Single-Family New Construction Developer Subsidy Policy

This policy is intended to assist in achieving goals set forth in the city of Clearwater's Local Housing Assistance Plan and Consolidated Annual Action Plan. These plans highlight the importance of providing homeownership opportunities for low- to moderate-income households in the City of Clearwater.

The City of Clearwater (City) understands that new construction of a Single-Family home for sale to an income-restricted homebuyer may provide for limited net revenue to a developer and, possibly, a net financial loss. The following terms are intended to ensure the developer earns a minimum net revenue gain on new construction of a Single-Family home funded by the City. This policy requires a financial review of a Single-Family home construction project funded by loaned funds from the City. This policy provides for a portion of the loaned funds to be forgiven if necessary, for the developer to earn a predetermined amount of net revenue on the project.

Loan Type: Acquisition only

The City may assist developers of Single-Family (SF) homes with the acquisition of developable land for the construction of a SF home under the following conditions:

a. Acquisition funds provided by the City will be in the form of a loan to be repaid when a newly constructed home is sold to a qualifying homebuyer.
b. Acquisition funding is limited to an amount that does not exceed the appraised value of the land plus reasonable due diligence and closing costs. The appraised value will be determined by a licensed appraiser and is subject to review by City staff. Acquisition funding may also include reasonable costs to demolish improvements on the property to prepare the property for new construction.
c. The developer may choose to purchase the property at a price above appraised value; if so, the developer is required to provide funding for the difference between the appraised value and the purchase price (Developer Acquisition Costs).
    i. If other funds are needed by the developer (public or private) to purchase the land and to construct the home, such funds must be secured prior to acquisition of the land.
    ii. If the City determines, at its sole discretion, that the Developer Acquisition Costs are excessive, the City may decline the developer's request for acquisition funding.
d. Construction on the home must begin within six (6) months of acquisition and the property must be sold to a qualifying homebuyer within twelve (12) months of acquisition. The City may extend these deadlines if unforeseen circumstances cause delay.
e. The developer must have the financial capacity to construct the home; if another funding source will be used to fund construction, the developer must secure such funds prior to closing an acquisition loan.

f. The SF Home must be sold to a household at or below the level of Area Median Income (AMI) required by the funding source used to purchase the land. AMI levels are determined by HUD annually and may vary by funding source requirements.
g. Title to the property must be insurable.
h. If the developer plans to sell the home to a household earning greater than 80% AMI but less than 120% AMI, the developer must show a reliable approach for finding a qualified buyer. If the developer plans to place a household earning less than 80% AMI, then the developer must have a letter of intent to purchase the home from a pre-qualified or pre-approved buyer.
i. If required by the funding source used to fund the loan from the City, a Land Use Restriction Agreement (LURA) will be placed on the property. LURA terms may vary depending funding source requirements.

Loan Type: Construction only

The City may assist developers of SF homes with a loan for construction of a SF home under the following conditions:

a. Construction funds provided by the City will be in the form of a loan to be repaid when the home is sold to a qualifying homebuyer.
b. Funds will be held in escrow and drawn at the developer's request and approval by the City at draw intervals agreed to by the City and developer.
c. City staff will review the developer's project design to determine that the project is appropriate.
d. City staff will review the developer's budget to determine that costs are consistent with market conditions and are not excessive.
e. Construction must begin within six months of an acquisition loan if provided by the City or within four months of closing of a construction loan if the City did not assist with the acquisition.
f. The SF home must be sold to a household at or below the level of Area Median Income (AMI) required by the funding source used to purchase the land. AMI levels are determined by HUD annually and may vary by funding source requirements.
g. The developer must provide the qualifying homebuyer with a title insurance policy upon sale of the home.
h. If other funds are needed by the developer (public or private) to construct the home, such funds must be secured prior to closing of a construction loan with the City.
i. Prior to the closing of a construction loan: If the developer plans to sell the home to a household earning greater than 80% AMI but less than 120% AMI, the developer must show a reliable approach for finding a qualified buyer. If the developer plans to sell the home to a household earning less than 80% AMI, then the developer must have a letter of intent to purchase the home from a pre-qualified or pre-approved buyer.

j. If required by the funding source used to fund the loan from the City, a Land Use Restriction Agreement (LURA) will be placed on the property. LURA terms may vary depending on the funding source.

Loan Type: Acquisition + Construction

The City may assist developers of SF homes with a loan for **acquisition of land and construction of a SF home** subject to conditions of both loan types (Acquisition, Construction), above.

Subsidy Analysis: Representative Examples by Loan Type

Projects funded by the City with **acquisition loan** only:

1. The developer shall provide City staff with all information related to the construction of the home including, but not limited to, all line-item costs. City staff will determine whether costs associated with the project are appropriate and are consistent with market conditions. The sum of all developer-incurred hard and soft construction costs approved by the City (Construction Cost), the acquisition loan and Developer Acquisition Costs, if any, will be considered Total Project Cost. Administrative oversight of the project by the developer will not be considered a project cost.
2. Project Net Revenue (PNR) will be determined by subtracting the Total Project Cost from the sale price of the home. If PNR is less than 12% of the Construction Cost, then the City will forgive a portion of the acquisition loan such that the developer will earn total net revenue equal to 12% of the Construction Cost.

Example: (assume acquisition loan of $30,000; $5,000 developer acquisition costs; and $180,000 Construction Cost)

	Costs	Revenue	Description
Home Price for Sale to Qualifying Buyer = **$225,000**			Sale Price Not to Exceed Appraised Value & must be in Compliance with Funding Source Regulations
City-Funded Loan	$30,000		Acquisition Loan *
Developer-Incurred Cost	$180,000		Documented Construction Costs *
Developer-Incurred Cost	$5,000		Additional Acquisition Costs *
		$10,000	Net Revenue from Home Sale **
Loan Forgiveness		$11,600	Calculated to Achieve a Minimum Net Revenue Equal to a 12% Developer Fee
Total Net Revenue to Developer		**$21,600**	**12% of Construction Costs ($180,000)**

** Sum of Acquisition Loan, Construction Costs and Additional Acquisition Costs = Total Project Cost (TDC)*

*** If Net Revenue from Home Sale exceeds 12% of construction costs, then 100% of the funds loaned for acquisition will be repaid to the City.*

Example Result: Developer repays $18,400 on a $30,000 acquisition loan to increase developer's net revenue to $21,600, equal to 12% of the Construction Cost ($21,600).

Projects funded by the City with **construction loan** only:

1. Total Project Cost will be equal to the sum of the amount drawn on the City-funded construction loan and the lesser of the following: 1) the appraised value of the land; 2) the amount paid for the land by the developer regardless of acquisition date.
2. Project Net Revenue (PNR) will be determined by subtracting the Total Project Cost from the sale price of the home. If PNR is less than 12% of funds drawn from the construction loan (Construction Costs), then the City will forgive a portion of the construction loan such that the developer will earn total net revenue equal to 12% of the Construction Cost.

Example: assume amount drawn on construction loan of $180,000; recent vacant land appraisal of $30,000; developer purchased the land in 2014 for $28,000.

	Costs	Revenue	Description
Home Price for Sale to Qualifying Buyer = **$225,000**			Sale Price Not to Exceed Appraised Value & must be in Compliance with Funding Source Regulations
Developer-Incurred Cost	$28,000		Developer Acquisition Costs *
City-Funded Loan	$180,000		Amount Drawn on Construction Loan *
		$17,000	Net Revenue from Home Sale **
Loan Forgiveness		$4,600	Calculated to Achieve a Minimum Net Revenue Equal to a 12% Developer Fee
Total Net Revenue to Developer		**$21,600**	**12% of Construction Costs ($180,000)**

** Sum of Developer Acquisition Cost and Construction Costs = Total Project Cost (TDC)*

*** If Net Revenue from Home Sale exceeds 12% of construction costs, then 88% of the construction loan will be repaid to the City with the developer retaining a 12% developer fee in addition to net revenue earned from home sale.*

Example Result: Developer pays back $175,400 on a $180,000 construction loan, retaining 12% of the Construction Cost ($21,600) as net revenue.

Projects funded by the City with **acquisition loan and construction loan**:

1. Total Project Cost will be the sum of the acquisition loan; plus the amount drawn on the construction loan; plus Developer Acquisition Costs, if any.
2. Project Net Revenue (PNR) will be determined by subtracting the Total Project Cost from the sale price of the home. If PNR is less than 12% of the funds drawn from the construction loan (Construction Costs), then the City will forgive a portion of the construction loan such that the developer will earn total net revenue equal to 12% of the Construction Cost. The acquisition loan will be repaid in full.

Example: assume acquisition loan of $30,000; amount drawn on construction loan of $180,000 (total of $210,000 in loans) and $5,000 developer acquisition costs.

	Costs	Revenue	Description
Home Price for Sale to Qualifying Buyer = **$225,000**			Sale Price Not to Exceed Appraised Value & must be in Compliance with Funding Source Regulations
City-Funded Loan	$30,000		Acquisition Loan *
City-Funded Loan	$180,000		Amount Drawn on Construction Loan *
Developer-Incurred Cost	$5,000		Additional Acquisition Costs *
		$10,000	Net Revenue from Home Sale **
Loan Forgiveness		$11,600	Calculated to Achieve a Minimum Net Revenue Equal to a 12% Developer Fee
Total Net Revenue to Developer		**$21,600**	**12% of Construction Costs ($180,000)**

** Sum of Acquisition Loan, Construction Costs and Additional Acquisition Costs = Total Project Cost (TDC)*

*** If Net Revenue from Home Sale exceeds 12% of construction costs, then 88% of the construction loan will be repaid to the City with the developer retaining a 12% developer fee in addition to net revenue earned from home sale.*

Example Result: Developer repays the $30,000 acquisition loan and $168,400 of the $180,000 construction loan to increase developer's net revenue to $21,600, equal to 12% of Construction Cost.

For questions regarding this policy, contact Chuck Lane, Assistant Director of the Economic Development & Housing Department at (727) 562-4023 or via email at Charles.Lane@MyClearwater.com.