

# Pennsylvania Housing Finance Agency

## Multifamily Housing Programs

### 2004 Pre-application Meeting

#### Agenda

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Introductions	William J. Koons Director of Development	8:30 to 9:00
Overview of changes to the Qualified Allocation Plan	Susan M. Belles Senior Tax Credit Officer	9:00 to 9:20
Overview of changes to the PennHOMES Program	Douglas S. Haughton, Jr. Development Officer II	9:20 to 9:30
Review of the 2004 Multifamily Housing Application components a.k.a. "Tabs" including previous application pitfalls	Panel	9:30 to 11:15
Break		10:00 to 10:15
Review of the 2004 Selection Criteria	Panel	11:30 to 12:15
Discussion of Preservation Developments	Brian L. Shull Senior Development Officer	12:15 to 12:30

Multifamily Programs  
Revised Summary of Modifications  
2004 Qualified Allocation Plan & Program Guidelines

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This is a summary of changes that may impact the application process. The Agency may amend or supplement the Application and/or Guidelines and will post the related information on its website, [www.phfa.org](http://www.phfa.org). All applicants are encouraged to review the Agency's website prior to completing and submitting an application.

**Change in Address**

- The Agency's new street address is shown below. All applications must be submitted to this address.

211 North Front Street  
Harrisburg, PA 17101

**Application Submission**

- The application deadline for Cycle 2 applicants seeking Low Income Housing Tax Credits and/or PennHOMES funds is 3:00 PM on April 9, 2004. It is anticipated that announcement of PennHOMES Feasibility approvals and Tax Credit reservations will be made in September 2004. Please note the applications are due by 3:00 PM, not by the close of the business day.

**Program Guidelines**

- A Request for Proposal (RFP) for developments seeking tax-exempt financing has been issued. Applications are being accepted on a first come, first serve basis. Please refer to the RFP and the Application Instructions for related information.
- Applications for consideration under the Low Income Housing Tax Credit Homeownership Choice Set-Aside will be accepted on a first come, first serve basis. Please refer to the 2004 Qualified Allocation Plan for more information. The Additional Tax Credit and Preservation Set-Asides are closed.
- Operating Expense ranges for all regions are available on the Agency's web site at [www.PHFA.org](http://www.PHFA.org).
- Low Income Housing Tax Credit Rates are posted (and regularly updated) on the Agency's website.
- Legal fees (excluding syndication legal fees) are now limited to \$60,000.
- The State College Metropolitan Area has been eliminated from the list of Difficult to Develop Areas and therefore, will not qualify for the 130% boost in the tax credit basis.

**Funding Limitations**

- New Maximum Per Unit Low Income Housing Tax Credit Basis Limits are in Exhibit MAX Basis of the Program Guidelines.
- The maximum allocation of Tax Credits to any one development is now \$1,600,000.
- The maximum PennHOMES loan for developments in Participating Jurisdictions remains \$30,000 per unit or \$1,500,000 per development, whichever is less.
- The maximum PennHOMES loan for developments in Non-Participating Jurisdictions is found in Exhibit 221d3 of the Program Guidelines.

### **Program Funding**

- The PennHOMES Program for 2004 will have \$15,000,000 for developments in Participating Jurisdictions. Of this amount, \$12,000,000 will be available for general program funding and \$3,000,000 will be available for developments submitted in the Preservation Set-Aside. It is anticipated that the \$3,000,000 for the Preservation Set-Aside will not be available in Cycle 2.
- The PennHOMES Program for 2004 will have \$12,200,000 for developments in Non-Participating Jurisdictions. Of this amount, \$9,800,000 will be available for general program funding and \$2,400,000 will be available for developments submitted in the Preservation Set-Aside.
- Low Income Housing Tax Credits for 2004 total approximately \$26,000,000. Please refer to the Qualified Allocation Plan for information on the various set-asides. It is anticipated that Cycle 2 will have approximately \$9,400,000 Tax Credits for the Regional Set-Asides and \$1,314,000 Tax Credits for the HCP Set-Aside.

### **Selection Criteria:**

- The Selection Criteria has been amended for 2004. In addition, the Agency has adopted a 175 minimum point threshold for applications. Applicants should review the criteria carefully to determine changes that may affect their proposals.
- The estimated market pricing of the Low Income Housing Tax Credits, net of all syndication costs, will be \$.78 in Cycle 2.

### **PennHOMES Policy Updates**

- Beginning in 2004, the Agency will allow for the disbursement of all soft financing, including PennHOMES funds, prior to the payout of owner's equity. The owner must post a letter-of-credit at initial construction loan closing for the amount of the equity to be disbursed during the construction period.
- Beginning in 2004, the Agency will require that only 50% of excess revenue be used to repay the PennHOMES loan. Excess revenue will be determined by the Agency at year end based upon review of the properties annual audited financial statements. Upon review, the Agency will approve the amount due for repayment of the PennHOMES loan and owner distribution.
- The Agency will allow an equity bridge leader to secure the property as collateral for the loan if the loan is coterminous with the construction period and subordinate to any and all Agency loans.
- The Agency will defer until construction completion the deposit of all cash funded operating reserves and escrows.
- Construction cost savings will be deposited into an escrow account. At the end of the initial operating year and upon review of the financial status of the development, the Agency may release up to 50% of the savings to the owner to pay deferred developer's fees (if applicable) and 50% to the Agency to repay the PennHOMES loan.
- Developments seeking PennHOMES funding will be underwritten with the equity amount documented in the syndicator's letter, net of all syndication costs, or \$.78 per credit, whichever is higher. If the actual, net of all syndication costs, is less than \$.78, the developer's fee will be used to fill the gap.
- All developments seeking PennHOMES funding must include supportive services to meet the needs of the targeted tenant population. The services must be identified in a supportive services plan and accounted for financially.

**Application Issues**

Developments seeking a reservation of Low Income Housing Tax Credits should be aware that the Agency is treating certain capital costs as follows:

<b>Line Item</b>	<b>Total Project Cost</b>	<b>Acquisition Basis</b>	<b>Rehabilitation Basis</b>
Appraisal	100%	If Acquisition Tax Credits are being sought, then only a prorated portion (building value divided by the total land and building acquisition cost) of the cost should be included in basis.	None
Other Acquisition Cost	100%	Same proration as applicable to the appraisal cost.	None
Tax Credit Reservation and Allocation Fees	100%	A prorated portion of the cost equal to the percentage of Acquisition Tax Credits to total Tax Credits.	Balance of cost or 100% of the cost if no Acquisition Tax Credits are being sought.
Cost Certification	100% or \$10,000 whichever is less.	The same proration as the Tax Credit Reservation and Allocation Fee.	The same proration as the Tax Credit Reservation and Allocation Fee.
Title and Recording	100%	Same proration as applicable to the appraisal cost.	The balance of the cost. If the development is not seeking Acquisition Tax Credits then none of the cost should be included in basis.
Soft Cost Contingency	None	None	None
Development Contingency Fund	If funded in cash, 100%. If a letter-of-credit, none.	None	None of the operating reserve will be included in the "need" calculation for determining Tax Credits.

The Multifamily Housing Application and Guidelines are available on the Agency's website <http://www.phfa.org/programs/multifamily/index.htm> Multifamily Application Package and Guidelines. Applicants may also contact the Agency (717-780-3882) to obtain the information on CD-ROM.

## 2003 Application Pitfalls

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### *Development Synopsis*

- The synopsis is inaccurate and/or inconsistent with the application.

### *Core Application*

- Information is missing or inconsistent with the application.
- Budgets include costs that exceed the limits published in the Development Cost Limits exhibit to the Program Guidelines.

### *Selection Criteria*

- Documentation in the application does not support the self-scoring completed by the sponsor.

### *Market Study/Housing Needs Assessment*

- Market Study not submitted.
- Study completed without requesting the PHFA Housing Inventory Request form.
- The study is completed without using local comparables or a reasonable explanation why local comparables were not used.
- The quality of the market study needs to improve. An example: an elderly development has an overall capture rate between 35 and 40%. The analyst comments on the affordable housing options only included the cost to purchase a home and mentioned nothing about the other developments included in the overall capture rate calculation.
- The address and photographs of the comparable developments did not agree with each other.
- The absorption period is being estimated using data from developments that are not within a reasonable distance of the subject.
- The study does not adequately discuss the potential impact that the subject may have on existing developments.
- The study does not follow-up on negative comments received from interviews with local officials or organizations.
- Attention to detail and accuracy of information needs to improve.
- Developers must review, analyze, and integrate the results of the market study into the application.

### *Schematic Plans*

- The submission is not complete.
- Plans do not support the various certifications.
- The location of accessible and hearing/vision units are not shown on the floor plans.

### *Site Control*

- Site control is not provided through the required date.
- Inconsistencies with the name of the various parties throughout the site control documents. (i.e. seller listed on the agreement of sale is not the same entity on the deed).

For initial app -  
show  
Site det. fees through  
Rountree Sept. 30  
TC = Nov 15

## 2003 Application Pitfalls

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### *Certification of Building Amenities/Energy Efficiencies/Unit Amenities*

- The certification is not consistent with the application documentation.

### *Location Map*

- The map does not clearly reference the site in relation to the favorable neighborhood characteristics.
- Maps and color photos are not included in the application.
- Points are being requested for favorable neighborhood characteristics which are not detailed on the location map.
- The map is of poor quality.

*generally w/ 1 mile of site.*

### *Special Needs housing, Supportive Services, Families in Transition*

- Service Provider Questionnaire is not submitted with the application.
- The supportive service plan is not specific to the development.
- The plan does not identify the location of where services will be delivered (i.e. on site, at the service provider's office, etc.) or if not on site, the method by which the residents will get there?
- The plan does not clearly define the methods to outreach or inform the residents about the availability of services.
- The plan does not clearly define the staffing required for service delivery or coordination. The plan does not clearly define the number of hours that staff will be on site addressing the needs of the residents.
- If an escrow is capitalized to provide cash for service delivery, the plans have lacked details regarding the use of the escrow (i.e. the schedule of pay-outs to determine the length of time the escrow will be available for services).
- Letters of intent to provide services from community based organizations or evidence of coordination with community resources is not specific to the residents of the proposed development.

### *Development Team Experience*

- The certifications from the team members are not included or are incomplete.
- Certifications for experience in other states have not been forwarded to the appropriate state for completion.

### *Statement of Probable Construction Costs*

- A breakdown of demolition, off-site improvements, and site work is not included in the application.
- The statement did not include the cost allocated to commercial space. Copies of current leases must also be provided when the development has occupied commercial space.
- The Statement of Probable Construction Costs is inconsistent with the Development Budget.

### *Utilities*

- Owner paid utility cost do not include meter charges and are not calculated using a professionally prepared estimate of usage and current utility rates.
- Documentation is not applicable to the type of building or is outdated.

## 2003 Application Pitfalls

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- Documentation does not indicate which utilities are the responsibility of the tenant and which are the responsibility of the owner.
- Developers have inaccurately calculated project paid sewer and water rates by using the number of meters instead of the number of units.
- The applicant does not provide documentation supporting how the utility cost was calculated.

### *Construction Financing and/or Permanent Financing Letters of Intent*

- Terms of the loan are not disclosed in the commitment letter.
- The financing letter of intent does not include the required language. Each letter must state that the lender has reviewed the application including the operating budget and based on their review is willing to provide the loan in the specified amount.
- The proposed financing is not committed.
- The proposed term of subordinate financing is less than the PennHOMES loan term.
- The sum of the uncommitted loans and financing gap exceeds 75% of the proposed developer's fee.

### *Bridge Loan Financing*

- Bridge loan interest is classified as construction loan interest on the development budget.
- The investor pay-in terms require a bridge loan but none is noted in the application.
- The lender's letter does not fully disclose the terms and conditions of the loan.

### *Syndication Information*

- The syndicator's letter is not complete.
- When the financing plan also includes the syndication of Historic Rehabilitation Tax Credits, the investor letter does not provide a breakdown of the equity generated from the two credits.

### *Operating Budget*

- The budget is not completed according to Agency instructions.
- The operating budget did not include the Replacement Reserve.
- The controllable annual operating expenses are not within the published expense ranges.
- Real estate tax documentation and insurance quotes are not included in the application.
- For preservation developments, the operating budget submitted with the application is not reconciled with previous years' actual operating numbers.

### *Rental Income*

- The incorrect calculation of rental income has been the number one reason for the return of recent applications for both PennHOMES and Low Income Housing Tax Credits. The problem stems from using incorrect rents or rents which exceed the market.
- Of the units which are assisted with PennHOMES funds, one-half **MUST** be income and rent restricted for households at or below 50% of the area's median income. The remaining PennHOMES assisted units may be income and rent restricted at 60% of the area's median income. For those units seeking only Low Income Housing Tax Credits, the maximum income and rent restriction is 60% of the area's median income.

## 2003 Application Pitfalls

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- Without exception, the rent of a PennHOMES assisted unit can not exceed the lesser of (1) the maximum rent per unit size per the respective income restriction, (2) the published fair market rent, or (3) market. A development seeking only Low Income Housing Tax Credits is limited to items (1) and (3) only.
- For preservation developments seeking PennHOMES funds, the rent paid by the tenant upon completion of the rehabilitation can not be increased by more than 7% of the rent paid prior to the start of rehab.

The Pennsylvania Housing Finance Agency  
Multifamily Housing Development Programs  
2004 Program Year

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Issues relevant to Preservation Developments:

**Rent Structure**

- Underwriting for PHFA Taxable Bond debt can include HAP contract rents if the contract is extended for 20-years by HUD.
- Unassisted rents should not exceed market rents as determined by the market study.
- Existing tenant rents will be limited to a maximum 7% increase post rehabilitation.
- Vacancy projections should be a minimum of 5%. Units that are not competitive in the market place may have higher vacancy rates.

**Site Control/HUD Approvals**

- Site control meeting tax credit application requirements.
- The cost of acquisition allowed in the development budget is the lesser of the actual purchase price or "as is" value determined by an appraisal?
- The application should have a letter which confirms the status of any and all required HUD approvals (i.e. TPA, rent increase, application to de-couple a Section 236, etc.).

**Operating Budget**

- The budget should be prepared within the Agency's published guidelines and with the input from the management agent.
- The proposed operating cost should be reconciled with prior year's actual costs. If the proposed budget is less than previous actual cost the developer must provide a detailed explanation why the costs are less.

**Financing Structure**

- The applicant should be aware of any and all issues that impact the development budget stemming from the assumption of existing debt.
- An IRP loan can be sized using 100% of the lowest years' remaining payments for debt service. (If requesting Tax Credits, the IRP loan should be prorated and deducted from the acquisition and rehabilitation eligible basis.)
- The Agency may use a bifurcated taxable bond structure if the development has a 20-year HAP contract and rents in excess of program limits. (An example follows.)

### **Physical Needs Assessment/Environmental Testing**

- The report must be completed by a qualified firm.
- The application should address the environmental issues outlined in the report.
- The proposed scope-of-work should meet the needs as outlined in the PNA.
- Find the proper balance between repairing and replacing items now or later.

### **Regulatory Issues**

- Identify those issues that you can and can not control.
- Understand the potential impact that new or existing regulatory issues may have on your development.
- Are there zoning, building code, or other governmental approvals that will be necessary to obtain? If so, what is the time frame to receive the approvals?
- Don't assume anything!

### **PHFA**

- NO PERMANENT DISPLACEMENT WILL BE ALLOWED.
- Give us a call early in the process and if seeking an Agency loan (PennJOMES or Taxable Bond), request a pre-application site inspection.

### Bifurcated Financing Example

Size of Unit	Number of Units	Proposed Rent	Program Limit	Market Rent
One-Bedroom	100	20-year HAP currently at \$575	60% Rent or FMR \$535	\$560

In this scenario, the first portion of the debt would be calculated using the Program Limit rent of \$535 to determine the NOI. After applying 115% DSC Ratio to the NOI, the remaining NOI will be used to amortize a loan over a 30-year term. Example:

Number of Units	Program Limit Rents	Annual Budget
100	\$535	\$642,000
	Operating Expense per unit	
	\$350	\$420,000
	Net Operating Income	\$222,000
	DSC Ratio	115%
	NOI available for debt	\$193,045
	Debt Service Constant (7% for 30-years)	.0798
	First portion of debt	\$2,419,110

The second portion of the debt would be calculated using the difference in the Proposed Rents and the Program Limit Rents \$40 with a loan term of 20-years. Example:

Number of Units	Difference in Rents	Annual Budget
100	\$40	\$48,000
	DSC Ratio	115%
	NOI available for debt	\$41,740
	Debt Service Constant (7% for 20-years)	.0930
	Second portion of debt	\$448,817

In this case, the Agency would provide two loans totaling \$2,867,927. This method of determining the Taxable Bond Debt is used only when the HAP rents exceed program limits.

**PENNSYLVANIA HOUSING FINANCE AGENCY**  
**2004 PennHOMES**  
**COMPETITIVE APPLICATION**

- **PLAN AHEAD**
  - Attend the Pre-Application Meeting
  - Ask Questions
  - Type of Housing
  - Select a Good Site
  - Develop a Capital Budget
  - Operating Statements
  - Obtain Local Support
  - Know your Partners
  - Prepare a Market/Needs Study
  - Read Carefully
- **FOLLOW GUIDELINES**
  - Completion of Application
  - Understand the Selection Criteria
    - Project Location
    - Application Characteristics
    - Special Housing Need
    - Project Amenities
    - Rent Affordability
    - Ability to Proceed
- **SURPASS THE MINIMUM**
  - Go beyond the Minimum Requirements

**TO ARRANGE A 2004 PennHOMES PRE-APPLICATION SITE VISIT,  
CONTACT BILL KOONS AT 717-780-3882.**

## **PHEA'S FINANCING GUIDELINES**

**NON-REFUNDABLE APPLICATION FEE** - Lesser of \$25 per unit or \$1,000

**CLOSING FEE** - \$2,500

**INTEREST RATES** - These rates are subject to change based upon market conditions.

Construction	6%
Taxable	6.25%
Tax-Exempt	5.25%
PennHOMES	0%

### **ANNUAL LOAN SERVICE FEE (BOND FINANCING ONLY)**

Up to \$1 million	.375%
Up to \$2 million	.250%
Up to \$4 million	.200%
Over \$4 million	.125%

### **ANNUAL CREDIT ENHANCEMENT/MORTGAGE INSURANCE PREMIUM (MIP)**

.25% of the declining mortgage balance, which is paid from annual operating income  
.50% of the declining mortgage balance, which is paid from annual operating income  
if HUD Risk Sharing is used (Agency Taxable Bond Loans greater than \$400,000)

### **MORTGAGE LOAN ORIGINATION FEE (BOND FINANCING ONLY)**

Up to \$1 million mortgage	2.5%
Up to \$2 million mortgage	2.0%
Up to \$4 million mortgage	1.5%
Over \$4 million mortgage	1.0%

### **INITIAL CREDIT ENHANCEMENT FEE/MORTGAGE INSURANCE PREMIUM (MIP)**

.50% of the mortgage amount

**COST OF ISSUANCE** - 1% of the taxable mortgage, or 3% of the tax-exempt mortgage

## **LEGAL COSTS**

Up to \$60,000 must be based upon reasonable legal services provided ONLY for the real estate portion of the development and must be supported by time sheets.

## **MINIMUM NUMBER OF UNITS**

Applications must consist of 10 or more units that are under common ownership, management, and financing. Developments located in the Cities of Philadelphia and Pittsburgh, or Allegheny County, must consist of 15 units or more, except for special needs housing. Taxable and tax-exempt financed developments generally consist of 15 units or more; developments with less than 15 units will be considered if all Agency guidelines and finance requirements are met.

## **PER-UNIT FUNDING LIMITATIONS**

As stated, the PennHOMES funds are limited, and there are certain restrictions as to where some of the funding sources may be used. Therefore, it is necessary to place funding limitations on a per-unit basis to allow for an equitable method of distributing funds to more developments. The per-unit limitations for various areas of the Commonwealth are as follows:

Developments located in Participating jurisdictions are limited to \$30,000 per unit. Philadelphia developments requiring a supportive service escrow may increase the funding request to \$32,500 per unit. At no time may the total PennHOMES funds to one development exceed \$1,500,000.

Developments located in communities that do not receive entitlement allocations under the Federal HOME Investment Partnerships Program (Non-Participating jurisdictions) are limited to 100 percent of the HUD 221(d)(3) per-unit limits for developments with elevators.

## **TERM OF LOAN**

The PennHOMES loan term must be coterminous with primary debt financing. If there is no primary debt financing, the PennHOMES loan term will not be greater than 30 years.

In the event the loan is prepaid, however, restrictive covenants and other Federal requirements relating to the affordability period shall continue.

The loan term for both taxable and tax-exempt bond financing is 30 years.

## **AMORTIZATION OF PENNHOMES**

Payment of the PennHOMES funds may be deferred for the term of the loan. If cash flow is available, the maximum annual principal repayment will be 1/30 of the original loan principal amount.

## REPAYMENT TERMS

Developments with 12 or more units with cash flow will dedicate excess cash flow first to cover a one-year payment of the PennHOMES loan. Any remaining cash flow may be used to pay one year of owners' return on equity. If excess cash flow is still available after payment of the PennHOMES loan and owners' return on equity, proceeds will be distributed evenly between accumulated balances of PennHOMES and return on equity.

On any repayments, development cash flow will not be entirely depleted. All repayments will only be made after sufficient funds are available to cover one month of debt service payments on the first mortgage debt financing or, if no first mortgage debt financing, one month of the PennHOMES principal repayment.

For developments of 11 or less units, there are no scheduled loan repayment requirements from available cash flow. However, the Agency may, in its discretion, require that available cash be applied to repay outstanding PennHOMES principal.

## DEBT SERVICE COVERAGE RATIO

For Agency first mortgage debt financing, the debt service coverage ratio is 115%. If the first mortgage is other than PHFA, the debt service coverage ratio required is 115%.

## LOAN-TO-VALUE RATIO/EQUITY REQUIREMENT

90% of replacement cost for for-profit developers  
100% of replacement cost for nonprofit developers

## SUPPORTIVE SERVICES ESCROW

All general-designated developments that are proposed in Philadelphia are required to escrow \$5,000 per unit to pay for supportive services for the residents. The Agency will provide 100% match for the applicant's contribution of \$2,500 per unit. Waivers of this requirement may be obtained from the Agency if the applicant has an alternative method to cover the costs of services for residents. Please contact the Agency's Housing Services Representative at 610/270-1989.

## REPLACEMENT RESERVE

Elderly	\$296
Family	\$400
SRO	\$183

All amounts are per unit per year.

Plus \$20 per room per year for painting and decorating

## MINIMUM LOAN AMOUNT

The minimum loan amount for taxable financing is \$100,000; the minimum loan amount for tax-exempt financing is \$1,000,000, unless there are a sufficient number of developments requesting tax-exempt financing that may be pooled together to arrive at the \$1,000,000 balance.

**AFFORDABILITY PERIOD**

All developments must remain rental housing, meeting the low-to-moderate income tenancy requirement for the term of the mortgage, or thirty (30) years, as determined by the Agency.

**MAXIMUM INCOME OF TENANTS****PennHOMES**

A minimum of 50% of the units must be rented to families whose incomes do not exceed 50% of the area median income, adjusted for family size. The remaining units may be rented to families whose incomes do not exceed 60% of the area median income, adjusted for family size. Developments may still house residents with incomes over 60% of median income, but only those units serving residents at 50% and 60% of median income or below for the term of the PennHOMES loan are eligible for funding under the Program.

**Tax-Exempt Bond Financing or Federal Low Income Housing Tax Credits**

A minimum of 20% of the units must be rented to persons with incomes at or below 50% of the area median income, adjusted by family size; or a minimum of 40% of the units must be rented to persons with incomes at or below 60% of the area median income, adjusted for family size.

**Taxable Bond Financing**

When using taxable bond financing not involving the tax credit, at least 20% of the units must be rented to persons with incomes at or below 80% of the area median income.

**Construction Loan Program**

A minimum of 20% of the units must be rented to families whose incomes do not exceed 50% of the area median income, adjusted for family size. This is for a construction only loan.

**The information contained in this term sheet is subject to change at the Agency's sole discretion.**

# **Socially and Economically Restricted Business Program (SERB)**

The purpose of the SERB Program is to promote the use of small and emerging businesses by giving them opportunities to participate in state contracting.

Many of the companies that qualify for SERB are too small to bid as prime contractors on most state contracts, however even those contracts may provide subcontracting and joint venture opportunities that would be within the capacity of a small business. The SERB Program encourages prime contractors to consider SERB businesses when seeking supplies and services their own companies cannot provide.

In the RFP process, contracts are awarded according to a point system. Each proposal is evaluated, and points are assigned for the technical aspect of the proposal, cost, SERB participation, and other possible factors. The total of these points determines which bidder will win the contract.

## **How does a business qualify as a SERB?**

A business can qualify as a SERB in one of three ways:

First, by being certified by the PA Department of General Services as a Minority Business Enterprise (MBE) or Women Business Enterprise (WBE) or

Second, by being located in a Pennsylvania Designated Enterprise Zone or

Third, by being certified by the U.S. Small Business Administration as a Small Disadvantaged Business (SDB) and/or in the 8(a) Business Development Program.

**IN ADDITION:** to qualify as a SERB, a company must gross less than \$8 million per year (\$18 million for Information Technology (IT) companies) and have 100 or fewer employees.

**Never assume a business qualifies as SERB because it is certified or is located in an Enterprise Zone; you must also verify its gross annual revenues.** Proof of gross revenues can include a recent tax or audited financial statement. If the company has subsidiaries or is the subsidiary of another company, the total revenue of the company and its subsidiaries must be under \$8 million (\$18 million for IT companies).

## **Priority Rankings for SERB points**

Of the maximum number of points available for SERB, a prime bidder can earn:

Up to 100% if the prime bidder qualifies as a SERB.

Up to 90% if the prime bidder enters into a joint venture agreement with a SERB.

Up to 50% if the prime bidder is subcontracting to a SERB (includes purchase agreements.)

## **The prime contractor is responsible for verifying SERB status *with each contract***

1. If a business claims SERB status because it is DGS-certified, provide a copy of the certificate and proof that the company does less than \$8 million in gross annual revenues (\$18 million for Information Technology companies).

2. If a business claims SERB status because its headquarters is located in a Pennsylvania Designated Enterprise Zone, provide proof of the headquarters address (such as a lease or deed), a statement from the local Enterprise Zone office confirming that the address is in a zone, and proof that the company does less than \$8 million in gross annual revenues (\$18 million for Information Technology companies).
3. If a business claims SERB status because it is a SDB-certified and/or 8(a) business, provide a copy of their registration in PRO-Net ([pro-net.sba.gov](http://pro-net.sba.gov)) and proof that the company does less than \$8 million in gross annual revenues (\$18 million for Information Technology companies).

Include the appropriate verifications in the SERB portion of the proposal.

## **Read the RFP and follow it carefully!**

### **Important information to note:**

1. You must name the specific SERB business(es) to which you are making commitments. Include the company name, address, and telephone number for each specific SERB business included in the proposal. You will not receive credit by stating that you will find a SERB after the contract is awarded or by listing several companies and stating you will select one later.
2. Specify the type of goods or services the SERB business(es) will provide. Specify the timeframe for the SERB(s) to provide the goods or services and the location where the SERB(s) will perform these services.
3. Specify the estimated dollar value of the contract to each SERB. If subcontracting, a signed subcontract or letter of intent must be included in the SERB portion of the proposal. Also estimate what percent of the total value of services or products purchased under the proposal will be provided by SERBs.

Bind the SERB portion separately from the rest of the proposal. (Most RFPs ask that the SERB section be sealed in an envelope). Only one copy of the SERB section is needed. Be sure to identify your company on the outside of the envelope.

## **How do I find qualified SERBs?**

The Bureau of Contract Administration and Business Development (BCABD) maintains a database of all Minority Business Enterprises (MBEs) and Women Business Enterprises (WBEs) certified by the PA Department of General Services. Information on these firms is available on BCABD's website at [www.dgs.state.pa.us](http://www.dgs.state.pa.us). Simply click on *Doing Business with DGS*, then *Contract Administration and Business Development (MBE/WBE Program)*, and go to *Searchable Database for PA Certified Vendors*.

If you have difficulty using the website to search for MBEs and WBEs, contact BCABD for assistance. Please note that the businesses in BCABD's database are coded according to the goods or services they are certified to provide. If you have problems finding the correct codes for the supplies or services you are seeking, you can request a codebook from BCABD. Contact BCABD by e-mail at [gs-cabdinternet@state.pa.us](mailto:gs-cabdinternet@state.pa.us). If you do not have e-mail, call 717-787-6708.

For more information on Designated Enterprise Zones, contact the PA Department of Community and Economic Development at 717-720-7409 (phone), 717-787-4068 (fax), or [akartorie@state.pa.us](mailto:akartorie@state.pa.us) (e-mail). Request a list of Enterprise Zone offices.

For more information on Federal certification (SDB and/or the 8(a) program), contact the U.S. Small Business Administration at 1-800-U-ASK-SBA (phone), 202-205-7064 (fax), or visit their website at [www.sba.gov](http://www.sba.gov) and click on *PRO-Net*.

## **SERB Commitments are Binding**

Commitments to SERBs made at the time of proposal submittal or contract negotiation become part of the resulting contract and must be maintained throughout the term of the contract. Any proposed change must be submitted to and approved by BCABD.

## **Joint Ventures**

A Joint Venture is an association of two or more companies to carry out a project for profit. A Joint Venture generally requires a shared interest in the performance of a common purpose. After the project is completed, the Joint Venture terminates.

The Joint Venture relationship is created by a contract between two or more companies. Each invests its money, labor or skills in the venture. The profits are divided between them.

All parties must agree on the terms of the contract before a Joint Venture relationship exists.

Co-ownership of the project is one indication of a true Joint Venture, which occurs when two or more companies pool their resources in a common enterprise comprised of equal obligations and benefits. If the contract indicates that one company is merely employed to provide certain goods or perform certain services and has no financial interest in the enterprise other than compensation, there is no Joint Venture. When a company has invested nothing in or contributed nothing to the project, there is no Joint Venture.

Generally, shared interest in the profits and losses resulting from a project is indicative of a Joint Venture. The participation in profits is an indispensable requisite of a Joint Venture relationship. The absence of participation in profits is conclusive that it is not a Joint Venture.

The burden of proving a Joint Venture is on the party who asserts it.

Examples of evidence indicating a Joint Venture relationship include: 1) showing a checking account with the Joint Venture name, 2) providing a copy of the contract establishing the Joint Venture, 3) providing an individual income tax return showing Joint Venture income, 4) documenting a pooling of assets into a common enterprise with a division of profits, 5) providing evidence of a parity in direction and management, and 6) showing proof of the securing of insurance in the name of the Joint Venture.

If asserting a joint venture with a SERB, the Joint Venture Agreement must be included in the SERB portion of the proposal.

For more information on Joint Ventures, contact BCABD's Evaluations Unit at 717-787-7629.

For more information on the SERB Program contact:  
**PA Bureau of Contract Administration and Business Development**  
613 North Office Building, Harrisburg, PA 17125  
E-mail: [gs-cabdinternet@state.pa.us](mailto:gs-cabdinternet@state.pa.us)  
717-787-6708 or FAX: 717-772-0021

To reach our Western Regional Office, e-mail [cjumba@state.pa.us](mailto:cjumba@state.pa.us) or call 412-442-5872.