



RCI, PAL and Army Housing Training

Finance Session (Understanding a Pro Forma)

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Agenda

- **Pro Forma Overview**
- **Definitions**
- **Highlighted RCI Pro Forma Uses**
- **Financial Modeling Guidelines**
- **Key Components of a Pro Forma**
- **Major Decisions/Modified Scope Plans Pro Forma Review Guidelines**



Pro Forma Overview

- **Pro Forma – “For the sake of form” – Calculations of future estimated cash flows based on assumptions**
- **A pro forma is a cohesive financial model of interconnected components built on assumptions that calculates cash flow projections in order to determine outcomes**
- **Pro formas are generally used in RCI and PAL to:**
 - **Create development plans and scopes**
 - **Inform decision making by showing potential outcomes**
 - **Underwrite debt**
 - **Analyze actual performance after closing**
- **The components in the pro forma show what has occurred, depending upon when the pro forma is finalized in a Project’s life cycle, and/or what is expected to occur throughout the life of the Project as opposed to a shorter duration**
- **Each Partner’s pro forma layout is different but the general framework is the same**



Definitions

- **Basis Point (or “bip”)** – One-hundredth of a percent = 0.01%
- **Capital** – Financial assets or valued assets
- **Cash Flow** – Cash generated and utilized during a period
- **Cash Waterfall** – Prioritization of funds in a cash flow
- **Debt** – Money owed to another entity
- **Debt Coverage Ratio** – The ratio between the amount of money one has available to make debt payments (NOI) and the amount of money one actually owes as debt payments (debt service)
- **Equity** – Ownership interest represented by cash or like contribution
- **Interest Rate** – The cost of debt, typically expressed as an annual percentage of the loan outstanding
- **Lockbox** – Arrangement with a third party to manage the cash flows into and disbursements from the project in accordance with the Lockbox Agreement
- **Net Operating Income (NOI)** – Income/revenue remaining after all expenses are paid, calculated as Net Rental Income Less Operating Expenses
- **Net Rental Income** – Gross potential revenue less vacancy and utilities allowance
- **Operating Expenses** – The regular expenditures incorporated to ensure quality management and maintenance of the project
- **Revenue** – Operations inflows into a Project



Highlighted RCI Pro Forma Uses

- **Annual Budget**: Comparing proposed budgeted revenue and expense elements to pro forma assumptions and expectations to identify variances and assess the viability of the proposed budget
- **Monthly Dashboard**: Used to input various benchmarks to compare to actual values in the following categories: Initial Development Period (IDP)/ Out-Year Development Period (ODP) development progress and Reinvestment Account Balance (new Family Housing (FH) template)
- **Quarterly Report**: Used to input various benchmarks to compare to actual values in the following tabs: Project Occupancy, Development & Soft Cost Summary and Sources and Uses
- **Program Evaluation Report (PER)**: Utilize pro forma information in lieu of budget to evaluate actual performance of a Project
- **Major Decision (MD)**: Evaluate whether a proposed MD is financially achievable, how does a proposed MD alter the planned development scope and/or delivery timing and how does a proposed MD benefit the Project
- **Modified Scope Plan (MSP)**: New pro forma drafts are generated to develop, evaluate and negotiate alterations to existing development plans

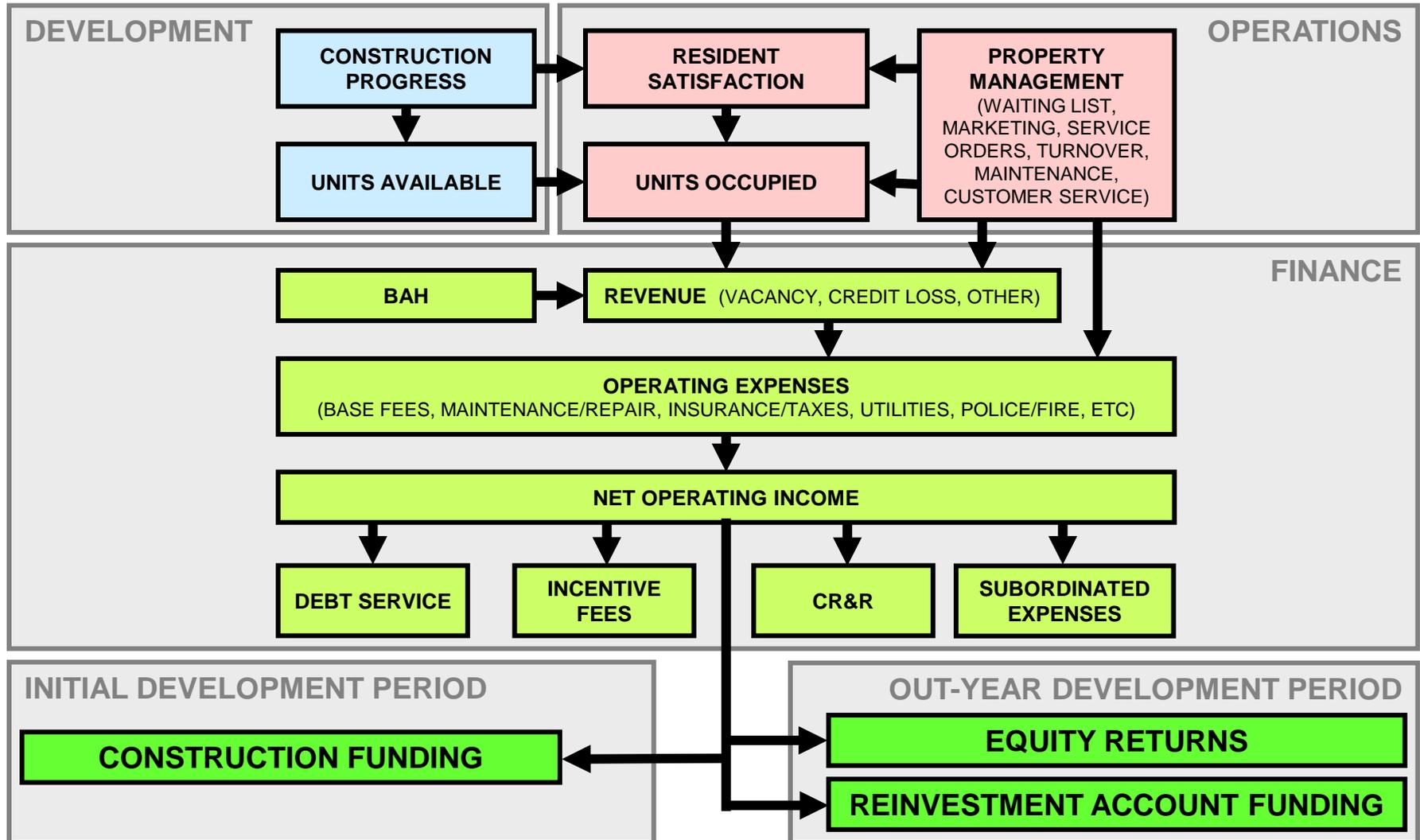


Financial Modeling Guidelines

- **Single Assumptions Page**
- **Colored Font for Hard Codes**
- **One Formula per Row**
- **Footnotes on Assumptions**
- **Date and Time on Model**
- **Integrated Model with Separate Worksheets**
- **Units Online**
- **Representation of Cash Flow**
- **Ease of Audit**
- **Facilitate Presentations**
- **Nimble**
- **Updates Tab**



Interrelation of Performance Metrics



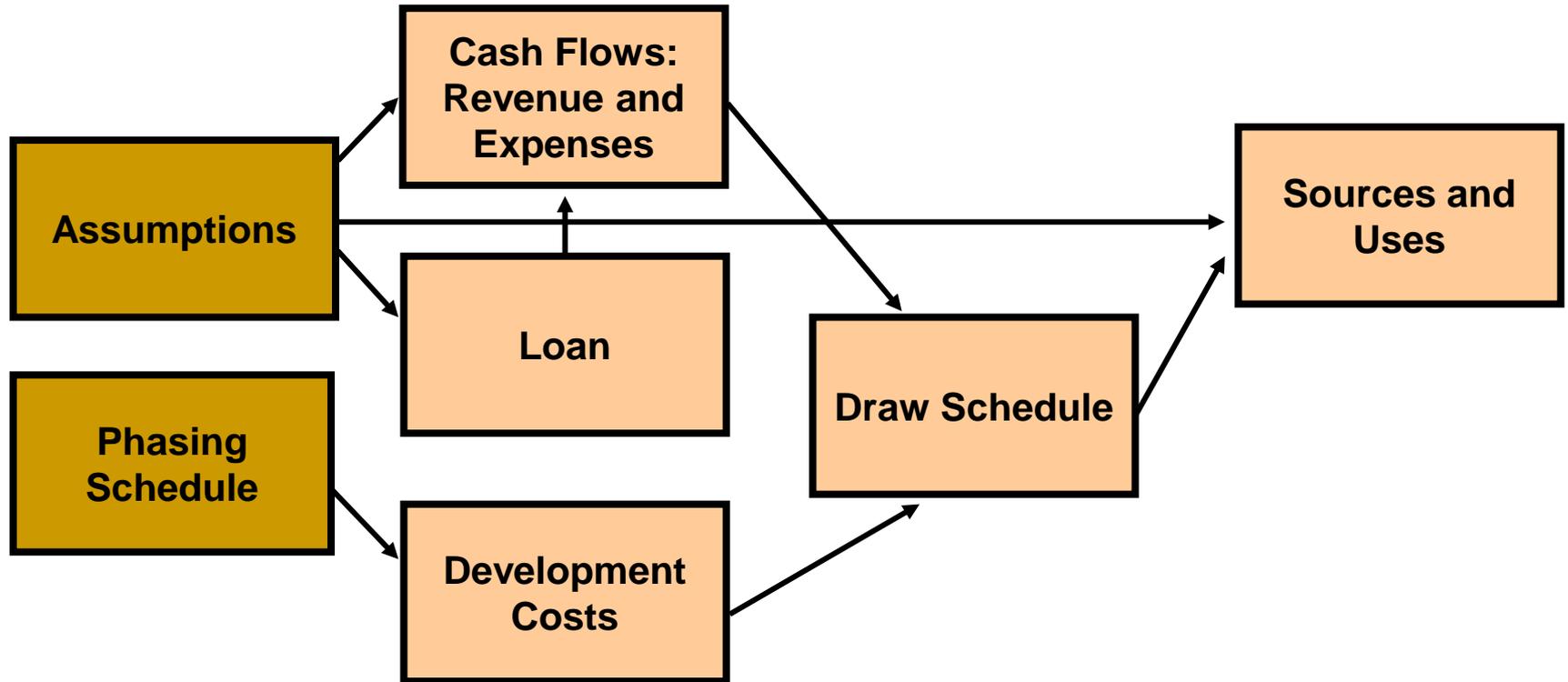


Key Components of a Pro Forma

- **Assumptions/Key Metrics/Inputs**
- **Sources & Uses**
- **Revenue and Expenses Cash Flows**
- **Development Costs: Hard and Soft Costs**
- **Phasing Schedule**
- **Draw Schedules**
- **Reinvestment Plan**
- **Loan Payment Schedule**



Pro Forma Information Flow





Assumptions/Key Metrics/Inputs

- **Assumptions/Key Metrics/Inputs contains the hard-coded baseline or source values, deal terms and projected future rates of change that fuel the pro forma's calculations**
- **Adjustments in baseline inputs in the Assumptions/Key Metrics/Inputs, such as during scenario analysis, ripple throughout the pro forma**
- **Inputs on this tab may include, but are not limited to, the following:**
 - Inflation Rates
 - BAH Growth Rate Assumptions
 - Unit Rank Mix
 - Vacancy / Occupancy Rates
 - Professional Fees % (Property Management, Developers, General Contractors, etc.)
 - Expense Assumptions
 - Development Cost Assumptions
 - IDP / ODP Dates
 - Debt Terms and/or Assumptions
 - Interest Earnings Terms or Assumptions
 - Equity Assumptions
- **Defined deal and financing terms should reflect what is captured in the Project's legal documents**



Assumptions/Key Metrics/Inputs

- **Notable RCI Family Housing Reporting Uses:**

- **Annual Budget**: Baseline weighted average BAH and per unit operating expenses assumptions and projected growth rates provide benchmarks to compare to proposed budget elements
- **Monthly Dashboard**: Populate Item 15 (First DCR Trigger Level in Effect Encountered) in the new FH template; Populate Item 37 (Approved End-State Inventory) in the new FH template
- **Quarterly Report**: Populate the unit rank mix of Begin State and End State Total Homes in the Project Occupancy worksheet; Populate the Equity Information section on the Project Information worksheet
- **PER**: Populate multiple items in the current working draft of the PER in the Project Overview, Deal Structure, Financial Profile and Date of Loan Execution sections in the Current Data Sheet



Sources and Uses

- **Sources and Uses provides a summary of the capital and projected operational funding for a Project's development plan (the sources) and how the funding is projected to be utilized (the uses)**
- **Pro forma should include separate Sources and Uses that cover the full IDP term and ODP**
- **Sources**
 - **Capital Sources**
 - Private Loan Proceeds
 - Government Investment
 - Private Sector Equity
 - **Operational Sources**
 - Cash Flow from Operations
 - Interest Income
- **Uses**
 - **Construction Costs**
 - Hard Costs
 - Contingency
 - Construction Management Fees
 - Soft Costs
 - **Development Costs**
 - Transition / Startup Costs
 - Reserves
 - Financing Costs
 - Development Management Fees



Sources and Uses

- **Notable RCI Family Housing Reporting Uses:**

- **Annual Budget: N/A**
- **Monthly Dashboard: N/A**
- **Quarterly Report: Populate the Sources and Uses worksheet for the IDP and ODP**
 - **Current Projection inputs are the only time values from the Project's tracking pro forma, which accounts for actual performance and updated projections after HQDA pro forma approval, used for internal management should be included in a report**
 - **All other pro forma values to be included in a report must come from the benchmark pro forma, which is the latest final closing, POP or MSP pro forma approved by HQDA**
- **PER: Populate multiple items in the current working draft of the PER report in the Capital Sources section of the Long-Term Data Sheet**



Revenue and Expenses (Cash Flow Waterfall)

- Revenues and Expenses details the calculated cash flow generated by operations and how those funds are spent or deposited
- The worksheet is arranged according to the Project's cash flow waterfall, which depicts the prioritization of payment to various parties, accounts or expenses
- Revenues and Expenses are typically presented on a monthly and/or annual basis and are sometimes separated into multiple worksheets with the demarcation line being payment of debt service
- **Notable RCI Family Housing Reporting Uses:**
 - Annual Budget: Proposed aggregate revenues and expenditures in Project operating budget submissions should be compared to pro forma projections; Proposed units available and units occupied in Project operating budget submissions should be compared to the pro forma units available and occupied for the year
 - Monthly Dashboard: N/A
 - Quarterly Report: Populate the pro forma inputs in the Project Occupancy worksheet
 - PER: Populate multiple items in the current working draft of the PER in the Annual Operating Summary of the Long Term Data Sheet



Revenue and Expenses (Cash Flow Waterfall)

TYPICAL CASH FLOW WATERFALL – OUT-YEAR DEVELOPMENT PERIOD

	<u>Payment</u>	<u>Balance</u>
Revenue	\$100	
Operating Expenses	45	\$55
Capital Repair & Replacement Account Deposit	1	54
Debt/Loan Repayment	38	16
Incentive Fee Payment	2	14
Reinvestment Account / Equity Payment	12 / 2	0

Tension between current & future needs

- The terms senior and subordinated denote the relative position of two outflows
- An outflow is considered to be “senior” to another outflow when it is higher on the Cash Flow Waterfall and therefore has a higher priority for payment
- An outflow is considered to be “subordinated” to an outflow which is more senior. Subordinated expenses are lower on the Cash Flow Waterfall and therefore have a lower priority for payment
- In this example, loan payments are subordinate to capital repair and replacement account deposits but in some Projects capital repair and replacement account deposits are subordinate to loan payments



Development Costs

- Development Costs details the timing and volume of development cost expenditures driven by the timing of redevelopment work (new construction, renovations, site work, demolition and ancillary renovations/construction) outlined in the Phasing Schedule
- Detailed development costs are generally broken down into construction hard and soft costs, development soft costs, financing and closing costs and reserves
- **Notable RCI Family Housing Reporting Uses:**
 - Annual Budget: Proposed expenditures in Project development budget submissions, if applicable, should be compared to pro forma spending projections and per unit cost assumptions
 - Monthly Dashboard: N/A
 - Quarterly Report: Populate the Latest Closing or Latest Approved MSP Budget inputs in Development & Soft Cost Summary – IDP worksheet; Populate at least the original budget portion of the draw to be submitted for the Construction and Renovation Cost Summary – IDP worksheet; Populate the POP or Latest Approved MSP Budget inputs in Development & Soft Cost Summary – ODP worksheet; Populate at least the original budget portion of the draw to be submitted for the Construction and Renovation Cost Summary – ODP worksheet
 - PER: Populate multiple items in the current working draft of the PER report in the Cumulative Next 5-Year Capital Plan section of the Long-Term Data Sheet



Phasing Schedule

- **Phasing Schedule, or Development Schedule, details the timing of when units will be impacted by a Project's development scope**
- **The Phasing Schedule generally includes: units online schedule, units offline for replacement, renovation or permanent demolition schedule and delivery schedule**
- **The Phasing Schedule impacts the units available to rented and the units occupied that influence the revenue and operating expense projections**
- **Notable RCI Family Housing Reporting Uses:**
 - **Annual Budget: Proposed units available and units occupied in Project operating budget submissions should be compared to the pro forma units online / offline and occupied for the year; Proposed deliveries in Project development budget submissions, if applicable, should be compared to pro forma values**
 - **Monthly Dashboard: Populate the entire Development/Construction section for IDP and ODP (Items 16-35: New Homes Completed/Completed to Date, Minor Renovations Completed/Completed to Date, Medium/Major Renovations Completed/Completed to Date, Minor Renovations Completed/Completed to Date Existing Homes Demolished or Lost to Combination/Demolished or Lost to Combination to Date) in the new FH template**
 - **Quarterly Report: Populate the pro forma inputs in the Project Occupancy worksheet**
 - **PER: Populate multiple items in the current working draft of the PER report in the Project Overview and Construction sections of the Current Data Sheet**



Reinvestment Plan

- Reinvestment Plan details the timing, volume and scopes of work for major redevelopment, including new construction, renovations, site work, demolition and ancillary renovations, after the IDP
- The Reinvestment Plan is predominantly funded by deposits into the Reinvestment Account generated by operations
- The Reinvestment Plan should account for the scopes of work received by units during the IDP and any analyses of needed capital improvements that would not be funded through CR&R
- **Notable RCI Family Housing Reporting Uses:**
 - Annual Budget: Proposed expenditures in Project development budget submissions, if applicable, should be compared to pro forma reinvestment spending projections and per unit cost assumptions
 - Monthly Dashboard: Populate Item 15 (Reinvestment Account Balance) in the new FH template
 - Quarterly Report: Populate the POP or Latest Approved MSP Budget inputs in Development & Soft Cost Summary – ODP worksheet; Populate at least the original budget portion of the draw to be submitted for the Construction and Renovation Cost Summary – ODP worksheet
 - PER: Populate multiple items in the current working draft of the PER report in the Annual Operating Summary, Cumulative Next 5-Year Capital Plan and Cumulative Post-IDP 20-Year Recapitalization Plan sections of the Long-Term Data Sheet



Loan Payment Schedule

- **Loan Payment Schedule, also known as an Amortization Schedule, details the timing and amount of principal and interest payments on the debt as outlined in the Project's debt documents, such as the Promissory Note or Master Trust Indenture**
- **A Project may have multiple pieces of debt that need to be reflected based on time to maturity, credit rating, interest rate, existence of a variable to fixed rate swap and timing of when the debt was taken down**
- **Debt payments are typically made either monthly or semi-annually**
- **Notable RCI Family Housing Reporting Uses:**
 - **Annual Budget: Coverage level of the scheduled debt service payments should be part of the proposed budget submission evaluation**
 - **Monthly Dashboard: Populate Item 12 (Debt Service Payment) in the new FH template**
 - **Quarterly Report: N/A**
 - **PER: Populate the First (Permanent) Mortgage item in the Remaining Principal Balance section in the Current Data of the current working draft of the PER**



MD/MSP Pro Forma Review Guidance

- **How does the end-state inventory count reflect the latest full HMA? Does the Project need to have a minimum number of homes in its inventory per the loan documents?**
- **Do future occupancy assumptions make sense or are they too aggressive?**
- **Do future BAH growth assumptions make sense or are they too aggressive?**
- **Are the revenue assumptions based on the latest approved budget?**
- **For the proposed development and construction costs:**
 - **Are the proposed per unit construction costs comparable to similar work previously completed, accounting for timing differences?**
 - **Do the costs match existing deal terms? Is there agreement with the interpretation of the deal terms being captured in the pro forma?**
 - **Do the costs make sense for the work being proposed?**
- **Are the operating expense assumptions based on the latest approved budget? What expenses should be calculated on a per unit basis vs. fixed cost?**
- **What expenses and reserve deposits are funded after debt service?**
- **Are there known changes in the installation's operating dynamics that are being accounted for?**
- **Do the inputs reflect the existing deal and debt terms as outlined in the Project's legal documents? Do the inputs reflect any changes that have been agreed to?**



MD/MSP Pro Forma Review Guidance

- Do the cash flows accurately reflect the deal and debt terms?
- Do the cash flows ever go negative?
- Are there minimum DCR requirements the Project must meet? Do the projected cash flows ever cause the DCR to go below the required level(s)? If so, what does that mean for the Project?
- By changing the inputs, how much stress can the cash flow projections absorb?
- Are values provided for the full term of the current phase of development (IDP or ODP), not just the remaining term?
- Do development funding sources ever go negative?
- What are the variances in cash flows and development costs from the closing pro forma or previous MSP and are they explainable?
- Are sources at least equal to uses?
- Are formulas linked to the correct cells?
- Are there hard coded figures in formulas?
- Are there two sets of assumptions that differ?
- Do summations include all necessary rows or columns?



Questions?

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