related Parties of the Project Sponsor to ensure sufficient resources are dedicated to the rehabilitation of the property.

The Department defines "Cash to Seller" as the difference between the acquisition price of the property any outstanding secured debt on the property and considers it to be received by Related Parties regardless of the form or manner in which the benefit is realized.

The total of the Realized Developer Fee and Cash to Seller received by Related Parties must not exceed the Grand Total Construction Costs in accordance with the following formula:

$$\text{Realized Developer Fee} + \text{Cash to Seller} < \text{Grand Total Construction Costs}$$

For Related Party transactions requesting Multifamily Gap Financing, Cash to Seller is not permitted, and any sale proceeds must be directed toward Project Uses.

iv. General Contractor Fees

The combined sum of general conditions, overhead, and profit in a general contractor's budget is limited to an amount that equals fourteen percent (14%) of the combined sum of trade payments and site work costs, as calculated in the "Construction Costs" page of the Common Application. As a percentage of the combined sum of trade payments and site work costs, the general contractor is allowed a maximum profit of six percent (6.0%), overhead of two percent (2.0%), and general conditions of six percent (6.0%).

An Identity of Interest between (i) the Project general contractor and (ii) the Project Owner or Sponsor is prohibited.

C. Construction Contingency

i. New Construction Projects

The Construction Contingency for new construction Projects shall be an amount equal to five percent (5%) of the combined sum of trade payments, site work, general conditions, general contractor overhead, and general contractor profit as calculated in the Common Application.

ii. Rehabilitation and Adaptive Reuse Projects

The Construction Contingency for rehabilitation and adaptive reuse projects shall be an amount equal to ten percent (10%) of the combined sum of trade payments, site work, general conditions, general contractor overhead, and general contractor profit as calculated in the Common Application.

Construction Contingency may be prorated for adaptive reuse Projects or for Projects that combine new construction and rehabilitation and evaluated for appropriateness on a case-by-case basis.

iii. Contingency and the Calculation of Eligible Basis

In connection with the calculation of Eligible Basis for any Project, Construction Contingency shall be subject to the following provisions.

Rehabilitation and Adaptive Reuse Projects with 4% LIHTC: One hundred percent (100%) of Construction Contingency may be included in the calculation of Eligible Basis for rehabilitation and adaptive reuse Projects with 4% LIHTC, subject to the use of Construction Contingency for Project costs that meet the Code requirements to be included in Eligible Basis.

All Other Projects: Construction Contingency shall not be included in the calculation of Eligible Basis for all Projects other than rehabilitation and adaptive reuse Projects with 4% LIHTC.

D. Soft Cost Contingency

The Department shall not permit any soft cost contingency as an element of any Project budget. The submitted Common Application shall not include a soft cost contingency in the Project budget.

E. Developer Fee

The Developer Fee is a payment to a Project Sponsor and any Related Party for services provided in Project development and is reflected in the "Development Costs-Uses" page of the Common Application. The Developer Fee includes the following, which shall not appear elsewhere in the Project budget:

- Developer overhead and profit fees; and
- Other fees related to application, construction, or management, provided that up to \$250,000 can be carried in the Project budget as a separate line item for costs in connection with third-party financial consultant or Owner's representative Participant services.

A "Base Developer Fee" shall be determined pursuant to the calculations listed below. The Base Developer Fee may be reduced when an Identity of Interest exists, as further defined below.

Sponsors, irrespective of whether their Projects receive or propose to receive Multifamily Gap Financing or Tax Increment Financing, shall not budget a Total Developer Fee exceeding two million five hundred thousand dollars (\$2,500,000) unless the City has approved a higher amount pursuant

to a formal Underwriting Standards Waiver Request submitted by the Project Sponsor and granted at the City's sole discretion. The City may limit the Total Developer Fee to \$2,500,000 for any Project that receives, or proposes to receive, Multifamily Gap Financing or Tax Increment Financing.

Project Sponsors may submit an Underwriting Standards Waiver Request at the Preliminary Project Application stage to indicate intent to seek an increase to the Base Developer Fee. However, the Project budget submitted at the Preliminary Project Application stage must not include any Developer Fee amount above the lower of (i) calculated Base Developer Fee, regardless of any such waiver request—except in the case of Permanent Supportive Housing Projects proposing to establish a services reserve or ELI subsidy reserve pursuant to subsection (v). In such cases, Sponsors may include the proposed Deferred Developer Fee amount in the Preliminary Project Application budget, provided it is clearly labeled and supported by a brief narrative describing the reserve's intended purpose, structure, and rationale.

If a Project that was conditionally approved by the City to submit a Full Project Application without Multifamily Gap Financing or Tax Increment Financing later revises its financing to include either Multifamily Gap Financing or Tax Increment Financing to include either as a Project Source, the City may apply the \$2,500,000 Total Developer Fee limit in accordance with this section, and any such financing revision shall be subject to the City's review and approval, in its sole discretion, and to all applicable provisions of the QAP.

In no circumstance will the Total Developer Fee exceed 15% of Fee-Based Costs.

i. Base Developer Fee

The Base Developer Fee is determined as the combined sum of the following calculations performed in connection with Fee-Based Costs and acquisition costs in the Project budget:

- **Acquisition Costs:** Five percent (5%) of the first \$20 million of total acquisition costs.
- **Fee-Based Costs:** Fifteen percent (15%) on the first \$5 million, then ten percent (10%) on amounts between \$5 million and \$15 million, and thereafter, five percent (5%) on amounts exceeding \$15 million.

If an Identity of Interest exists between the buyer and seller, or if the property has been previously acquired by the Sponsor or an Affiliate, the percentage of qualifying acquisition costs included in the Base Developer Fee calculation shall be zero percent (0%) instead of five percent (5%).

ii. Developer Fee Budget Limitations

Sponsors, irrespective of whether their Projects receive or propose to receive Multifamily Gap Financing or Tax Increment Financing, shall not budget a Total Developer Fee exceeding two million five hundred thousand dollars (\$2,500,000) unless the City has approved a higher amount pursuant to a formal Underwriting Standards Waiver Request submitted by the Project Sponsor and granted at the City's sole discretion. The City may limit the Total Developer Fee to \$2,500,000 for any Project that receives, or proposes to receive, Multifamily Gap Financing or Tax Increment Financing.

At the Preliminary Project Application stage, the Project budget shall not include any Total Developer Fee greater than the lesser of:

- The calculated Base Developer Fee; or
- Two million five hundred thousand dollars (\$2,500,000).

Sponsors may submit an Underwriting Standards Waiver Request at the Preliminary Project Application stage to indicate intent to seek an increase to the Base Developer Fee; however, such requests will be considered informational only and shall not be formally evaluated or approved until the Full Project Application stage.

An exception to the Preliminary Project Application budget limitation applies to Permanent Supportive Housing Projects as set forth in subsection (v) below.

If a Project that was conditionally approved by the City to submit a Full Project Application without Multifamily Gap Financing or Tax Increment Financing later revises its financing to include either as a Project Source, the City may apply the \$2,500,000 Total Developer Fee limit in accordance with this section, and any such revision shall be subject to the City's review and approval, in its sole discretion, and to all applicable provisions of the QAP.

In no circumstance shall the Total Developer Fee exceed fifteen percent (15%) of Fee-Based Costs.

The Department may approve an increased amount of Developer Fee in addition to the Base Developer Fee if the additional amount of Developer Fee over the Base Developer Fee is fully treated as Deferred Developer Fee in the Project budget. Any request for the Department's approval of an increase of the amount of Developer Fee must be submitted to the Department as an Underwriting Standards Waiver Request by the Sponsor in writing with justification, all in accordance with the provisions of this section of the Guide. Approval is at the Department's discretion; in particular, the Department will consider these requests when the additional equity reduces or eliminates the need for Multifamily Gap Financing or other City Financial Assistance. If the City permits an increase to the Base Developer Fee, then the Realized Developer Fee cannot exceed what it would have been without the increase.

iii. Increases to Base Developer Fee

The Department may approve an increased amount of Developer Fee in addition to the Base Developer Fee if the additional amount is fully treated as Deferred Developer Fee in the Project budget. Any such request must be submitted as an Underwriting Standards Waiver Request with justification and is subject to approval at the City's sole discretion. The Department will consider such requests particularly when additional equity reduces or eliminates the need for Multifamily Gap Financing or other City financial assistance.

If the City permits an increase to the Base Developer Fee, the Realized Developer Fee may not exceed what it would have been without the increase; in other words, any additional Developer Fee above the Base Developer Fee must be Deferred Developer Fee unless otherwise approved by the Department.

iv. Reductions to Base Developer Fee

The Department will require reduction to the Base Developer Fee under the following circumstances:

- If an Identity of Interest exists between the buyer and seller; or

- If the property has been previously acquired by the Sponsor or an Affiliate.

In either case, the percentage of qualifying acquisition costs included in the Base Developer Fee calculation shall be zero percent (0%) instead of five percent (5%).

An Underwriting Standards Waiver Request in connection with this reduction policy may be submitted by the Sponsor when additional equity is used for hard construction costs or when additional equity reduces or eliminates the need for Multifamily Gap Financing. The City retains sole discretion in determining whether such a waiver is permissible.

An Underwriting Standards Waiver Request in connection with the Base Developer Fee reduction policy described in this section may be submitted by the Sponsor to the Department when additional equity is used for hard construction costs or when additional equity reduces or eliminates the need for Multifamily Gap Financing. The City reserves sole discretion in determining whether the requested waiver to the Base Developer Fee reduction policy is permissible.

v. Developer Fee Increases for Supportive Services or Deep Affordability Subsidy Reserve

For Projects meeting the definition of Permanent Supportive Housing as set forth in the QAP, at its discretion and pursuant to an Underwriting Standards Waiver Request submitted by the Project Sponsor or Owner, the Department may approve a request to increase the Developer Fee solely for the purpose of establishing a reserve dedicated to either:

- Funding supportive services required for long-term resident stability, or
- Subsidizing unit rents for extremely low-income households earning at or below 30% of AMI.

All such increases must meet the following conditions:

- Unless a contrary arrangement is explicitly agreed to by the City at its discretion pursuant to an Underwriting Standards Waiver Request submitted by the Project Sponsor or Owner, the additional Developer Fee amount must be fully Deferred and clearly identified in the “Development Costs–Uses” page of the Common Application as “Deferred Developer Fee – Services Reserve” or “Deferred Developer Fee – ELI Subsidy Reserve.”
- Disbursement of the designated reserve shall occur only in accordance with a City-approved escrow or reserve agreement that governs eligible uses, disbursement timing, reporting, and oversight.
- The use of such a reserve must be supported by a detailed services plan or subsidy projection, approved by the Department, and consistent with the Project’s operating pro forma and service commitments.
- The City retains sole discretion to approve or deny such Developer Fee increases based on the Project’s financial feasibility, level of need, service plan quality, and alignment with City housing priorities.

Sponsors may include the proposed Deferred Developer Fee for this purpose in the Preliminary Project Application budget, provided it is clearly labeled and supported by a brief narrative describing the reserve’s intended purpose, structure, and rationale. This provision does not alter the Department’s overall cap of \$2,500,000 on Total Developer Fee, unless waived pursuant to an Underwriting Standards Waiver Request.

F. Furniture, Fixtures, and Equipment

Furniture, fixtures, and equipment (“FF&E”) in the development budget must meet the following qualifications:

- **Furniture:** Items used by residents, guests, or staff, such as beds, desks, chairs, couches, and file cabinets.
- **Fixtures:** Items permanently attached to the property, such as window blinds and built-in cabinetry.
- **Equipment:** Items essential to Project operations, typically not attached to the property, such as computers, appliances, laundry equipment, and snow blowers.

Supplies (e.g., tools, mops, trash cans, and computer ink) are not considered FF&E. All FF&E items must be new unless approved by the City. FF&E costs paid outside the Construction Contract should be captured on the “Furniture, Fixtures, & Equipment” line in the Common Application’s “Development Costs-Uses” page.

FF&E may not be part of the final Construction Contract. FF&E costs will not be included in the calculation of Construction Contingency for the Project.

G. Project Fees

The Owner or Sponsor shall reimburse the City for any costs the City incurs in connection with the planning or implementation of the Project following the Owner or Sponsor’s receipt of the City’s Conditional Approval of the Full Project Application, including but not limited to any appraisal, title, survey, bond counsel, or any other professional or financial costs.

The application fee is due when the Preliminary Project Application is submitted by the Sponsor to the Department.

Project fees to the City paid at closing include when applicable:

- **Bond Issuer Fee:** When the City issues Bonds to support a Project, the Bond issuer fee paid to the City shall equal one-and-a-half percent (1.5%) of the amount of the Bonds issued.
- **LIHTC Reservation Fee:** When the City Conditionally Allocates LIHTC to support a Project, the LIHTC reservation fee paid to the City shall equal five percent (5.0%) of the amount of the first full year’s LIHTC allocation.

IV. Income

All Common Applications submitted as part of a Project Application for City Financial Assistance should reflect Project income expectations (“Income”) in the DOH Common Application. Project Income assumptions are subject to the following requirements.

A. Residential Income

The projected unit mix and expected unit rents should be entered into the “Income” page of the Common Application. Gross residential unit rents (including utility allowances) may not exceed ninety-five percent (95%) of the current rent limit imposed by any financing source, program, or requirement, unless the unit is assisted through project-based rental assistance. In the case of City

resources, such as LIHTC or HOME Investment Partnership funds, rent and income limits are available on the City's website. Note that City-calculated limits should be used for all eligible programs.

In the case of mixed-income Projects that include units to be rented at market rents, the Department will generally require that rents on these units be set at a discount to area market rents (based on rents validated by market study, appraisal, or other relevant information). The Department will evaluate each mixed-income Project on a case-by-case basis to determine the appropriate discount at its sole discretion.

B. Project-Based Rental Assistance Subsidy

Projects with unit-based rental assistance must submit a fully executed rental assistance contract or a commitment letter that includes:

- Maximum AMI percentage designation of the assisted units;
- Number of assisted units by type;
- Length of the rental assistance contract; and
- Contract rent (i.e., the maximum amount of rent paid to the Project by the rental assistance) by unit type.

For applications with an executed Chicago Housing Authority ("CHA") Project-Based Voucher ("PBV") commitment letter, the commitment letter must confirm:

- That the CHA's administrative plan allows PBV administration; and
- That the property selection complies with CHA's plan and 24 CFR 983.51; and

For non-federal rental assistance, a commitment letter from the allocating entity is a required element of the Full Project Application.

All underwriting assumptions in connection with project-based rental assistance subsidy must be clearly identified, including unit designation, remaining rental assistance term, administrator identity, and program name in the "Income" section of the Common Application.

C. Other Residential Income

The City of Chicago limits "Other Residential Income" to income from laundry, vending, parking, resident services, and other recurring, defensible, and voluntary income sources. Only recurring, defensible, and voluntary income sources should be included. Late fees, pet fees, security deposits, parking income, and damage collections are not allowed. Other Residential Income should be entered in the appropriate lines in the "Income: Other Residential" section of the "Income" page in the Common Application.

Project Applications listing Other Residential Income must describe all assumptions, including the income source or the nature of the service in the case of resident services.

Projects involving the rehabilitation of existing residential buildings must submit audited financial statements for the past three years and explain any variance between historical non-residential income and proposed Other Residential Income in the "Income" tab.

D. Commercial Income

Commercial income (“Commercial Income”) should not be included in financial feasibility calculations for most Projects. Parking income related to on-site or adjacent commercial uses should not be included in financial feasibility calculations for any Project. The Department may permit Commercial Income to be considered for financial feasibility calculations in its sole discretion. Requests to include Commercial Income must be made explicitly in writing to the Department at the time of Preliminary Project Application, via a narrative providing any salient details regarding potential or existing leases, or other extenuating information that the Department may consider.

E. Average Income Test

In the case of Projects applying for LIHTC, the City will consider, at its sole discretion, allowing the use of the average income test for the minimum income set-aside (also referred to as “income averaging”), as defined in Section 42(g)(1)(C) of the Code (the “Average Income Test”).

Project Sponsors must declare their intention to elect the Average Income Test for the Project’s minimum income set-aside at the Preliminary Project Application stage, including the proposed distribution of income restrictions by unit type. A change to elect the Average Income Test after the City has issued conditional approval to submit a Full Project Application, if not originally proposed at the Preliminary Project Application stage, shall be considered an Application Change or Project Modification, as defined in the QAP, depending on the nature and extent of the change, and shall be subject to all applicable provisions and review requirements set forth therein.

The Department will consider funding applications that propose the use of the Average Income Test under the following conditions:

- **Eligible Uses:** The Department may approve the use of the Average Income Test at its discretion. Approval may be considered when use of the Average Income Test prevents tenant displacement, reduces the need for City Financial Assistance, or otherwise benefits the Project.
- **Average Income:** The average income target of low-income units must not exceed fifty-seven percent (57%) of the area median income.
- **Multi-Building Projects:** In the Full Project Application, Owners must indicate their intent for line 8b of Form 8609. The Department strongly prefers that buildings be treated as part of a multi-building Project but may allow Owners to treat buildings as separate Projects at its sole discretion.
- **Unit Income Targets:** In the Common Application, Owners must list the number of units by income tier and by unit bedroom size. Income restrictions must be applied evenly across unit sizes and features; larger units cannot be concentrated at higher income tiers. The LIHTC Regulatory Agreement will note use of the Average Income Test but may not list specific designations. Unit details by income and type will be indicated in the Project management plan, with flexibility to float within categories. The Department allows a maximum of four (4) different income tier designations in connection with Project unit restrictions pursuant to the Average Income Test.
- **HOME Restrictions:** The City of Chicago caps initial rent for HOME-assisted rental units at 30% of the adjusted income of a family earning 60% of the AMI, adjusted for bedroom count; the

forgoing provision applies regardless of the unit's AMI designation under LIHTC or any HOME regulation allowing higher rents. If rental assistance applies and the tenant pays no more than 30% of their adjusted income, the total rent (tenant contribution plus subsidy) must comply with the rental subsidy program's limits.

Sponsors submitting Full Project Applications or Project Modifications for Projects that propose electing the Average Income Test must provide the following supplemental materials:

- Market Study: Must demonstrate sufficient market demand for each income bracket proposed.
- Investor Acknowledgement: Written acknowledgement from the LIHTC Investor, lender, and legal counsel that the Average Income Test is compatible with the requirements of other public and private funding Sources.
- Property Management Preparedness: Written acknowledgement from the property manager regarding the compliance implications and commitment to provide annual Average Income Test training to on-site property management.

V. Expenses

The Project Sponsor shall enter all budgeted Project Operating Expenses, and certain other expenses including reserves deposits, in the "Expenses" page of any Common Application submitted for City Financial Assistance.

Department staff will evaluate the Project expense budget for reasonableness during the Project application review and will consider the proposed expenses against the City's portfolio and comparable properties.

Projects that involve the proposed rehabilitation of existing residential buildings must submit audited financial statements reflecting the prior three (3) years of operation, and a written explanation of any variance between historical expenses and the proposed Operating Expense budget in the "Expenses" page of the Common Application.

A. Per Unit Operating Expenses

Per-unit annual Operating Expenses (excluding reserves and resident services) must be reasonable and appropriate for the Project's type, location, and target population. As shown in the "Expenses" tab of the Common Application, Operating Expenses should generally align with a benchmark average of \$9,500 per unit annually. This benchmark is informed by internal financial data and may be supplemented by third-party professional data sources. The Department may adjust this benchmark as appropriate based on project-specific circumstances and market conditions.

B. Management Fee

The proposed property management fee ("Management Fee") indicated in the "Expenses" page of the Common Application may not exceed seven percent (7%) of a Project's Residential Effective Gross Income.

A Management Fee in excess of this threshold may be considered on a case-by-case basis, subject to a determination by the Department that the proposed fee is reasonable, well-supported, and

consistent with market conditions or unique Project circumstances. In evaluating such requests the Department may consider factors including, but not limited to:

- Project size and complexity;
- The inclusion of supportive housing or special populations;
- Demonstrated costs of third-party property management;
- Geographic market comparables; and
- Other relevant financial or operational justifications.

All Management Fees, including those below the standard threshold, are subject to Department review for reasonableness and eligibility, and must be accompanied by a clear and accountable management plan detailing the proposed use of Management Fee proceeds, including:

- Staffing structure and personnel costs;
- Oversight, reporting, and compliance functions;
- Resident services coordination (if applicable); and
- Any profit or overhead charged by third-party or affiliated managers.

The City reserves the right to request additional documentation or adjust the allowable Management Fee based on a review of this management plan.

C. Monitoring and Compliance Fees

The Project operating budget as represented by the “Expenses” page of the Common Application should include the City’s annual monitoring fee. The City’s annual Project monitoring fee is equal to \$25 per Project unit and is payable annually with the annual owner certification submission for the Project. The monitoring fee applies to all Project units.

D. Real Estate and Insurance Expenses

Sponsors must include a narrative explaining how construction and operational real estate taxes and insurance expenses were estimated, along with supporting evidence, with each Preliminary Project Application and Full Project Application. For insurance expenses, an insurance provider quote is encouraged at the application stage and required before financial closing.

For Projects assuming real estate tax abatements or exemptions, the Full Project Application must include:

- Calculations of real estate taxes before, during, and after the abatement or exemption.
- The anticipated effective date of the abatement or exemption.
- The duration of the abatement or exemption.
- A real estate tax attorney’s opinion confirming the Project’s eligibility for the abatement or exemption.

E. Salaried Staff

Each Common Application submitted must include a description of each salaried staff position in the operating budget. Sponsors must use the “Comments” section of the “Expenses” page in the Common Application to detail each position separately, indicating whether it is full-time or part-time

and whether it is onsite or offsite. Benefits and payroll taxes should be represented on the appropriate line items within “Taxes & Insurance” in the “Expenses” page.

F. Resident/Tenant Services

Resident services must not be included in the Project Operating Expenses budget in the “Expenses” page of the Common Application unless the Project has federal project-based rental assistance or vouchers that require resident services or the project meets the definition of Permanent Supportive Housing provided in the QAP, provided however that the City may consider limited flexibility in the structure of service funding if a clear, reasonable plan for sustainability is provided and approved. Service requirements will be evaluated and approved at the City’s discretion pursuant to an Underwriting Standards Waiver Request submitted by the Sponsor.

If not required by federal contracts, resident services expenses must be funded by a third-party income source (including, but not limited to, Medicaid, McKinney Vento, Illinois Department of Public Health, Illinois Department on Aging, Illinois Department of Healthcare and Family Services, Illinois Department of Human Services, Illinois Department of Veteran’s Affairs, or the U.S. Department of Veteran’s Affairs). The budget for services must cover the entire 15-year LIHTC Compliance Period for Projects with LIHTC.

G. Syndicator/Investor Asset Management Fees

The Cash Flow Proforma for a Project may include a syndicator or investor asset management fee (“Syndicator/Investor Asset Management Fee”) in an amount up to \$100 per unit annually (with no annual trending) to be included in the Project’s cash flow waterfall prior to any payment on Multifamily Gap Financing, provided:

- The City reserves the right to require payment on the Multifamily Gap Financing in the Project’s cash flow waterfall prior to the payment of any (i) Syndicator/Investor Asset Management Fee or (ii) Deferred Developer Fee in the Project’s cash flow waterfall;
- The City will permit deviations from this Syndicator/Investor Asset Management Fee per-unit amount in its sole discretion;
- If there is any ambiguity as to whether a fee in the Project expenses budget constitutes a Syndicator/Asset Management Fee, then the Department will determine whether the fee in question qualifies in its sole discretion; and
- No Syndicator/Asset Management Fee can be classified as an operating expense paid before debt service on Project financing that is secured by a first-priority mortgage or deed of trust, provided further that the City may allow payment of a Syndicator/Investment Asset Management fee in the Project’s cash flow waterfall prior to any payment on City-held financing (if any) in its sole discretion subject to an Underwriting Standards Waiver Request provided by the Sponsor or Owner requesting such consideration.

VI. Reserves

A. Replacement Reserve

All Projects must fund a replacement reserve in the development budget based on the number of units and fund ongoing per-unit annual replacement reserve contributions. The initial per-unit contribution starts at the specified rate below and increases by three percent (3%) annually.

The table below outlines the required per-unit capitalized reserve and per-unit ongoing Reserve contribution based on project unit count. The capitalized reserve must be captured on the "Replacement" reserve line included in the "Development Costs-Uses" page of the Common Application, while the ongoing replacement reserve contribution goes in the "Expenses" page and increases by 3% annually according to the trending factor for the "Replacement" reserve line found in the "Cash Flow Proforma" page. These minimum requirements apply to all Projects except, in some cases, those applying solely for Illinois Affordable Housing Tax Credits. The Department may allow deviations from the provisions of this section of the Guide at its discretion. The Department may require higher per-unit initial capitalization of the replacement reserve and/or higher per-unit ongoing annual contributions to the replacement reserve for rehabilitation projects and for adaptive reuse projects based on the Property Needs Assessment.

Projects with City Financial Assistance (Except PSH)

Per Unit Capitalized Reserve		Per Unit Ongoing Annual Reserve
New Construction	Rehabilitation / Adaptive Reuse	All Projects
\$750	\$1,000	\$350

PSH Projects with City Financial Assistance

Per Unit Capitalized Reserve	Per Unit Ongoing Annual Reserve
\$750	\$1,000

B. Operating Reserve

Generally, all Projects receiving debt financing from the City, whether at or below market interest rates, must capitalize an operating reserve equal to six (6) months of Project Operating Expenses. This is calculated as one-half the value of the "TOTAL OPERATING EXPENSES" (as shown in the "Expenses" page of the Common Application), and excluding the total annual "Reserves" line item.

When the Department is providing a market-rate loan, it may allow an alternative operating reserve minimum equal to four (4) months of operating expenses, on a case-by-case basis and at the Department's sole discretion.

C. Debt Service Reserve

The City generally does not require that Projects capitalize a debt service reserve for mandatory Project debt service, provided that the City may require a debt service reserve for any City-sourced first-priority debt financing in its sole discretion.

D. Real Estate Tax Reserves

All Projects must include capitalized real estate tax reserves in the development budget and provide for ongoing annual real estate tax reserve contributions from operations.

The development budget must include a capitalized real estate tax reserve equal to sixty percent (60%) of the estimated annual real estate taxes for the first year of operations, as indicated in the “Expenses” tab of the Common Application.

The operating budget must demonstrate sufficient annual cash flow to fully fund the real estate tax reserve in an amount adequate to cover the following year’s projected real estate tax obligation.

E. Insurance Reserves

All Projects shall include an insurance reserve in the development budget and fund ongoing annual contributions from operations.

The “Development Costs-Uses” page in the Common Application must allocate 110% of the first-year estimated annual insurance expense represented in the “Expenses” page to the insurance reserve.

The operating budget must provide sufficient annual cash flow to cover the following year’s insurance expense.

F. Other Reserves

i. Bond Legal Reserve

Projects requesting Bonds must capitalize a Bond legal reserve equal to ten (10) basis points or one-tenth of one percent (0.10%) of the total Bond amount.

VII. Underwriting Standards

All Common Applications for City Financial Assistance must reflect the Project’s underwriting assumptions in the “Cash Flow Proforma” page of the Common Application. Projects must meet the strictest underwriting standards for all Project financing sources for at least 15 years (and possibly for more than 15 years, depending on Project financing sources) after construction, placement in service, and financial closing (the “Subsidy Period”).

The Department’s minimum underwriting standards are as follows.

A. Debt Service Coverage Ratios and Expense-to-Income Ratios

Projects with “must-pay” Debt Service must maintain a minimum annual Debt Service Coverage Ratio of 1.15 for the first 15 years of operation, as calculated in the “Cash Flow Proforma” tab of the Common Application (the “Minimum DSCR Requirement”). If a Project involves the use of LIHTC, then Project reserves cannot be used to maintain a positive Debt Service Coverage Ratio during the initial fifteen (15) years of the Project operating period (the “LIHTC Positive DSCR Requirement”).

If the Cash Flow Proforma for a Project indicates a DSCR in excess of 1.20 for any year during the Subsidy Period, then the Department may require terms, conditions, or other adjustments to Project underwriting to provide for a Project Cash Flow Proforma indicating a DSCR that does not exceed 1.20 for any year, which remedies could include but are not limited to:

- Reduction of any Multifamily Gap Financing or City Financial Assistance to the Project;
- Reduction of the total LIHTC Allocation to the Project;
- Reduction of any other public debt financing or public grant financing (from HUD or from any other public agency) proposed for the Project;
- Restructuring of the payment terms associated with any Multifamily Gap Financing or City Financial Assistance to the Project;
- Restructuring of any other public debt financing payment terms associated with the Project; or
- Reduction of the number of rent subsidies (e.g., project-based vouchers) or the amount of assistance provided by rent subsidies.

Subject to the LIHTC Positive DSCR Requirement, the Sponsor or Owner may submit an Underwriting Standards Waiver Request to the Department with respect to the Minimum DSCR Requirement. The Department may in its sole discretion consider allowing an exception to the Minimum DSCR Requirement pursuant to an Underwriting Standards Waiver Request if the Project includes credit enhancement conditions (e.g., HUD/FHA mortgage insurance) or in cases of new construction or substantial rehabilitation Projects where a significant proportion of Project units receive rental assistance subsidy with a contract term of at least fifteen (15) years remaining.

Projects without “must-pay” Debt Service must maintain an Expense-to-Income Ratio below 0.85 in the first year, calculated as Total Annual Expenses divided by Effective Gross Income in the “Cash Flow Proforma” tab.

B. Cash Flow After Debt Service

With respect to any loan payments to the City calculated as a percentage of the Project’s cash flow, “cash flow after debt service” shall be defined, if not defined in other terms in the financing documents for the Project, as the difference between the gross cash receipts to the Project in connection with the operations of the Project in the ordinary course of business including rental subsidies and construction contingency (but excluding capital contributions, loan proceeds, grants, and the proceeds of capital contributions) minus the combined sum of any:

1. Supported payments made for the following Project Operating Expenses:
 - a. Owner-paid utilities; and
 - b. When not funded through Project reserves: Reasonable maintenance, repairs, and necessary replacements; and
 - c. Maintenance salaries and payroll taxes; and
 - d. Real estate taxes; and
 - e. Insurance premiums; and
 - f. Reasonable professional and management fees (all in accordance with this Guide); and
 - g. Reasonable miscellaneous fees; and
 - h. Service coordinator or tenant supportive services costs, subject to Section V.F of this Guide.
2. As applicable, deposit(s) to the operating reserve account of the Project up to the maximum of its original established amount through Year 10 of stabilized operations.
3. Required payment(s) deposited to the Project’s replacement reserve in accordance with, as applicable, the Project’s operating agreement or the Project’s partnership agreement.

4. Debt service on any loan or loans secured by a mortgage lien or liens that is/are superior to the mortgage lien that secures the City Financial Assistance.

The City shall require debt service on the City Financial Assistance to be prioritized in the Project's cash flow waterfall prior to the payment of any (i) Syndicator/Investor asset management fee or (ii) Deferred Developer Fee unless, in the City's sole discretion, a different prioritization of items in the Project's cash flow waterfall is approved by the City in writing pursuant to an Underwriting Standards Waiver request submitted by the Owner or Sponsor before the final underwriting of the Project is presented to the Department's Internal Loan Committee.

C. Trending Factors

Annual cash flow trending factors are as follows:

- Income: two percent (2%)
- Management Fee: two percent (2%)
- All other Operating Expenses except Management Fee: three percent (3%)
- Replacement reserve contributions: three percent (3%)

These trending factors must be reflected in the "Cash Flow Proforma" page of the Common Application. The City will review and consider documentation substantiating a deviation from the above trending factors on a case-by-case basis pursuant to an Underwriting Standards Waiver Request submitted by the Owner or Sponsor, which it may approve at its sole discretion. To support a deviation from City trending factors, the Underwriting Standards Waiver Request must include documentation such as historic Project operating income and expense audits.

D. Vacancy Rates

i. Residential Effective Gross Income

Residential Effective Gross Income is calculated by applying required vacancy assumptions to both rental and other income sources. It reflects the combined impact of Residential Vacancy and Other Income Vacancy, as entered in the "Cash Flow Proforma" page of the Common Application.

- **Residential Vacancy:** To calculate Residential Effective Gross Income for all Projects except Permanent Supportive Housing Projects, the required vacancy assumption is seven percent (7.0%) of Total Gross Rental Income per year over the Subsidy Period, as calculated in the "Cash Flow Proforma" page of the Common Application. To calculate Residential Effective Gross Income for Permanent Supportive Housing Projects, the required vacancy assumption is ten percent (10.0%) of Total Gross Rental Income per year over the subsidy period, as calculated in the "Cash Flow Proforma" page of the Common Application.
- **Other Income Vacancy:** To calculate Residential Effective Gross Income for all Projects, the required "Other Income" vacancy assumption is seven percent (7.0%) of the combined sum of "Parking Income," "Laundry Income," "Vending Income," and "Other Income" as represented in the Common Application.

ii. Commercial Effective Gross Income

Commercial income should **not** be included in financial feasibility calculations for most Projects; one hundred percent (100%) is the required commercial vacancy assumption for the calculation of

commercial Effective Gross Income unless the City has approved underwriting with commercial income.

For Projects requesting that the City underwrite with commercial income, Sponsors should provide an Underwriting Standards Waiver Request and detailed narrative proposing an appropriate commercial vacancy rate. Upon considering the waiver request and submitted narrative, the City will determine the commercial vacancy rate in its sole discretion.

E. Utility Allowances

Projects with tenant-paid utilities must provide current documentation of expected monthly per-unit utility expenses by utility and appliance type. The Sponsor must enter these Utility Allowances in the “Income” page of the Common Application.

Tenant-paid utility expenses must be appropriate for unit size, utility type, and project location. If a utility covers multiple appliances, the Utility Allowance must itemize expenses by appliance. Acceptable documentation includes:

- A current Utility Allowance schedule from the governing public housing authority.
- A utility survey of local utility company data covering one full year for each unit type, accepted only if the project is currently operating as residential. Surveys from other projects are not accepted.

If the Project’s expected Utility Allowances are lower than the documented amounts, the Application must include a detailed explanation for case-by-case evaluation. Non-essential utilities like telephone, cable TV, and internet are excluded.

VIII. Appraisals and Market Studies

A. Appraisal Requirements

In accordance with the relevant provisions of the QAP and this Guide, the Department may require that Project Sponsors submit appraisals that meet the following standards. Appraisals must also conform to applicable IHDA standards when IHDA-administered resources are included in the Project financing.

i. Appraisal Scope and Standards

Each Project must submit an appraisal that determines both the as-is value and the as-completed value (post-rehabilitation or new construction). The appraisal must be:

- Conducted by a certified real estate appraiser licensed in the State of Illinois;
- Prepared in accordance with the current edition of the Appraisal Foundation’s Uniform Standards of Professional Appraisal Practice (USPAP); and
- Designated for use by the City of Chicago as an intended user.

All appraisers must conduct a physical site inspection. Appraisals must distinguish between the value of the land and the value of improvements. The following values must be included, as applicable:

1. As-is market value (with restricted rents)
2. As-is market value (with market rents)
3. As-is land value (vacant/unimproved)
4. As-if completed (with restricted rents)
5. As-if completed and stabilized (with restricted rents)
6. As-if completed (with market rents)
7. As-if completed and stabilized (with market rents)
8. Insurable value
9. Value of LIHTC (if applicable)
10. Value of below-market financing (if applicable)

ii. Valuation Approach Requirements

The Department requires the income approach to be used for existing properties, based on actual operating expenses. The sales comparison approach must be used for unimproved land. Appraisals must not consider favorable financing or tax credit equity in the capitalization rate or as-is valuation.

iii. Timing and Updates

Appraisals must be dated:

- No more than nine (9) months prior to the Full Project Application submission date;
- If older than nine months but not exceeding twelve (12) months, a USPAP-compliant update letter must be provided confirming no material changes to market conditions or Project scope.

The Department may require an updated appraisal at its discretion to ensure compliance with current market conditions or underwriting protocols.

iv. Acquisition Cost Documentation and Eligibility

For private acquisitions, the Sponsor must obtain a USPAP-compliant, independent appraisal substantiating the acquisition cost. The appraisal must be dated prior to or contemporaneous with the acquisition and submitted with the Full Project Application. The City will not include acquisition costs in the Project budget or in Eligible Basis unless the acquisition cost is supported by the as-is appraised value, consistent with the requirements of Section III.A of this Guide.

For City-owned land, the Department may require the use of an appraiser from the City's pre-approved vendor list.

For Projects utilizing Illinois Affordable Housing Tax Credits, Donation-related appraisals must comply with relevant timing and standards set forth in this Guide as well as IHDA timing and valuation standards and deduct any environmental remediation costs from the appraised value.

B. Market Study Requirements

At Full Project Application, Projects requesting City Financial Assistance and/or Low-Income Housing Tax Credits must submit a third-party market study that meets the following requirements.

i. Market Study Standards

Each study must:

- Be conducted by a qualified analyst with experience in multifamily rental housing;
- Be independent of the Sponsor and development team;
- Include a statement of analyst competence; and
- Comply with the most current National Council of Housing Market Analysts (“NCHMA”) standards, including use of standardized terminology and report sections.

ii. Required Market Study Contents

The market study must include:

1. Executive summary summarizing findings, recommendations, and any proposed modifications (≤1 page).
2. Conclusion assessing market viability, lease-up timeframe, and projected stabilized vacancy rate. If vacancy exceeds 7.0% or lease-up exceeds 12 months, justification is required.
3. Site and PMA description including map, methodology, and demographics, especially if site-specific conditions diverge from the broader PMA.
4. Rent comparison showing proposed rents versus maximum program rents, derived market rents, and FMRs.
5. Income qualification and demand analysis including capture rate and absorption forecast. For fully occupied rehab Projects without displacement, only vacancy analysis is required. For new construction or Projects with displacement, a complete demand analysis is required.
6. Public services and amenities including transit, schools, health services, shopping, and parks within the PMA.
7. Subsidized developments identifying and comparing similar publicly funded developments within the PMA.
8. Vacancy rate trends for the subject and comparable properties.
9. Comparable market-rate developments with detailed profiles, including rents, unit mix, amenities, and contact verification.

iii. Additional Review

The Department may conduct independent market research or request supplemental analysis to validate the assumptions and conclusions of the submitted study.

Appendix A: Definitions

Capitalized terms in this Guide shall have the following definitions:

“2025 Funding Round” shall mean the competitive application cycle administered by the Department in accordance with the QAP, through which LIHTC and other forms of City Financial Assistance are made available for eligible affordable housing developments. The 2025 Funding Round includes all application deadlines, submission requirements, evaluation criteria, and funding determinations set forth in or governed by the QAP. The City may amend or supplement the 2025 Funding Round in its sole discretion, subject to applicable laws and regulations.

“Affiliate” shall mean, with respect to a specified person or entity, any other person or entity that directly or indirectly controls, is controlled by, or is under common control with such specified person or entity, where “Control” has the meaning set forth in the definition of Control below.

“Allocation” shall mean the award of tax credits to a project pursuant to Section 42 of the Internal Revenue Code. An Allocation may be made pursuant to a carryover allocation agreement or the issuance of IRS Form(s) 8609.

“Applicable Fraction” shall mean the percentage of a building that is treated as low-income use and generally eligible for LIHTC awarded pursuant to Section 42 of the Internal Revenue Code. The Applicable Fraction is the lesser of the Unit Fraction or the Floor Space Fraction.

“Applicable Percentage” shall mean the credit percentage that qualified low-income housing project is eligible for in connection with Section 42 of the Internal Revenue Code.

“Area Median Income” (“AMI”) shall mean the median income of the metropolitan statistical area of Chicago, adjusted for family size, as such adjusted income and median income for the area are determined from time to time by HUD for purposes of Section 8 of the United States Housing Act of 1937.

“Average Income Test” shall have the meaning provided in Section 42(g)(1)(C) of the Internal Revenue Code. Under the Average Income test, at least 40% of units are rent restricted, with an average income restriction of 60% AMI, and a maximum income restriction no higher than 80% AMI.

“Base Developer Fee” shall mean the initial calculated amount of Developer Fee determined using the City’s standard Developer Fee formula as set forth in Section III.E of this Guide, before any adjustments or waivers. The Base Developer Fee shall be determined as the combined sum of the following calculations performed in connection with Fee-Based Costs and acquisition costs in the Project budget, subject to any required reductions for Identity of Interest relationships as described herein:

- *Acquisition Costs*: Five percent (5%) of the first \$20 million of total acquisition costs, except that if an Identity of Interest exists between the buyer and seller, or if the property has been previously acquired by the Sponsor or an Affiliate, zero percent (0%) of acquisition costs shall be included in the Base Developer Fee calculation; and
- *Fee-Based Costs*: Fifteen percent (15%) on the first \$5 million, ten percent (10%) on amounts between \$5 million and \$15 million, and five percent (5%) on amounts exceeding \$15 million.

Except as set forth in Section III.E.v of this Guide for Permanent Supportive Housing Projects proposing a services reserve or extremely low-income rent subsidy reserve, the Project budget included in the Preliminary Project Application shall not include any Developer Fee amount above the lesser of (i) the calculated Base Developer Fee or (ii) two million five hundred thousand dollars (\$2,500,000).

Sponsors may submit an Underwriting Standards Waiver Request at the Preliminary Project Application stage to indicate intent to seek an increase to the Developer Fee above, as context requires, the Base Developer Fee amount or \$2,500,000; however, such requests will be considered informational only and shall not be formally evaluated for approval until the Full Project Application stage, if any.

“Basis Boost” or “Boost” shall mean up to a thirty percent (30%) boost to the Eligible Basis of the Project.

“Cash Flow After Debt Service” shall mean the difference between a Project’s income and expenses, including Debt Service on all must-pay debt, during Project operations after construction completion.

“Continuum of Care” or “CoC” shall mean, pursuant to and in accordance with the requirements set forth by 24 CFR Part 578, the organization comprised of stakeholders committed to preventing and ending homelessness in the city of Chicago through the design and implementation of plans which are consistent with local, state, and federal policies.

“Coordinated Entry System” or “CES” shall mean a centralized and streamlined system for accessing housing and support services in the city of Chicago required for all Continuums of Care pursuant to 24 CFR 578.7.

“City Financial Assistance” shall mean any assistance provided by the City of Chicago through grants, direct or indirect loans, or allocation of tax credits for the development of residential housing units, including but not limited to LIHTC, Tax Increment Financing, IAHTC, and Multifamily Gap Financing.

“City HOME Rental Development Policies and Procedures” shall mean the City of Chicago Department of Housing HOME Housing Development Policies and Procedures, as may be amended from time to time, which set forth the City of Chicago’s requirements in connection with the provision of HOME funds for rental housing development projects.

“Code” shall mean the Internal Revenue Code of 1986, as amended, and the regulations, notices, revenue rulings, and other pronouncements promulgated under it, all as they may be amended from time to time.

“Commercial Construction Costs” shall mean all costs attributable to the construction of leasable commercial space in the Project.

“Common Application” shall mean a spreadsheet document created to enter the anticipated Project development budget, operating pro forma, and other financial and relevant Project information which will be submitted as part of a Preliminary Project Application, and which will be submitted as part of a Full Project Application, and used by the City in the evaluation of a proposed Project.

“Compliance Period” (notwithstanding Section 42(i)(1) of the Code) shall mean the period of fifteen (15) consecutive taxable years beginning with the first taxable year of the Credit Period for a LIHTC Project.

“Conditional Allocation” shall mean an Allocation of LIHTC to a Project that remains subject to all conditions of the QAP prior to the issuance of IRS Form(s) 8609.

“Control” shall mean (i) the possession, directly or indirectly, or a majority interest in the general partner, managing member, or equivalent decision-making body of an entity; (ii) the possession of the right or ability to appoint or remove a majority of the members of the governing body of such entity; (iii) the ability to approve, direct, or materially influence major decisions of such entity through any contractual, legal, financial, or other arrangement; or (iv) in the case of a not-for-profit entity, the ability of a for-profit entity or other party to exercise effective decision-making authority through governance or financial control as set forth in the entity’s legal documents. Control may be exercised individually or jointly with others acting in concert. For purposes of the definition of “Sponsor,”

Control shall specifically mean a majority ownership interest in the general partner, managing member, or equivalent controlling entity of the Owner. (For clarity, "Control" as used in this definition refers to organizational or governance control and is distinct from "Site Control," which refers to legal control over real property.)

"Construction Contract" shall mean the agreement between the Project Sponsor and the General Contractor specifying the scope and terms of work for the construction to be performed and completed as part of the project. The Construction Contract will include items such as site work; trade payments; general contractor general conditions, general contractor overhead, and general contractor profit; and other General Contractor costs included within the construction contract, including P&P bonds, permits, builder's risk, or remediation costs.

"Construction Costs" shall mean those costs related to the construction of a Project that will be captured in a Construction Contract, including cost of site work; trade payments; general contractor general conditions costs, general contractor overhead costs, and general contractor profit costs; any other general contractor costs included within the Construction Contract, including P&P bonds, permits, builder's risk, or remediation costs (see: Hard Costs).

"Credit Period" shall mean the duration of time starting either the year the Project property is placed in service, or if elected by the Project Owner, the year following the year the Project property is placed in service, over which an Investor or Owner can claim the allocated LIHTC for a qualified low-income housing Project, and which period is typically ten (10) years.

"Debt Service" shall mean the payment of interest and principal on a debt for a particular year.

"Debt Service Coverage Ratio" shall mean the quotient obtained by dividing a Project's net operating income by the total annual Debt Service obligation, excluding any payments attributable to cash flow notes, which ratio the Department uses to assess a Project's capacity to meet its debt obligations and to determine the adequacy of projected cash flow throughout the applicable Subsidy Period.

"Developer Fee" shall mean the aggregate compensation paid or payable to the Project Sponsor and any Related Parties for services provided in connection with the planning, development, financing, and execution of the Project. The Developer Fee includes the following, which shall not appear elsewhere in the Project budget:

- Developer overhead and profit fees.
- Any additional fees related to direct assistance provided to the Sponsor or Owner in conjunction with the completion of any funding or entitlement application or construction or management of the development.

However, up to \$250,000 may be carried as a separate line item in the Project budget for costs associated with third-party financial consultants or Owner's representative Participant services, provided such parties are not Related Parties to the Sponsor or Owner and are not performing roles already compensated through the Developer Fee. In transactions involving Related Parties, Developer Fees shall be subject to additional review and shall be aggregated with any Cash to Seller for purposes of evaluating compliance with applicable financial benefit limitations.

“Deferred Developer Fee” shall mean the portion of the Developer Fee that shall be paid from Project operating cash flow after the Project has completed construction, placed in service, and converted to permanent financing at final financial closing. For purposes of the Deferred Developer Fee policy as set forth in this Guide, Deferred Developer Fee may include amounts that have been recontributed to the Project as additional equity by the Sponsor, Owner, or any Related Party, notwithstanding their treatment as a use of funds or their inclusion in Eligible Basis or other cost calculations. Deferred Developer Fee shall not include any amounts that have been or will be permanently waived.

“Difficult Development Area” or “DDA” shall mean a geographic area designated by HUD as having high construction, land, or utility costs relative to area median income levels. DDA designations are updated annually by HUD and may include metropolitan or non-metropolitan areas that meet the criteria established under Section 42(d)(5)(B) of the Code. Projects located in a DDA may qualify for a 30% increase in Eligible Basis for purposes of calculating the LIHTC, subject to applicable federal rules and the provisions for a Boost contained in this Guide and in the QAP.

“Donation” shall mean an applicable donation made in compliance with the Illinois Affordable Housing Tax Credit regulations, per the Illinois Administrative Code, Title 47, Chapter II, Part 355.

“Donation Tax Credits” shall have the same meaning as “Illinois Affordable Housing Tax Credits.”

“Effective Gross Income” shall mean the expected income generated by a Property minus potential vacancy.

“Eligible Basis” shall mean the total amount of Project development cost that would be eligible for generating tax credits pursuant to Section 42 of the Code if all of the Project housing units were used for low-income housing.

“Equity Gap Method” shall mean the method for calculating the amount of LIHTC required for a Project that evaluates the difference between the total development costs and the total amount of debt financing, equity financing (including grants but excluding proceeds from the syndication of LIHTC), and Deferred Developer Fees to determine the LIHTC equity needed, and in turn, the amount of LIHTC needed during each year of the Compliance Period when the difference between the total development costs and the total amount of debt financing, equity financing (including grants but excluding proceeds from the syndication of LIHTC), and Deferred Developer Fees is divided by the proposed net rent raise and the resulting amount is divided by ten.

“Extended Use Period” shall mean, in accordance with Section 42(h)(6) of the Code, the period beginning on the first day of the Compliance Period and ending no earlier than the date which is thirty (30) years after the date the Project building is placed in service, and during which the Project comply with all applicable provisions of Section 42 of the Code, including the requirement that the Applicable Fraction of units remain both rent-restricted and occupied by qualifying low-income households. The Extended Use Period shall be enforced by a recorded land use restriction agreement and is irrevocable except in cases of foreclosure as permitted under Section 42(h)(6)(E)(ii). By submitting any Preliminary Project Application for any development proposal, the Owner thereby expressly waives any right to seek termination of the Extended Use Period through the Qualified Contract process described in Section 42(h)(6)(E)(i)(II) of the Code.

“Fee-Based Costs” shall mean Total Development Cost of a Project, excluding the Developer Fee, acquisition costs, reserves, construction period costs, and syndication-related costs.

“50% Test” shall mean the requirement under Section 42 which mandates that at least fifty percent (50%) of the aggregate basis (including land and depreciable costs) of a Project must be financed with tax-exempt private activity bonds to qualify the entire Qualified Basis of the Project for the LIHTC at the 4% Applicable Percentage. If a Project fails to meet this threshold, only the portion of the Project financed with tax-exempt bonds shall be eligible for the 4% LIHTC.

“Flow Chart of Donation” or “Flow Chart of Title” shall mean a document that is to be created by a sponsor applying for Illinois Affordable Housing Tax Credits (a/k/a Donation Tax Credits) that visually presents the donation process for the Donation required under the Illinois Affordable Housing Tax Credits program.

“Floor Space Fraction” shall mean the fraction obtained by dividing the total floor space of the low-income units in the building by the total floor space of all residential units in the building (whether or not occupied).

“Form 8609” shall mean IRS Form 8609, *Low-Income Housing Credit Allocation and Certification*, issued by the City pursuant to Section 42 of the Internal Revenue Code, which allocates LIHTC to a specific building and certifies its eligibility for such credits. A separate Form 8609 is required for each building in a qualified low-income housing project

“4% LIHTC” shall mean the non-competitive LIHTC authorized under Section 42 in connection with the acquisition, rehabilitation, or new construction of a qualified low-income housing Project and which provide a federal tax credit to the Owner of the Project equal to approximately four percent (4%) of the Qualified Basis of a Project per year over approximately a period of time equal to the Credit Period.

“Full Project Application” shall mean the entire set of required and requested documents as prescribed in the QAP and submitted by a Sponsor to the City.

“Grand Total Construction Costs” shall mean the total amount of Project Construction Costs, including general contractor general conditions, general contractor overhead, general contractor profit, and other general contractor costs.

“Gross Square Footage” shall mean total area of a Project’s aggregate building footprint measured to the exterior walls of a building or buildings inclusive of all residential, commercial, and service space.

“Hard Costs” shall have the same meaning as “Construction Costs.”

“HOME Program” shall mean the HOME Investment Partnerships Program created under the Cranston-Gonzalez National Affordable Housing Act and Title 24, Code of Federal Regulations Part 92.

“HOME-ARP Program” shall mean the HOME Investment Partnerships Program – American Rescue Plan program authorized under Section 3205 of the American Rescue Plan Act of 2021, providing funding through the HOME Program to assist qualifying individuals and families who are homeless,

at risk of homelessness, fleeing or attempting to flee domestic violence, dating violence, sexual assault, stalking, or human trafficking, or otherwise facing housing instability, and administered by HUD in accordance with Title II of the Cranston-Gonzalez National Affordable Housing Act, 24 CFR Part 92, as modified by applicable waivers and alternative requirements issued by HUD, including but not limited to those set forth in HUD Notice CPD-21-10 and HUD Notice CPD-21-15.

“HOME Regulations” shall mean the requirements of the HOME Program created under the Cranston-Gonzalez National Affordable Housing Act and Title 24, Code of Federal Regulations Part 92, and such additional regulations, orders, rulings, interpretations, and directives for the HOME Program as may be promulgated or issued by HUD from time to time.

“HOME-ARP Regulations” shall mean the requirements of the HOME-ARP Program established pursuant to Section 3205 of the American Rescue Plan Act of 2021 and administered in accordance with the HOME Program regulations at Title II of the Cranston-Gonzalez National Affordable Housing Act and Title 24, Code of Federal Regulations Part 92, as modified by applicable waivers and alternative requirements set forth by HUD, including but not limited to HUD Notice CPD-21-10 and HUD Notice CPD-21-15, and such additional regulations, orders, rulings, interpretations, and directives for the HOME-ARP Program as may be promulgated or issued by HUD from time to time.

“HOME Regulatory Agreement” shall mean the regulatory agreement or restrictive covenants executed or to be executed by, as the case may be, the Owner, the Sponsor(s), and the City of Chicago and properly recorded in the appropriate land records for Cook County, Illinois, setting forth certain terms and conditions under which a HOME Program-assisted rental development Project is to be operated and which must meet the requirements of the HOME Regulations and which must meet the requirements of the City HOME Rental Development Policies and Procedures.

“Identity of Interest” shall mean the existence of any of the following conditions:

- When one or more of the officers, directors, stockholders, members, or partners of the Owner is also an officer, director, stockholder, member, or partner of any other Participant;
- When any officer, director, stockholder, member, or partner of the Owner has any financial interest whatsoever in any other Participant;
- When any Participant advances any funds or sells or donates property to the Owner;
- When any Participant provides and pays, on behalf of the Owner, the cost of any architectural services or engineering services other than those of a surveyor, general superintendent, or engineer employed by any other Participant in connection with its obligations under its contract with the Owner;
- When any Participant takes any stock or any interest in the Owner entity, as part of the consideration to be paid.

“HUD” shall mean the United States Department of Housing and Urban Development or its successor(s).

“Illinois Affordable Housing Tax Credits” or “IAHTC” shall mean affordable housing tax credits pursuant to Section 7.28 of the Illinois Housing Development Act, 20 ILCS 3805/1 et seq., as amended and such act’s implementing regulations, 47 Ill. Adm. Code 355 et seq., as amended. (See: Donation Tax Credits)

“Investor” shall mean, as context requires, an entity that receives or is proposed to receive Low Income Housing Tax Credits in return for an equity investment in the Owner of the relevant LIHTC Project.

“LIHTC” shall mean federal low income housing tax credits as authorized by Section 42 of the Code.

“LIHTC Regulatory Agreement” shall mean the extended low-income housing commitment, regulatory agreement or restrictive covenants executed or to be executed by the Owner and the City of Chicago and properly recorded in the appropriate land records for Cook County, Illinois, setting forth certain terms and conditions under which the Project property is to be operated, and which must meet the requirements of Internal Revenue Code Section 42(h)(6)(B).

“Multifamily Gap Financing” shall mean any Soft Loan(s) and/or Department-sourced grant funds (excluding funds that are derived from Tax Increment Financing). In addition, any 9% LIHTC provided in excess of \$1,800,000, may at the Department’s sole discretion, be considered Multifamily Gap Financing. Notwithstanding the foregoing, HOME-ARP Program funds shall always be considered Multifamily Gap Financing for purposes of calculating allowable Developer Fee, including for purposes of applying any Developer Fee caps or related-party financial benefit limitations. For all other purposes, HOME-ARP Program funds shall only be considered Multifamily Gap Financing to the extent the Department, in its sole discretion, elects to treat them as such. Nothing in this definition shall limit the Department's ability to authorize an increased Developer Fee cap for Projects that meet the definition of Permanent Supportive Housing, consistent with applicable policies in the Underwriting Standards Guide.

“9% LIHTC” shall mean LIHTC competitively allocated pursuant to Section 42 and which provide a federal tax credit equal to approximately nine percent (9%) of the Qualified Basis of an eligible low-income housing Project per year during the Credit Period.

“Operating Expenses” shall mean all ordinary and necessary costs associated with the ongoing operation and maintenance of a Project, including, but not limited to: Property management fees; payroll and staffing costs for on-site personnel (e.g., maintenance, janitorial, leasing); utilities not paid directly by tenants; insurance premiums; routine maintenance and repairs; property taxes and assessments (unless exempt); administrative expenses; security services; legal, audit, and accounting costs; replacement of consumables (e.g., cleaning supplies, bulbs); and any other recurring expenses required to maintain safe, habitable, and compliant residential Project operations. Operating Expenses shall exclude: Debt Service; depreciation; capital expenditures and reserve deposits; Developer Fees; resident services costs unless expressly approved; and any non-recurring or one-time development costs. Operating Expenses must be based on reasonable projections and supported by comparable market or historical data. All Operating Expenses are subject to review and approval by the City.

“Other Residential Income” shall mean income from laundry, vending, parking, resident services, and other recurring, defensible, and voluntary income sources, excluding late fees, pet fees, security deposits, and damage collections.

“Owner” shall mean the single asset entity, organized under the laws of the State of Illinois, or any other state, that is awarded Low Income Housing Tax Credits pursuant to the QAP and which owns

or will own the Project for the term of the Compliance Period. The Owner shall be controlled by the Sponsor(s).

“Participant” shall mean a member of the Project’s development team, including Sponsor, general contractor, architect of record, property manager, and any joint venturer.

“Preliminary Project Application” shall mean the entire set of required and requested documents for a Site, market, financial feasibility, and Participant review as more fully described in the QAP and on the Department’s website.

“Project” shall mean a defined undertaking involving the acquisition, construction, rehabilitation or preservation of residential rental housing intended to provide safe, decent, and affordable accommodations to low- and moderate-income households, as determined by applicable income limits and affordability requirements established under local, state, or federal regulations or guidelines. For purposes of the LIHTC program, the definition of a “Project” shall be consistent with 26 CFR Section 1.103-8(b)(4)(ii) and 26 CFR Section 1.42-3(c)(1), which generally define a project as a single building or multiple buildings, provided that all buildings are located on the same tract of land and are owned by the same entity, operated as part of a coordinated development, and subject to a single set of LIHTC Regulatory Agreements. For purposes of the HOME Program, a “Project” is defined in 24 CFR Section 92.2 as a site or sites together with any building(s) located on the site that are under common ownership, management, and financing and are to be assisted with HOME Program funds as a single undertaking. A project may contain more than one building and may include both HOME-assisted and non-HOME-assisted units. In connection with City Financial Assistance, “Project” shall align with the applicable programmatic definition based on the funding sources involved and shall include all related activities such as planning, financing, design, development, regulatory compliance, and long-term management and affordability monitoring.

“Qualified Allocation Plan” or “QAP” shall mean the City of Chicago’s Low Income Housing Tax Credit Qualified Allocation Plan as required under Section 42 of the Code.

“Qualified Basis” shall mean the product that results from multiplying the Applicable Fraction of a Project by the Eligible Basis of the same Project and used as the base that is multiplied by the Applicable Percentage to determine the annual Project LIHTC.

“Qualified Census Tract” or “QCT” shall mean a federally designated geographic area in which either (i) at least fifty percent (50%) of households have incomes below sixty percent (60%) of the AMI, or (ii) the poverty rate is twenty-five percent (25%) or higher, as determined by HUD.

“Qualified Contract” shall mean a bona fide offer to purchase a LIHTC Project as defined in Section 42(h)(6)(F) of the Code, and subject to the provisions of the Code.

“Realized Developer Fee” shall mean the portion of the Total Developer Fee that is actually disbursed or paid to the Project Sponsor or any Related Parties, whether at financial closing, during construction, at construction completion, or at conversion to permanent financing. The Realized Developer Fee shall also include any portion of the Developer Fee that is contractually obligated to be paid solely upon issuance of Form 8609, whether or not disbursed as of the issuance date. Deferred Developer Fees that are contingent on post-construction operating cash flow and are not tied to the issuance of Form 8609 shall be excluded from the Realized Developer Fee. For purposes

of compliance with Developer Fee caps and Related Party financial benefit limitations, the Realized Developer Fee shall be aggregated with any Cash to Seller received by Related Parties in connection with the Project.

“Related Parties” shall mean any Affiliate of the Project Sponsor, and also includes: (i) any partner, member, manager, officer, or director of the Project Sponsor; (ii) any entity in which such persons hold a direct or indirect financial interest; and (iii) any immediate family member of such person or trust or entity established for the benefit of such individuals.

“Regulatory Agreement” shall mean a regulatory agreement executed or to be executed by, as the case may be, the Owner, the Sponsor(s), and the City, which sets forth the terms, conditions, and restrictions governing the development, occupancy, operation, and maintenance of a Project, including but not limited to requirements for income eligibility, rent limits, duration of affordability, tenant selection procedures, and ongoing compliance monitoring, all in accordance with applicable federal, state, and local laws and regulations, and recorded with the Cook County Clerk’s Recordings Division as a restrictive covenant on the real property on which the Project is located.

“Residential Construction Costs” shall mean all costs attributable to the construction of residential units including hallways, elevator spaces, lobbies, manager office space, common areas, building amenities, community space, carports, porches, etc.

“Residential Effective Gross Income” shall mean Total Gross Residential Income minus potential vacancy as calculated on the “Cash Flow Proforma” page of the Common Application for a given year.

“Section 42” shall mean Section 42 of the Code and the regulations and revenue rulings promulgated under it, all as they may be amended from time to time.

“Services Area Construction Costs” shall mean all costs attributable to areas for the provision of resident tenant services.

“Site” shall mean one or more contiguous parcels of land on which the Project will be developed. Each Site shall be identified by a legal description, which may be subject to modification during the course of the Project due to resubdivision or other lawful changes, provided that such changes are documented and approved as required. The Site is intended to be encumbered by a Regulatory Agreement. A Site may comprise all or part of a larger property and must be clearly delineated in all applicable application and closing documentation.

“Site Control” shall mean legally enforceable rights to own, lease, or otherwise secure use of a Site for the purposes of developing a Project, valid for at least twelve (12) months beyond the Full Project Application deadline and consistent with City requirements. Acceptable documentation includes fee simple ownership by the Sponsor or Owner, a binding purchase or lease agreement, a binding donation agreement or government letter of intent (excluding City-owned Sites, which are separately governed), or, for Preliminary Project Applications only, a signed Preliminary Owner Willingness Letter indicating the owner’s intent to sell, lease, or donate the Site. All Site Control documentation must meet the standards and include the information specified in the QAP, including but not limited to: a legal description of the Site, pricing terms consistent with the Project budget, and, where the Site Control documentation encompasses property larger than the Project Site, a valuation

consistent with the Underwriting Standards Guide, including a per-square-foot allocation and a fair market appraisal or other methodology approved by the Department.

“Soft Loan” shall mean City-provided debt that serves as a Project Source and requires principal or interest payments at below-market rates.

“Source” shall mean any funding resource that will pay project Uses, including loans, equity, and grants.

“Sponsor” shall mean, the entity that is applying for City Financial Assistance for a Project. The Sponsor shall Control the Owner of the Project for the term of the Compliance Period. The Sponsor shall not be a single asset entity. Project consultants and other like professionals shall not be considered as Sponsors.

“Subsidy Period” shall mean the period during which a Project is subject to the requirements of any federal, state, or local affordable housing program as a result of receiving operating or capital subsidies, including but not limited to LIHTC, tax-exempt private activity bonds, project-based rental assistance (such as a Housing Assistance Payments [HAP] contract), or other public funding sources. For purposes of this definition, the Subsidy Period includes the full term of any such assistance, including the initial LIHTC Compliance Period if applicable and the base term of any project-based HAP contract (e.g., 20 years), but does not include any portion of the Extended Use Period (if any) or affordability restrictions that continue solely due to recorded agreements or regulatory requirements beyond the expiration of the original subsidy term, such as the period following the end of a 20-year HAP contract base term unless renewed or extended with continued subsidy.

“Tax Increment Financing” or “TIF” shall mean a public financing method authorized by the Illinois Tax Increment Allocation Redevelopment Act (as amended) and used to stimulate redevelopment or economic development within a tax increment financing redevelopment plan area and as more fully described in the “Sources” section of this Guide.

“Threshold Requirements” shall mean the minimum eligibility criteria that a development proposal must meet in order to be considered for funding under this QAP. These requirements are **non-negotiable** and must be fully satisfied prior to or at the time of the Full Project Application unless otherwise specified by the QAP. Failure to meet any Threshold Requirement will result in the development proposal being deemed ineligible and excluded from further review.

“Total Development Cost” or “TDC” shall mean the aggregate amount of eligible and ineligible costs incurred or reasonably expected to be incurred in connection with the development, financing, construction, rehabilitation, or preservation of the Project, as approved by the Department. TDC includes, but is not limited to, the cost of land acquisition, site preparation, construction, architectural and engineering fees, financing fees, Developer Fees, legal and accounting expenses, reserves, soft costs, and all other costs necessary to complete the Project in accordance with approved plans and applicable requirements. The final TDC shall be subject to review and approval by the Department and may be adjusted from time to time prior to issuance of Form 8609.

“Total Developer Fee” shall mean the full amount of Developer Fee reflected in the Project budget, inclusive of the Base Developer Fee and any additional Deferred Developer Fee or recontributed

equity approved through a waiver approved in writing by the City pursuant to a granted Underwriting Standards Waiver Request, provided that under no circumstances shall the Total Developer Fee exceed the lesser of (a) two million five hundred thousand dollars (\$2,500,000) for Projects receiving Multifamily Gap Financing, unless a higher amount is expressly approved in writing by the City pursuant to a granted Underwriting Standards Waiver Request, or (b) fifteen percent (15%) of the Project's Total Development Cost, net of the Total Developer Fee, acquisition costs, reserves, construction period costs, and syndication costs.

"Total Effective Gross Income" shall mean the combined sum of Residential Effective Gross Income and Commercial Effective Gross Income, both as calculated on the "Cash Flow Proforma" page of the Common Application for a given year.

"Total Gross Rental Income" shall mean combined sum of Rental Income and Rental Income in Excess of Limits, both as calculated on the "Cash Flow Proforma" page of the Common Application for a given year.

"Total Gross Residential Income" shall mean combined sum of Total Gross Rental Income and Other Residential Income as calculated on the "Cash Flow Proforma" page of the Common Application for a given year.

"Underwriting Standards Waiver Request" shall mean a formal written request submitted by the Project Sponsor seeking an exception to one or more underwriting standards set forth in the Qualified Allocation Plan or this Underwriting Standards Guide. Such requests shall be permitted only where a waiver is explicitly described as possible. The request shall be submitted on the Sponsor's letterhead, separate from any information furnished directly through the Common Application. The request shall clearly identify the specific standard(s) for which the waiver is sought and shall include a detailed justification demonstrating the necessity of the waiver in accordance with any applicable waiver-related policies and procedures described in this Qualified Allocation Plan or the Underwriting Standards Guide. Approval of any waiver shall be at the sole discretion of the City and shall not be construed as a precedent.

"Unit" means any accommodation containing separate and complete facilities for living, sleeping, eating, cooking, and sanitation (e.g., a residential dwelling consisting of one apartment, one single family home, one half of a two-flat/duplex, etc.). Such accommodations may be served by centrally located equipment such as air conditioning or heating.

"Unit Fraction" shall mean the fraction obtained by dividing the number of low-income Units in a building by the total number of Units in the building (whether or not occupied).

"Use" shall mean any cost associated with the development of a Project. These include, but are not limited to, acquisition costs, construction costs, relevant third-party fees, financing costs, reserve costs, and Developer Fee.

"Utility Allowance" shall mean the amount determined in accordance with Section 42 and applicable federal regulations that represents a reasonable estimate of the monthly cost of utilities (excluding telephone, cable, or internet) paid directly by the tenant. The Utility Allowance is used to calculate gross rent for income-restricted units and may be established by the Chicago Housing Authority,

utility company estimates, HUD utility schedule model, or other approved methods, subject to the requirements of the allocating agency and applicable law.

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