TUCSON IDA

PRO FORMA 101

A practical guide to the Tucson IDA Development Pro Forma

A pro forma turns a development idea into a structured set of assumptions about cost, revenue, financing, operations, and return.

Use this guide with the companion Excel workbook to test early feasibility, identify missing information, and prepare for productive conversations with lenders, investors, partners, and Tucson IDA.

Companion file	Tucson_IDA_Development_Pro_Forma.xlsx

Educational resource - Version 1.0

This guide and workbook contain illustrative sample values. Replace them with supported project-specific information.

1. Start with the purpose

The workbook is designed for early education and screening. It helps organize a project and identify questions before formal underwriting.

Use it to	Build a complete project budget, estimate stabilized operating performance, test permanent debt capacity, identify a funding gap, and examine a simplified 10-year cash flow.
Do not use it as	An application, appraisal, market study, funding commitment, tax opinion, legal opinion, or substitute for professional underwriting.

A five-step workflow

Step	Action	Where
1	Replace every applicable pink sample cell with project-specific information.	Inputs, Sources & Uses, Debt
2	Review calculated gross income, vacancy loss, effective income, expenses, and NOI.	Inputs
3	Confirm sources equal uses and review the remaining funding gap.	Sources & Uses
4	Review debt service, leverage, cash flow, and estimated return.	Debt, Cash Flow, Summary
5	Resolve missing items and update assumptions as the project becomes more certain.	Checks

Workbook key

Appearance	Meaning
Pink cell with blue type	Editable input. Replace the sample value.
Light gray cell	Calculated result. Do not overwrite the formula.
Green type	A calculated value linked from another worksheet.
Red warning	A missing input, imbalance, or assumption needs review.

2. Read the Summary first

The Summary brings the development budget, stabilized operations, debt, return, and screening indicators into one view. Use it as the project's financial snapshot, then trace any concern to the supporting worksheet.

Project Summary

Project	**Sample Mixed-Use Project**
Location	**123 Sample Street, Tucson, Arizona**
Project type	**Mixed-use**

Development budget	
Total development cost	$10,300,000
Total sources	$10,300,000
Surplus / (funding gap)	-
Total permanent debt	$7,000,000
Cash and investor equity	$2,550,000

Stabilized operations	
Gross potential income	$1,224,000
Effective gross income	$1,150,800
Operating expenses	$480,000
Net operating income	$670,800
Operating expense ratio	41.7%

Debt and return	
Annual debt service	$533,046
Debt service coverage ratio	1.26x
Debt yield	9.6%
Loan-to-cost	68.0%
Loan-to-value	60.9%
Yield on cost	6.5%
Estimated levered IRR	17.4%

SCREENING REVIEW

Item	Result	Illustrative benchmark	What to review
Sources and uses	Balanced	$0 gap	Identify missing or excess funding.
Debt service coverage	Meets benchmark	1.20x minimum	Review income, expenses, and debt terms.
Loan-to-cost	Meets benchmark	80% maximum	Review leverage and additional equity needs.
Loan term through hold	Aligned with hold	10-year hold	Model refinance or earlier sale if a loan matures first.

These indicators are conversation starters, not Tucson IDA program requirements or a credit decision.

Metric	What it tells you	Question to ask
Funding gap	Difference between total sources and total uses.	Which source will fill the remaining cost?
NOI	Effective income less recurring operating expenses.	Are income and expense assumptions supportable?
DSCR	NOI divided by annual debt service.	Is there enough operating cushion to pay debt?
Loan-to-cost	Permanent debt divided by total development cost.	How much of the project relies on debt?
Yield on cost	NOI divided by total development cost.	Does stabilized income justify the project cost?
Levered IRR	Estimated return to cash equity over the modeled hold.	How sensitive is return to sale and growth assumptions?

3. Build revenue from the property

Enter each meaningful revenue stream separately. The workbook includes residential, commercial, hospitality, parking, and other income so mixed-use projects can be modeled in one place.

RESIDENTIAL REVENUE

Unit type	Units	Monthly rent / unit	Other monthly / unit	Vacancy	Annual gross potential	Effective annual revenue	Notes
Studio	20	$1,100	-	5.0%	$264,000	$250,800	
1 bedroom	30	$1,350	-	5.0%	$486,000	$461,700	
2 bedroom	10	$1,650	-	5.0%	$198,000	$188,100	
3 bedroom				5.0%	-	-	
Other				5.0%	-	-	
					-	-	
					-	-	
Residential total					**$948,000**	**$900,600**	

COMMERCIAL REVENUE

Tenant / use	Rentable SF	Annual base rent / SF	Annual CAM / SF	Vacancy	Annual gross potential	Effective annual revenue	Notes
Retail	5,000	$24.0	$6.0	10.0%	$150,000	$135,000	
Office	3,000	$24.0	$6.0	10.0%	$90,000	$81,000	
					-	-	
					-	-	
					-	-	
					-	-	
					-	-	
Commercial total					**$240,000**	**$216,000**	

HOSPITALITY REVENUE

Use	Rooms	Average daily rate	Occupancy	Other annual income	Annual gross potential	Effective annual revenue	Notes
Hotel rooms					-	-	
Short-stay units					-	-	
					-	-	
					-	-	
Hospitality total					**-**	**-**	

OTHER REVENUE

Description	Annual gross income	Vacancy / loss	Effective annual revenue	Notes
Parking and other income	$36,000	5.0%	$34,200	
			-	
			-	
			-	
			-	
Other revenue total	**$36,000**		**$34,200**	

Use assumptions you can explain

- Residential: group units with similar bedroom count, size, and expected rent. Enter monthly amounts.

- Commercial: enter rentable square feet and annual base rent per square foot. Add CAM revenue only when the lease supports it.

- Hospitality: use room count, average daily rate, and occupancy. A third-party study may be appropriate.

- Vacancy and occupancy should reflect lease-up, turnover, seasonality, concessions, and credit loss.

Documentation	Use market studies, comparable properties, broker opinions, executed leases, letters of intent, property-management experience, and other relevant evidence.

4. Estimate operating expenses and NOI

Operating expenses should reflect the recurring cost to operate the completed property. Enter annual values. Do not include construction costs, principal payments, depreciation, or income taxes in this section.

	C	D	E	F	G	H	I	J
65	**ANNUAL OPERATING EXPENSES**							
66								
67	**Expense category**	**Annual amount**	**Basis / source**	**Notes**				
68	Administrative and legal	$35,000						
69	Property management	$72,000						
70	Owner-paid utilities	$60,000						
71	Maintenance and repairs	$75,000						
72	Property and liability insurance	$45,000						
73	Real estate taxes	$90,000						
74	Replacement reserve	$30,000						
75	Security	$20,000						
76	Janitorial	$25,000						
77	Landscaping and grounds	$18,000						
78	Marketing and leasing	$10,000						
79	Other operating expense	-						
80	Other operating expense	-						
81	**Total operating expenses**	**$480,000**						
82								
83								
84	**STABILIZED OPERATING PRO FORMA**							
85								
86	Residential gross potential income	$948,000						
87	Commercial gross potential income	$240,000						
88	Hospitality gross potential income	-						
89	Other gross potential income	$36,000						
90	**Gross potential income**	**$1,224,000**						
91	Vacancy, occupancy and credit loss	($73,200)						
92	**Effective gross income**	**$1,150,800**						
93	Operating expenses	($480,000)						
94	**Net operating income**	**$670,800**						
95	*Operating expense ratio*	*41.7%*						
96	*NOI margin*	*58.3%*						

Expense area	Examples and cautions
Administration	Accounting, legal, licenses, marketing, and office costs.
Management	Third-party management fee or the supported cost of self-management.
Utilities	Only utilities paid by the property owner. Confirm lease responsibilities.
Maintenance	Routine repairs, service contracts, cleaning, grounds, pest control, and security.
Taxes and insurance	Use post-completion estimates, not the property's current predevelopment bills.
Reserves	Annual funding for future replacements and major capital items.

Core calculation

Gross potential income - vacancy and occupancy loss = effective gross income.
Effective gross income - operating expenses = net operating income (NOI).

5. Make Sources & Uses complete

Sources & Uses is the project's full development budget and funding plan. Every project cost belongs in Uses. Every dollar expected to pay those costs belongs in Sources.

Sources & Uses

Include the complete project budget and every expected source of funds, whether committed or still under discussion.

USES OF FUNDS

Category	Cost item	Amount	Basis / notes
Acquisition	Land	$1,000,000	
Acquisition	Existing building	$500,000	
Acquisition	Closing and title costs	$50,000	
Hard costs	Site preparation	$300,000	
Hard costs	Demolition and abatement	$200,000	
Hard costs	General construction	$4,500,000	
Hard costs	Mechanical, electrical, and plumbing	$500,000	
Hard costs	Tenant improvements	-	
Hard costs	Parking	$250,000	
Hard costs	Utilities and public infrastructure	$300,000	
Hard costs	Furniture, fixtures, and equipment	$150,000	
Hard costs	Construction contingency	$400,000	
Soft costs	Architecture and engineering	$500,000	
Soft costs	Environmental studies	$50,000	
Soft costs	Permits, impact fees, and tap fees	$150,000	
Soft costs	Survey and testing	$25,000	
Soft costs	Legal and accounting	$75,000	
Soft costs	Financing and lender fees	$100,000	
Soft costs	Construction interest	$300,000	
Soft costs	Insurance and taxes during construction	$100,000	
Soft costs	Developer fee	$500,000	
Soft costs	Project management	$100,000	
Soft costs	Operating, lease-up, and replacement reserves	$150,000	
Soft costs	Other soft costs	$100,000	
Other	Other project cost	-	

Acquisition subtotal		$1,550,000
Hard-cost subtotal		$6,600,000
Soft-cost subtotal		$2,150,000
Other-cost subtotal		-
Total development cost		**$10,300,000**

SOURCES OF FUNDS

Source	Amount	Status	Notes
Senior debt	$6,000,000	Term sheet	
Subordinate debt	$1,000,000	Conceptual	
Grants and public funds	$500,000	Applied	
Sponsor cash equity	$2,300,000	Conceptual	
Land / building contributio	-	Not applicable	
Deferred developer fee	$250,000	Conceptual	
Tax credit / investor equity	$250,000	Conceptual	
Other source	-	Not applicable	
Total sources	**$10,300,000**		

Total uses	$10,300,000
Total sources	$10,300,000
Surplus / (funding gap)	**-**
Sources as % of uses	100.0%

Funding status is descriptive only. Supporting documentation should be collected as the project advances.

Uses

- Include acquisition even if it has already occurred.

- Separate hard costs, soft costs, contingency, fees, financing costs, and reserves.

- Use third-party estimates when available and state the basis in the notes column.

Sources

- Debt amounts link from the Debt worksheet.

- List grants, public funds, sponsor equity, contributed property, deferred fees, and investor equity separately.

- Use the status column honestly: conceptual, applied, term sheet, or committed.

The essential check

Total sources must equal total uses. A negative result is a funding gap. A positive result means the funding plan exceeds the stated budget.

6. Enter permanent debt terms

The Debt worksheet estimates stabilized annual debt service and remaining balances for up to four permanent-loan tranches. Enter construction and bridge financing costs in Sources & Uses instead.

Permanent Debt

Enter stabilized permanent financing. Construction loans and bridge financing should be reflected separately in Sources & Uses.

Tranche	Type	Principal	Interest rate	Amortization (years)	Term (years)	Interest-only (months)	Annual debt service
Senior loan	Senior	$6,000,000	6.5%	30	10	-	$459,465
Subordinate loan	Subordinate	$1,000,000	4.0%	20	10	-	$73,582
	Senior						-
	Subordinate						-
Total permanent debt		**$7,000,000**				**Total annual debt ser**	**$533,046**

ESTIMATED LOAN BALANCES

	0	1	2	3	4	5	6	7	8	9	10
Senior debt	$6,000,000	$5,930,535	$5,856,555	$5,777,767	$5,693,857	$5,604,493	$5,509,321	$5,407,962	$5,300,015	$5,185,051	$5,062,615
Subordinate debt	$1,000,000	$966,418	$931,493	$895,171	$857,396	$818,110	$777,253	$734,761	$690,570	$644,611	$596,814
Total debt	$7,000,000	$6,896,954	$6,788,049	$6,672,938	$6,551,253	$6,422,604	$6,286,574	$6,142,723	$5,990,585	$5,829,662	$5,659,429
Annual debt service	$533,046	$533,046	$533,046	$533,046	$533,046	$533,046	$533,046	$533,046	$533,046	$533,046	$533,046

Field	Meaning	Common issue
Principal	Original permanent loan amount.	Do not enter the lender's total commitment if less will be funded.
Interest rate	Annual note rate used to estimate payment.	Confirm whether the rate is fixed, floating, or only indicative.
Amortization	Years used to calculate scheduled principal repayment.	This is often longer than the loan term.
Term	Years until maturity or balloon payment.	If it ends before the modeled hold, a refinance or earlier sale is needed.
Annual debt service	Estimated annual principal and interest payment.	The simplified model does not create a monthly draw schedule.

Interest-only periods

The workbook records interest-only months for reference, but the stabilized annual debt-service calculation uses the amortizing payment. Model unusual repayment structures separately with the lender.

7. Review the 10-year cash flow

The Cash Flow worksheet projects annual stabilized operations, debt service, a sale in Year 10, repayment of remaining debt, and the resulting cash flow to equity.

	C	D	E	F	G	H	I	J	K	L	M	N
2	**10-Year Cash Flow**											
3												
4	*This simplified annual projection assumes stabilized operations in Year 1 and a sale at the end of Year 10.*											
5												
6												
7	**Metric**	**Year 0**	**Year 1**	**Year 2**	**Year 3**	**Year 4**	**Year 5**	**Year 6**	**Year 7**	**Year 8**	**Year 9**	**Year 10**
8	Gross potential income		$1,224,000	$1,260,720	$1,298,542	$1,337,498	$1,377,623	$1,418,951	$1,461,520	$1,505,366	$1,550,527	$1,597,042
9	Vacancy, occupancy and credit loss		($73,200)	($75,396)	($77,658)	($79,988)	($82,387)	($84,859)	($87,405)	($90,027)	($92,728)	($95,509)
10	Effective gross income		$1,150,800	$1,185,324	$1,220,884	$1,257,510	$1,295,236	$1,334,093	$1,374,115	$1,415,339	$1,457,799	$1,501,533
11	Operating expenses		($480,000)	($494,400)	($509,232)	($524,509)	($540,244)	($556,452)	($573,145)	($590,339)	($608,050)	($626,291)
12	**Net operating income**		**$670,800**	**$690,924**	**$711,652**	**$733,001**	**$754,991**	**$777,641**	**$800,970**	**$824,999**	**$849,749**	**$875,242**
13	Permanent debt service		($533,046)	($533,046)	($533,046)	($533,046)	($533,046)	($533,046)	($533,046)	($533,046)	($533,046)	($533,046)
14	Cash flow after debt service		$137,754	$157,878	$178,605	$199,955	$221,945	$244,595	$267,924	$291,953	$316,703	$342,195
15	Net sale proceeds		-	-	-	-	-	-	-	-	-	$13,591,833
16	Debt payoff at sale		-	-	-	-	-	-	-	-	-	($5,659,429)
17	Net cash flow before equity		$137,754	$157,878	$178,605	$199,955	$221,945	$244,595	$267,924	$291,953	$316,703	$8,274,600
18	Cash equity invested	($2,550,000)	-	-	-	-	-	-	-	-	-	-
19	**Levered equity cash flow**	**($2,550,000)**	**$137,754**	**$157,878**	**$178,605**	**$199,955**	**$221,945**	**$244,595**	**$267,924**	**$291,953**	**$316,703**	**$8,274,600**
20	Debt service coverage ratio		1.26x	1.30x	1.34x	1.38x	1.42x	1.46x	1.50x	1.55x	1.59x	1.64x
21												
22												
23	Estimated levered IRR	17.4%										
24	Year 1 cash-on-cash return	5.4%										
25	Year 10 estimated sale price	$13,869,217										
26	Estimated sale costs	($277,384)										
27	Estimated debt payoff	($5,659,429)										

Assumption	How the workbook uses it
Income growth	Increases gross income and vacancy loss each year.
Expense growth	Increases annual operating expenses each year.
Exit cap rate	Divides the following year's NOI to estimate sale price.
Sale costs	Reduces estimated sale proceeds by a percentage of price.
Debt balance	Subtracts the estimated remaining principal at sale.

Return caution IRR can change sharply with small changes in exit cap rate, growth, timing, cost, or leverage. Treat it as one modeled outcome, not a prediction.

8. Interpret the screening indicators

The workbook includes adjustable DSCR and loan-to-cost benchmarks. The sample values are illustrative only and are not Tucson IDA program requirements or a credit decision.

Indicator	Formula	Interpretation
DSCR	NOI / annual debt service	Above 1.00x means modeled NOI exceeds scheduled debt service. Many lenders seek additional cushion.
Debt yield	NOI / permanent debt	Measures property income relative to the lender's principal without relying on value.
Loan-to-cost	Permanent debt / total development cost	Shows the share of project cost funded with permanent debt.
Loan-to-value	Permanent debt / completed value	Shows leverage relative to the supported stabilized value estimate.
Yield on cost	NOI / total development cost	Compares stabilized income to the full project investment.
Cash-on-cash	Year 1 cash flow after debt / cash equity	Shows initial annual cash flow relative to cash and investor equity.
Levered IRR	IRR of modeled equity cash flows	Combines annual cash flow and estimated sale proceeds over the hold.

When an indicator looks weak

- Test whether rents, occupancy, or other revenue assumptions are supported - do not simply raise them to improve the result.

- Review operating expenses for omissions or unusually low estimates.

- Review the project scope and budget for cost reductions that preserve project quality.

- Consider more equity, lower-cost capital, a smaller loan, or a different repayment structure.

- Identify whether a grant, subordinate loan, guarantee, tax credit, or other source is realistic and aligned with the project.

- Revisit phasing, timing, unit mix, commercial program, and exit assumptions.

9. Avoid common pro forma mistakes

Mistake	Why it matters	Better approach
Using today's property tax bill	A completed project may have a different taxable value.	Request a post-completion estimate and document abatements separately.
Mixing monthly and annual figures	A single unit error can materially overstate or understate income.	Follow each column label and convert inputs before entry.
Ignoring vacancy or lease-up	Gross rent is not the same as collectible income.	Use supported vacancy, occupancy, concessions, and credit-loss assumptions.
Leaving out soft costs	Fees, interest, insurance, permits, and reserves can create a large hidden gap.	Use a complete development budget and update it with third-party estimates.
Counting uncommitted money as certain	The project may appear fully funded before sources are secured.	Use the funding-status field and keep evidence of commitments.
Confusing amortization and term	A shorter term creates a balloon or refinance need.	Model the remaining balance and align financing with the hold period.
Treating the exit value as certain	The modeled sale often drives much of the return.	Test a range of cap rates, sale timing, and growth assumptions.

Suggested next steps

- Replace the sample values and document the source of each major assumption.
- Resolve every item on the Checks worksheet.
- Run a downside case with lower revenue, slower growth, higher costs, and a higher exit cap rate.
- Share the model with the project team, lender, and qualified advisors.
- Contact Tucson IDA to discuss whether the project is ready for a financing conversation.

10. Glossary

Term	Plain-language definition
Annual debt service	Total scheduled principal and interest payments for one year.
Capitalization rate	A market-derived rate used to relate property NOI to value.
Cash equity	Cash contributed by the sponsor or investors, excluding borrowed funds.
CAM	Common area maintenance charges paid by commercial tenants when provided in the lease.
Effective gross income	Gross potential income after vacancy, occupancy, concessions, and credit loss.
Gross potential income	Revenue at the stated rents and rates before vacancy or occupancy loss.
Hard costs	Direct construction, site, infrastructure, equipment, and related physical project costs.
Net operating income (NOI)	Effective gross income less recurring operating expenses, before debt service and income tax.
Permanent debt	Longer-term financing intended to remain after construction and stabilization.
Soft costs	Architecture, engineering, permits, legal, financing, insurance, developer fees, reserves, and similar costs.
Stabilized	The period when occupancy, income, and expenses reflect normal ongoing operations rather than construction or initial lease-up.
Subordinate debt	Debt repaid after senior debt and generally carrying greater repayment risk.

READY FOR A CONVERSATION?

Bring a completed workbook, development budget, design information, market support, and available financing evidence when you contact Tucson IDA. Early conversations are most productive when assumptions are transparent and open questions are clearly identified.

Learn more	Visit tucsonida.org for current contact information and resources.

Final reminder

This educational tool does not determine eligibility for any Tucson IDA program. It does not replace independent financial, market, appraisal, legal, tax, construction, environmental, or other professional review.

Tucson Industrial Development Authority
Development finance resources for Tucson