

San Francisco Mayor's Office of Housing and Community Development  
Department of Homelessness and Supportive Housing  
Office of Community Investment and Infrastructure  
Controller's Office of Public Finance

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**MEMORANDUM**

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**DATE:** NOVEMBER 4, 2022  
**TO:** CITYWIDE AFFORDABLE HOUSING LOAN COMMITTEE  
**FROM:** MARA BLITZER, DIRECTOR OF SPECIAL PROJECTS  
**RE:** **Update to MOHCD Development Underwriting Guidelines**

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1. Background – MOHCD's Development Underwriting Guidelines

The Mayor's Office of Housing and Community Development Underwriting Guidelines (these "Guidelines") are intended to assist applicants ("Sponsors") for capital financing to prepare financing requests to the City and County of San Francisco (the "City"), represented by the Mayor, acting by and through the Mayor's Office of Housing and Community Development ("MOHCD"). These Guidelines will also be used by MOHCD staff for purposes of evaluating funding requests and presenting them to the Citywide Affordable Housing Loan Committee ("Loan Committee") for consideration. The intent of the Underwriting Guidelines is to support consistency of loan terms across projects and to ensure long-term affordability and physical and financial sustainability throughout a project's loan term. These Guidelines do not apply to loans made under the Preservation and Seismic Safety (PASS) Program or the Small Sites Program (SSP). Addendum 1 applies to supportive housing projects funded by the State of California's No Place Like Home (NPLH) Program.

The Loan Committee maintains the right to set final terms and conditions for a commitment of funds based on the actual circumstances of each project. MOHCD may review and approve any requests for a waiver to these Underwriting Guidelines (see Section VII) in its sole and absolute discretion.

The Guidelines will be updated from time to time and were most recently updated in June of 2019. Public comment for this update was solicited from over 100 stakeholders in March 2022 (85 comments received from four parties, including a practitioner association) and most recently in the Fall of 2022, when MOHCD solicited feedback from a mailing list of over 800 stakeholders and received 61 comments from 6 parties including for profit and nonprofit affordable housing developers, financial consultants, and practitioner associations. MOHCD staff also met with developers on several occasions to discuss comments.

Under the leadership of Mayor Breed, and in partnership with city and community leaders, MOHCD seeks to advance opportunities and improve programmatic outcomes for BIPOC and low-income residents. As such, we are assessing programs, contracts, and procurements to

ensure they advance the City's racial equity goals. We will be working closely with our partner organizations to monitor the impact of our investments from a racial equity perspective. We will provide capacity building, clear information to partnering organizations, and create channels to give and receive feedback to ensure that all parties are aligned in the expectation to create an inclusive and equitable city where all residents have the opportunity to thrive.

## 2. This Request

This request is to update the MOHCD Underwriting Guidelines (Effective June 17, 2018 and updated 2019) (the "Guidelines") to:

1. clarify a number of parts of the Guidelines to improve legibility of intent and expedite applications for funding,
2. update certain parts of the Guidelines to correspond with changes in Tax Credit and Tax-Exempt Bond Regulations,
3. update certain parts of the Guidelines to reflect the City's racial equity goals,
4. respond to changes in market conditions.

This memo will summarize the requested changes. Clean and black-lined versions of the proposed updates can be found in Attachments A and B respectively.

### a. Introduction:

Proposed changes: Identified all applicable, separate MOHCD policies that are referenced throughout the Guidelines with updated links to MOHCD's website.

Rationale: Clarification to assist Sponsors and staff with interpretation of the Guidelines.

### b. General Financing Terms (Section I)

Proposed changes: See attached for updates to sections I.A through I.K. This section is significantly expanded to include, amongst other updates, the establishment of a fee applicable to MOHCD loans made to projects accessing the Low-Income Housing Tax Credit.

Rationale: This brings these terms into alignment with MOHCD practice so that requests for waivers are not necessary.

### c. Residential Development Proforma Assumptions (Section II)

Proposed changes: Updates to the standard Debt Coverage Ratio and clarification on methodology are provided, as well as clarifications regarding requirements for project reserves. This section is expanded to discuss the terms under which third party project financing is acceptable to MOHCD. The application of construction contingencies and process are clarified. New sections on Communications Wiring and Internet Access, Parking, Marketing and Rent-Up, and Services Staffing are added.

Rationale: This brings these terms into alignment with MOHCD practice so that requests for waivers are not necessary.

### d. Residential Operating Proforma Assumptions (Section III)

Proposed changes: Clarification on the vacancy allowance and updates on how to treat gross income where Project Based Voucher Subsidies and supportive housing are included.

Rationale: This brings these terms into alignment with MOHCD practice so that requests for waivers are not necessary.

e. Underwriting of Sponsor (Section IV)

Proposed changes: This is a new section.

Rationale: Clarifies that MOHCD may provide flexibility in meeting minimum requirements for projects sponsored by Emerging Developers, with a new definition, in alignment with MOHCD's racial equity goals.

f. Waiver Requests (Section VII)

Proposed changes: This is a new section.

Rationale: This brings these terms into alignment with MOHCD practice so that the process to request waivers is clarified.

3. Staff Recommendation

These proposed changes are guided by our interest in a consistency of loan terms across projects and to ensure long-term affordability and physical and financial sustainability throughout a project's loan term. The proposed changes reflect our commitments to improving the legibility of our intent for our funding review and expediting applications; align with changes in Low-Income Housing Tax Credit and Tax-Exempt Bond regulations; reflect the City's racial equity goals; and respond to changes in market conditions. MOHCD Staff recommends Loan Committee approval of the changes to the current Underwriting Guidelines as proposed in Attachments A (clean version) and Attachment B (comparison to current policy as of June 2019).

4. Loan Committee Modifications

## LOAN COMMITTEE RECOMMENDATION

*Approval indicates approval with modifications, when so determined by the Committee.*

☐ APPROVE.      ☐ DISAPPROVE.      ☐ TAKE NO ACTION.

\_\_\_\_\_  
Eric D. Shaw, Director  
Mayor's Office of Housing and Community Development

Date: \_\_\_\_\_

☐ APPROVE.      ☐ DISAPPROVE.      ☐ TAKE NO ACTION.

\_\_\_\_\_  
Thor Kaslofsky, Executive Director  
Office of Community Investment and Infrastructure

Date: \_\_\_\_\_

☐ APPROVE.      ☐ DISAPPROVE.      ☐ TAKE NO ACTION.

\_\_\_\_\_  
Salvador Menjivar, Housing Director  
Department of Homeless and Supportive Housing

Date: \_\_\_\_\_

☐ APPROVE.      ☐ DISAPPROVE.      ☐ TAKE NO ACTION.

\_\_\_\_\_  
Anna Van Degna, Director  
Controller's Office of Public Finance

Date: \_\_\_\_\_

Attachments: Attachment A – Updated Underwriting Guidelines - clean  
Attachment B – Updated Underwriting Guidelines – blacklines compared to June 2019  
Underwriting Guidelines

## **Chavez, Rosanna (MYR)**

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**From:** Shaw, Eric (MYR)  
**Sent:** Friday, November 4, 2022 11:46 AM  
**To:** Chavez, Rosanna (MYR)  
**Subject:** Request for Approval for Update to Underwriting Guidelines

approve

Eric D. Shaw  
Director/ Interim Director HopeSF

Mayor's Office of Housing and Community Development  
City and County of San Francisco  
1 South Van Ness Avenue, 5th Floor

## Chavez, Rosanna (MYR)

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**From:** Colomello, Elizabeth (CII)  
**Sent:** Friday, November 4, 2022 11:43 AM  
**To:** Chavez, Rosanna (MYR)  
**Cc:** Shaw, Eric (MYR); Kaslofsky, Thor (CII)  
**Subject:** Request for approval for update to underwriting guidelines

Hi Rosie-

I approve the subject request on behalf of OCII.

Thanks-

Elizabeth



**Elizabeth Colomello**  
**Housing Program Manager**

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San Francisco, CA 94103  
📞 415.749-2488, Cell 415.407-1908  
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## Chavez, Rosanna (MYR)

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**From:** Menjivar, Salvador (HOM)  
**Sent:** Tuesday, November 8, 2022 10:16 AM  
**To:** Shaw, Eric (MYR)  
**Cc:** Chavez, Rosanna (MYR)  
**Subject:** Revisions to MOHCD Underwriting Lending Guidelines

I approve the proposed policy revisions that govern MOHCD Underwriting Lending Guidelines, which governs MOHCD's policies for lending to LIHTC-funded projects.

Salvador



Salvador Menjivar  
Director of Housing  
*Pronouns: He/Him*  
San Francisco Department of Homelessness and Supportive Housing  
[salvador.menjivar1@sfgov.org](mailto:salvador.menjivar1@sfgov.org) | 415-308-2843

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## Chavez, Rosanna (MYR)

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**From:** Katz, Bridget (CON)  
**Sent:** Friday, November 4, 2022 11:43 AM  
**To:** Chavez, Rosanna (MYR)  
**Cc:** Shaw, Eric (MYR)  
**Subject:** Request for Approval for Update to Underwriting Guidelines

Approve

### **Bridget Katz**

*Development Finance Specialist*, Office of Public Finance

Controller's Office | City & County of San Francisco

Office Phone: (415) 554-6240

Cell Phone: (858) 442-7059

E-mail: [bridget.katz@sfgov.org](mailto:bridget.katz@sfgov.org)



**Attachment A: Updated Underwriting Guidelines - clean**

See attached.

City and County of San Francisco  
Mayor's Office of Housing and Community  
Development Underwriting Guidelines  
Updated \_\_\_\_\_, 2022

The following Mayor's Office of Housing and Community Development Guidelines (these "Guidelines") are intended to assist applicants ("Sponsors") for capital financing to prepare financing requests to the City and County of San Francisco (the "City"), represented by the Mayor, acting by and through the Mayor's Office of Housing and Community Development ("MOHCD"). These Guidelines will also be used by MOHCD staff for purposes of evaluating funding requests and presenting them to the Citywide Affordable Housing Loan Committee ("Loan Committee") for consideration. The intent of these Guidelines is to support consistency of loan terms across projects and to ensure long-term affordability and physical and financial sustainability throughout a project's loan/grant term.

Note: these Guidelines do not apply to the Preservation and Seismic Safety (PASS) Program or the Small Sites Program (SSP).

For supportive housing funded by the State of California's No Place Like Home (NPLH) Program, Section XI summarizes key requirements of the NPLH Program. Please refer to these requirements and the full NPLH Program Guidelines, Articles I and III.

The Loan Committee maintains the right to set final terms and conditions for a commitment of funds based on the actual circumstances of each project. MOHCD may review and approve any requests for a waiver to these Underwriting Guidelines (see Section VII) in its sole and absolute discretion. These Guidelines will be updated from time to time.

These Guidelines reference separate MOHCD Policies as follows:

<b><u>MOHCD Policy on Ground Leases</u></b>	<b><u>MOHCD Policy on Development Fees For Tax Credit Projects ("Developer Fee Policy")</u></b>
<b><u>MOHCD Operating Fees Policy</u></b>	<b><u>MOHCD Policy on Subordination</u></b>
<b><u>MOHCD Residual Receipts Policy</u></b>	<b><u>MOHCD Commercial Space Underwriting Guidelines</u></b>
<b><u>MOHCD Cash Out, Acquisition/Rehabilitation, Resyndication, and Refinancing Policy</u></b>	<b><u>Hold Harmless Policy for MOHCD's Income Limits and Maximum Rents MOHCD</u></b>
<b><u>MOHCD's Fee Proposal Guidelines for Architect and Engineering Basic Services</u></b>	<b><u>MOHCD's Communications Systems Standards (request from MOHCD project manager)</u></b>
<b><u>MOHCD LOSP Policies and Procedures Manual</u></b>	<b><u>GO Bond Eligible Expense Matrix (request latest version from MOHCD project manager)</u></b>
<b><u>Regulatory and Policy Requirements Matrix for MOHCD Construction Projects (request latest version from MOHCD project manager)</u></b>	<b><u>Multifamily Securities Program Manual of the City and County of San Francisco ("MOHCD Bond Manual")</u></b>

## **I. GENERAL FINANCING TERMS**

### **A. Term**

1. Permanent Residual Receipts Loan or Grant Term: Typically, the loan/grant term is 55 years from the closing date of conversion from construction financing to permanent financing (or 57 years from the recordation of a deed of trust). Sponsors may request up to 75 years, depending on Sponsor's source of funds.
2. Declaration of Restrictions/Regulatory Agreement Term: The life of the project, but no less than 75 years.
3. Ground Lease Term: Typically, a 75-year term with a 24-year option to extend. See separate Ground Lease Policy for additional terms.
4. Predevelopment Loan: Typical term is 3 years. May be extended upon request, with MOHCD approval, due to predevelopment period delays beyond Sponsor's control, or, up to 55 years (typically, see above) when consolidated into other City permanent debt.
5. Bridge Loans: See Section I.H. below.

### **B. Security and Lien Position**

Sponsors must execute a promissory note to evidence a loan. The Loan Agreement (or grant, if applicable) and Promissory Note must be secured by a Deed of Trust recorded on the land or leasehold estate (as applicable). The MOHCD Deed of Trust may be junior to other permanent financing necessary for the construction or rehabilitation of a project and to other government agencies based on applicable regulations. For predevelopment loans, borrowers may secure the loan through work product if the project is on government land and no ground lease has been executed.

### **C. Loan Size (Predevelopment Loan)**

1. Minimum: \$1,000,000
2. Standard: MOHCD will only evaluate one predevelopment loan request per project. MOHCD intends to size predevelopment loans so that they, along with additional funding sources obtained by the Sponsor, meet the predevelopment needs of the project through construction finance closing.

### **D. Affordability**

1. Maximum: MOHCD restricts income and rents for all projects in its Declaration of Restrictions/Regulatory Agreement at MOHCD AMI levels. Restrictions are as follows based on population served:
  - a. Families: Typically, and as required by local funding source, up to an average of 60% MOHCD AMI, with a range of 30%-80% MOHCD AMI, but may vary depending on project's financial feasibility and may include a set-aside (typically a minimum of 20%-30%) for extremely low-income households with specific population goals to be determined by MOHCD subject to the availability of subsidies or other MOHCD policy goals.
  - b. Other Populations: Maximum of 60% MOHCD AMI but may vary depending on project's financial feasibility and may include a set-aside (typically a minimum of 20%-30%) for extremely low-income households with specific population goals to be determined by MOHCD subject to the availability of subsidies or other MOHCD policy goals.
2. Subordination: MOHCD's Declaration of Restrictions will be recorded on the land or leasehold estate (as applicable) and in first position; exceptions only for government agencies based on applicable regulations.
3. Termination of Subsidies / Float Up: If a project receives operating subsidies (i.e. project based

vouchers or Local Operating Subsidy Program (LOSP)) and the subsidies are reduced or terminated at no fault of the Sponsor, such Sponsor is required to find replacement subsidies to mitigate any displacement of tenants. If the Sponsor is unable to find replacement subsidies, rent and income levels for the formerly subsidized unit(s) may rise up to the AMI levels set forth in MOHCD's Declaration of Restrictions to the extent necessary to maintain financial feasibility (i.e. cover debt service and operations to breakeven). Sponsors will be required to increase rent and income levels first on vacant units. If a project continues to have demonstrated financial difficulties, MOHCD may allow the Sponsor to increase income and rent (also on vacant units first) up to a maximum of 60% AMI as defined by the California Tax Credit Allocation Committee (CTCAC) to the extent necessary to maintain financial feasibility, except where further limited due to the source of funds (for example, HCD No Place Like Home funds administered by MOHCD - see Section VIII. Addendum 1 to these Guidelines) or restrictions of other funding agencies.

4. Hold Harmless: Annual rent increases are capped at 4% per the Hold Harmless Policy for MOHCD's Income Limits and Maximum Rents. MOHCD expects Sponsors to increase rents to allowed levels as required to maintain a project's financial feasibility.

#### **E. Interest Rate**

##### **1. Predevelopment Loan Interest Rate:**

- a. Minimum: None, but not less than 0%
- b. Standard Rate: 3% simple interest
- c. Maximum: A rate appropriate to accommodate tax credit loss requirements for the project, or the Applicable Federal Rate (AFR) for resyndications with existing MOHCD loans.
- d. Sizing interest rates: If a Sponsor requests an interest rate other than the standard 3% rate, it must be able to demonstrate why the project's financing structure requires a different interest rate. Sponsor must provide a true debt test analysis and obtain approval from MOHCD staff. At MOHCD's discretion, MOHCD will provide interest-free loans for projects sponsored by Emerging Developers as defined in Section I.H. (Note: at conversion or rollover to a permanent loan, the interest rate may be re-evaluated based on financing structure of project.)
- e. Accrued interest: If the predevelopment loan will be extended into permanent financing, any interest accrued during the predevelopment period must be repaid to MOHCD or may be included (as accrued interest or as principal) in the permanent loan. Where accrued interest is carried over to the permanent loan, Sponsor should show this as both a source and use on the MOHCD application proforma.

##### **2. Permanent Residual Receipts Loan Interest Rate:**

- a. Minimum: None, but not less than 0%
- b. Standard Rate: 3% simple interest
- c. Maximum: A rate appropriate to accommodate tax credit loss requirements for the project, or the Applicable Federal Rate (AFR) for resyndications with existing MOHCD loans.
- d. Sizing interest rates: If a Sponsor requests an interest rate other than the standard 3% rate, it must be able to demonstrate why the project's financing structure requires a different interest rate (for example, by providing a true debt analysis) and obtain approval from MOHCD staff. At MOHCD's discretion, MOHCD will provide interest-free loans for projects sponsored by Emerging Developers as defined below

**F. Cross-collateralization**

No cross-collateralization of MOHCD funded developments, except for a scattered sites rehabilitation approved by MOHCD.

**G. Annual Payments Due**

- a. Annual Payments At MOHCD's discretion, MOHCD may waive annual repayments of MOHCD's loan with a share of Residual Receipts for up to five years after initial lease-up for projects sponsored by Emerging Developers as defined in Section H below.
- b. MOHCD Ground Leases: Annual rent is established according to the MOHCD Ground Lease Policy. Typically, annual rent includes a base rent payment (\$15,000/year), which is a must pay expense and will be paid as an operating cost before any residual receipts distributions. The residual rent is paid from residual receipts, typically only after the MOHCD loan has been fully repaid. Typically, unpaid residual rent does not accrue. At MOHCD's discretion, ground lease base rent may be reduced in the following circumstances: a) for 100% permanent supportive housing projects and, b) for projects sponsored by Emerging Developers as defined in Section I.H.
2. Residual Receipts Split Calculation: Residual receipts means the operating income remaining after payment of project expenses and fees, as defined in the MOHCD loan documents – typically, operating expenses, reserve deposits, and project fees, in addition to must-pay debt (minimum debt service), including State loan mandatory interest payments and Ground Lease base rent payable to MOHCD.
  - a. Typically, the portion to be paid to the City shall be 2/3<sup>rd</sup> of residual receipts. Tax credit projects may be eligible to use an alternative 1/2 - 1/2 split for up to the first 15 years of project operations and the Sponsor's portion of residual receipts shall be considered payment of Deferred Developer Fee. Residual receipts are split with other government lenders where required by law (for example, certain HCD and CalHFA programs.)
  - b. MOHCD may consider increasing the Sponsor's split of residual receipts for projects sponsored by Emerging Developers as defined in Section I.H. See Developer Fee Policy and Residual Receipts Policy for more details.
3. Excess Proceeds: After payment of development expenses during the construction period and after issuance of IRS 8609, any remaining development sources are considered excess proceeds and must be used to repay MOHCD's loan, as established by MOHCD in its loan documents. Excess proceeds may be shared only with another soft lender that has provided a construction loan for new construction.
4. MOHCD Fees:
  - a. **Gap Loan Origination Fee**: In order to cover the cost of staff time and project management services related to MOHCD's soft debt loans, at construction closing MOHCD will charge an origination fee of 1% of the total amount of the MOHCD gap loan, up to a maximum of \$620,000, escalated 3.5% annually ("Origination Fee"). The Origination Fee is calculated based on the City's staff time to originate, underwrite, facilitate, administer, and approve new funds provided for the transaction, including predevelopment funds that are combined into the construction loan. If a portion of the MOHCD gap loan is held back until permanent conversion to satisfy the 50% test for tax-exempt bonds, the Origination Fee will still be based on the full loan amount including the portion that is held back until permanent conversion. Recast and/or consolidation of existing loans will not be subject to the fee, but if any new funds are combined or added to an existing loan, the amount of new funds will be subject to the Origination Fee. The Origination Fee applies to all MOHCD loans regardless of other funding sources

(i.e., 9% and 4% LIHTC transactions), except for PASS or Small Sites loans.

- b. **Bond Monitoring Fees:** When MOHCD is the bond issuer, see separate MOHCD Bond Manual.
- c. **Loan Compliance Monitoring Fee:** For projects in which MOHCD has agreed to not issue the bonds (atypical) but is the lender or providing project management services, MOHCD will charge a loan monitoring fee of \$2,500 per year, escalated 3.5% annually.

**H. Emerging Developers.**

As determined by MOHCD in its reasonable discretion, “Emerging Developer” means an entity, including a Tribal Entity, that has developed, owned, rehabilitated, or operated at least one (1) but not more than three (3) Affordable Housing Developments that are equivalent to the proposed Affordable Housing Development in size, scale, amenity, and target population. The Department may determine experience by evaluating the experience of the entity itself, the experience of senior staff within the organization, or the experience of a more experienced entity (more than 3 Affordable Housing Development projects) to contract with (through partnership or joint venture) that meets the experience requirements.

**I. Bridging Other Sources of Funding**

There are separate terms for any portion of a MOHCD permanent loan that is bridging other funds (either funds that have been awarded but are not disbursed at construction closing, or funds that will be applied for and presumably awarded after construction closing).

1. Affordable Housing Program (AHP):

- a. **Establishing competitiveness:** If Sponsor plans to apply for AHP funds after construction closing, Sponsor must show at gap loan request that self-score is competitive according to its financial consultant.
- b. **Separate Term:** The bridge portion of the MOHCD loan will have a separate term indicated in the Loan Agreement and Note, which will be due 270 days after AHP award date or at permanent conversion, whichever comes first. If AHP funds are not awarded to the project, the AHP bridge portion of the MOHCD loan will carry the same terms as the permanent MOHCD loan.

2. Other: On a case-by-case basis, MOHCD may bridge other types of funding at amounts and terms acceptable to MOHCD.

**J. Insurance Requirements**

Commercial liability insurance for the Sponsor and its contractors and agents, as appropriate, and property and builder’s risk insurance coverage and payment and performance bonds for the subject property will be required as established by MOHCD in its loan documents. If a Sponsor does not control the subject property (via ownership or ground lease), the applicable property and builder’s risk insurance requirements will apply at the time of acquisition. Sponsor should request MOHCD’s **Insurance Requirements** from the MOHCD project manager on the project’s kick off call. Any request to modify MOHCD’s Insurance Requirements must be approved by the City’s Risk Manager.

**K. Expenditure Requests**

Invoice Date: With the exception of a project’s first expenditure request (if approved by Loan Committee), MOHCD is not obligated to pay expenditure requests for any invoices submitted more than 180 days after invoice date.

**L. Regulatory and Policy Requirements for MOHCD Construction Projects**

1. General: There is a complex array of requirements related to MOHCD-funded construction projects which must be met by project Sponsors, including accessibility, procurement, prevailing wage, workforce, public art and civic design review, municipal power service, environmental, and relocation. Sponsors should work closely with MOHCD staff from the beginning to determine project-specific requirements and the applicable City agencies that oversee them. Refer to the most recent **Regulatory and Policy Requirements Matrix for Construction Projects** by requesting from MOHCD staff.
2. Procurement and Small Business Enterprises (SBEs) / Local Business Entities (LBEs): Sponsors must contact the City's Contract Monitoring Division (CMD) at the very beginning of a project to develop a **procurement plan** for Architecture and Engineering, the General Contractor, subcontractors, and other project consultants. The plan must also establish project goals with respect to SBEs/LBEs for both Professional Services and Construction. Sponsor must provide the CMD-approved plan and project goals to their MOHCD project manager.
3. Public Art and Civic Design Review: Most MOHCD-funded projects are subject to public art and civic design review requirements, per an MOU between MOHCD and the Arts Commission. Sponsors must verify with their MOHCD project manager at the very beginning of a project.
  - a. Public Art: Sponsors are responsible for creating public art at the project. Sponsors must contact the Arts Commission to set the public art budget (based on a formula calculated at the time of the project's schematic design phase budget) and work with the Arts Commission on artist selection and art approval.
  - b. Civic Design Review: Sponsors can satisfy this requirement by including a member of the Arts Commission on the selection committee for the project architect.
4. MOHCD Cultural Districts Program: Sponsors must partner with MOHCD's Cultural Districts Program to inform the project's community outreach and engagement plan. At the beginning of the project, Sponsor should work with their MOHCD project manager to connect to Cultural Districts Program staff where a site is located within or adjacent to a Cultural District.

**II. RESIDENTIAL DEVELOPMENT PROFORMA ASSUMPTIONS**

**All projects are required to secure permanent loans to reduce the overall MOHCD funding gap should the project cash flow support such debt.**

**A. Debt Service Coverage Ratio (DSCR)**

1. Standard: 1.15:1 or DSCR must be sufficient to ensure 1.0:1 through Year 20 of pro forma.
2. Calculation Method: DSCR must be calculated after accounting for reserve deposits, bond monitoring fees, and Ground Lease base rent payment. In the case of subordinate amortized loans, DSCR should be calculated using cash flow remaining after debt service on 1<sup>st</sup> mortgage. The goal in all cases is to maximize the amount of leveraged debt.

**B. Terms of Third-Party Project Financing**

1. Lender/Investor: MOHCD must review and approve the terms of equity investors, mortgage lenders, and construction lenders before Sponsor may enter into commitments with those parties. These terms should be summarized in a matrix format, including reference to

MOHCD's Underwriting Guidelines and any waiver that is requested, and submitted to the MOHCD project manager for review.

- a. ROFR: Investor Limited Partnership Agreements (LPA) must include a Right of First Refusal (ROFR) that is aligned with IRS regulations and which allows the Sponsor to buy out the LP around year 15 at a purchase price equal to debt plus exit taxes.
  - b. 1<sup>st</sup> Mortgage Rate Lock: If there is a reduction in the 1<sup>st</sup> mortgage interest rate between the final sizing of the MOHCD permanent loan and the 1<sup>st</sup> mortgage rate lock, all savings resulting from the interest rate reduction will be repaid to MOHCD and will not be considered excess proceeds. MOHCD must review and approve any request to add scope into the project.
2. Predevelopment financing: MOHCD will only pay interest on third-party predevelopment financing, including Sponsor sources such as lines of credit, with prior approval from the MOHCD project supervisor. Sponsor must provide MOHCD with a proposed term sheet and estimate of total fees/interest with such request.

**C. Reserves**

**All capitalized reserves must be funded no later than permanent conversion or as required by the project underwriting. All reserves will remain assets of the project and cannot be released at the end of the tax credit term to the Limited Partnership.**

1. Capitalized Operating Reserves: Twenty-five percent (25%), and if required by lender or investor, up to fifty percent (50%) of the 1<sup>st</sup> full-year of budgeted operating expenses (including debt service, if any) must be capitalized in an interest-bearing account controlled by the Sponsor. Note: HOME and CDBG funds cannot be used to fund capitalized operating reserves.
2. Operating Reserve Deposits: Annual deposits must be made as necessary to maintain a balance equal to 25% of prior year's operating expenses plus debt service, if any.
3. Capitalized Replacement Reserves
  - a. New Construction: None, excepting certain Permanent Supportive Housing sites if approved by MOHCD.
  - b. Acquisition/Rehab: Up to: i) \$1,000 per unit, or ii) based on a 20-year Capital Needs Assessment (CNA), including existing reserves, if any, at time of acquisition.
4. Replacement Reserve Deposits
  - a. New Construction: Lesser of: i) 0.6% of unit construction cost, defined as all hard construction costs excluding cost of site work and podium foundations but including construction contingency, or ii) \$500/unit/year. After the first 5 years of operation, the Sponsor may request adjustments to the above amount every five (5) years based on a CNA, which is required to be submitted to MOHCD every five (5) years after the project's construction completion.
  - b. Acquisition-Rehab: The greater of: i) the amount needed according to an approved CNA, or ii) \$500/unit/year. May be updated every five (5) years based on a revised CNA acceptable to City. Sponsor must submit a CNA to MOHCD every five (5) years after the project's construction completion.
5. Capitalized Rent Reserve Deposits
  - a. Continuum of Care: Sponsor may request funding of a Rent Subsidy Reserve only if required by other lenders.
  - b. Section 8 Reserve: None allowed for contracts for 10 years or more, except if required by



other lenders.

- c. LOSP: Capitalized reserves are not allowed because of the LOSP program-wide reserve.
6. Commercial Space Reserves: See separate Commercial Space Underwriting Guidelines.

#### **D. Fees**

1. Developer Fee: See separate Developer Fee Policy.
2. Commercial Space Developer Fee: See separate Commercial Space Underwriting Guidelines.
3. Partnership Management Fee: See separate Operating Fee Policy.
4. Asset Management Fee: See separate Operating Fee Policy.
5. LP Asset Management Fee: See separate Operating Fee Policy.
6. Accrued but Unpaid Fees: Any project fees that accrue in one year but cannot be paid due to lack of surplus cash, or any other reason, can be paid in later years only AFTER the full amount due to the City for that year has been paid (i.e. accrued but unpaid fees must be paid out of the Sponsor's split of residual receipts). Exceptions may be made for projects sponsored by Emerging Developers as defined in Section I.H.

#### **E. Budget Contingencies**

Type	Contracts \$0-\$10M	Contracts \$10M-\$45M	Contracts \$45M + *
<b>Bid</b>	4%	3%	2%
<b>Design</b>	4%	3%	1.75% - 2%
<b>Plan Check</b>	4%	3%	1.75% - 2%

*\*Contracts assumed to include larger design-build scopes of work which mitigate cost and plan check volatility.*

1. Bid Contingency: Removed at the earlier of construction contract signing or 30 days prior to construction start.
2. Design Contingency: Removed at 100% Construction Documents.
3. Plan Check Contingency: Removed at receipt of Plan Check comments on building permit and major addenda.
4. Construction Contingency – Owner Held
  - a. New Construction: 5% of construction contract value.
  - b. Rehabilitation: 10 - 15% of construction contract value.
  - c. Limits on Voluntary Owner Upgrades: Voluntary owner upgrades must be approved by MOHCD and are limited to an aggregate amount that does not exceed excess proceeds, if any.
5. Relocation Contingency: 15% of relocation budget. Include in relocation line item in development budget.
6. Soft Cost Contingency: 5-10% of soft costs, excluding developer and administrative fees; construction loan and soft loan interest; cost of issuance, loan fees, and CTCAC/CDLAC fees; and reserves for projects costing \$5 million or more. May be increased for smaller projects.

#### **F. Furniture, Fixtures, and Equipment (FF&E)**

Detailed budgets must be provided to the MOHCD project manager as part of the gap loan approval.

1. Unit Furnishings: Not a permitted use of MOHCD funds unless for supportive housing units.

For supportive housing units, assume \$3,000 per unit for SROs or studios, and \$2,000 per bedroom for other units. Additional \$650 permitted per homeless unit for soft goods such as start-up kitchen equipment and linens.

2. Common Area Furnishings: For new construction, assume budget equal to \$2,500 per unit. For rehab, must be based on actual need but not to exceed \$2,500 per unit. This budget line item must also include any interior designer costs.
3. Property Management, Services, & Maintenance Start-Up Costs: Includes purchase of maintenance equipment and supplies and property management and services office start-up costs. For LOSP projects, services office start-up costs must be paid out of the Sponsor's services contract with the Department of Homelessness and Supportive Housing ("HSH") rather than the development budget.

Fee limits in this section may increase annually by the Consumer Price Index.

**G. Communications Wiring and Internet Access**

All projects must meet MOHCD's Communications Systems Standards, to be provided by the MOHCD project manager.

**H. Parking**

Parking maximums per San Francisco Planning Code.

**I. Marketing and Rent-Up**

Includes marketing and staffing expenses incurred from the start of project marketing through initial lease up. Typically, a minimum of six months, and up to nine months for middle-income (80-120% SF AMI) projects. A detailed budget must be provided to the MOHCD project manager.

**J. Services Staffing: Assume the following –**

1. For general population units: Operating budget should assume a staffing ratio of no more than 1 FTE (Full Time Employee) Services Connector/Resident Services Coordinator per 100 units (rounded to the nearest .5 FTE), in addition to supervision and program expenses/supplies. Sponsors to provide MOHCD with a sources and uses Services budget, with major line items identified in the uses (staff, admin costs, contracts etc.) and each source clearly identified with commitment status.
2. For supportive housing units: Sponsor will enter into a contract with HSH. This contract should start three (3) months before TCO. See the LOSP Policies and Procedures Manual for more information on staffing ratios and budgets. MOHCD and HSH must simultaneously review and approve the services budget.

**K. Architect and Engineering Fees:**

1. Basic Services: Architect contracts should be full service and include all consultants referenced in MOHCD's Fee Proposal Guidelines for Architect and Engineering Basic Services. Prime Architect will complete and submit MOHCD's A&E Fee Breakdown Template, provided on request, for review and approval prior to entering into contract. A&E contracts should be signed as early in the process as possible, but no later than the completion of schematic design.
2. Peer Review: Peer review of the architect's and/or the engineer's work may be required at the discretion of the City but the cost of Peer Review is not included in Basic Services and is not subject to the fee cap.

**L. Construction Management:**

1. Staffing: Sponsor must identify specific staff or consultant(s) who will provide construction management functions on behalf of the owner, including permit applications and coordination, cost analysis, completion evaluations, change order evaluations, scope analysis and schedule analysis. A Construction Manager/Owner's Representative is required for each MOHCD-funded project. Note: Any expenses associated with permit coordination may be distributed amongst the Owner/Architect/Owner's Representative, though must be limited to \$15,000 per project.
2. Scope of Services: The Construction Manager/Owner's Representative scope of services should generally follow MOHCD's Scope of Services for Owner's Representative document, provided on request.
3. Construction Management Fee: The Construction Manager/Owner's Representative fee, if using a third-party consultant, should follow the tiered fee structure outlined below, depending on project size and whether new construction or rehabilitation.

For a small size project (\$2M to \$8M construction contract):	<u>Monthly</u>	<u>Annual</u>
Preconstruction (assumes less than 12 months)	average monthly fee: \$3,000	N/A
Construction	average monthly fee: \$3,800	Max annual fee: \$45,600

For a medium size project (\$8M to \$24M construction contract):	<u>Monthly</u>	<u>Annual</u>
Preconstruction	average monthly fee: \$3,300	Max annual fee: \$39,600
Construction	average monthly fee: \$4,800	Max annual fee: \$57,600
For a large size project (\$24M and over construction contract):	<u>Monthly</u>	<u>Annual</u>
Preconstruction	average monthly fee: \$4,200	Max annual fee: \$50,400
Construction	average monthly fee: \$6,000	Max annual fee: \$72,000

Fee limits in this in this section may increase annually by the Consumer Price Index.

**M. General Contractor (GC) Fees and Construction Contract**

1. Overhead, Profit and General Conditions: See CTCAC regulations (Section 10327(c)1), regardless of whether a project is funded with tax credit equity, to determine the maximum value of these line items in the aggregate.
2. Escalation: Escalation shall be included as a separate hard cost line item during the predevelopment phase. The amount of escalation must be commensurate with the time period until expected construction start and based on current market conditions. Sponsor to consult with MOHCD.
3. Construction Contract: MOHCD monitors bidding, contracting, and cost containment. MOHCD must approve Schedule of Values and key contract terms before Sponsor can enter into construction contract.
4. Change Orders: All change orders shall be reviewed and accepted by MOHCD's construction representative. Mark-up on change orders shall be limited to 15% in the aggregate, inclusive of any general contractor's mark-up.
5. Early Release of Retention: Requests for early release of retention are subject to the MOHCD construction representative's prior approval. Subcontractors for whom retention will be released early should be identified in the construction contract.

### III. RESIDENTIAL OPERATING PROFORMA ASSUMPTIONS

- A. **Vacancy Allowance:** 5%, or as allowed by CTCAC.
- B. **Increases in Gross Income:** 2.5% annually, or as allowed by CTCAC.
  - 1. **Project Based Voucher subsidies:** For projects with Project Based Voucher contracts, annual subsidy increase assumptions should be adjusted based on historical and projected Fair Market Rent trends. Sponsors encouraged to consult with their financial consultant or MOHCD project manager. Sponsor should conduct a Rent Reasonableness Study (see [www.affordablehousing.com](http://www.affordablehousing.com)) before submitting proforma application to MOHCD.
  - 2. **Tenant rents for supportive housing units:** Assumed tenant rents should be estimated with feedback from HSH and MOHCD based on the target population's estimated income and comparable projects. See the MOHCD LOSP Policies and Procedures Manual. Escalation should reflect historic COLAs (Cost Of Living Adjustments) of Social Security benefits and other forms of public assistance.
- C. **Increases in Operating Expenses:** 3.5% annually, or as allowed by CTCAC.

**IV. UNDERWRITING OF SPONSOR.** Minimum requirements are indicated below. There may be additional Sponsor requirements for each project-specific procurement process. At MOHCD's discretion, MOHCD may provide flexibility in meeting minimum requirements for projects sponsored by Emerging Developers as described in H1, including the utilization of consultants to meet these requirements. Additionally, Emerging Developers or organizations interested in developing projects eligible to compete in CDLAC's BIPOC Pool should contact MOHCD about its Emerging Developers Program.

- A. **Organizational Capacity:** Sponsors must be able to work with MOHCD to create developments that are responsive to populations disproportionately impacted by systemic racism, implement a culturally competent approach throughout the development process, and align the development program with City policies on anti-displacement, racially inclusive communities, and creation of stable housing for vulnerable populations. Developers must be able to make the guarantees and meet private lenders' and tax credit investors' underwriting requirements if pursuing the development as a sole sponsor. Sponsors may joint venture with more experienced Sponsors in order to achieve threshold experience. Such joint ventures will be reviewed and approved by MOHCD. See Developer Fee Policy for specific requirements on developer fee split for joint venture partners. Sponsors will be evaluated on the successful operating performance of their properties in the MOHCD portfolio. This evaluation will include the review of any performance audits of the Sponsor conducted by MOHCD or other City agencies. If there are outstanding concerns with regards to past performance, compliance, or capacity, MOHCD may require corrective actions as a condition of funding approval. Finally, as part of the Loan Committee process, Sponsors will be asked to provide demographic data on the race/ethnicity of board members, staff overall, and development team staff specifically.
- B. **Project Management Capacity:** Sponsor must document its capacity to successfully plan, design, and develop the project for which it is requesting funding, throughout the period of development, either through staff with appropriate experience and capacity, contracted services, or collaboration with other organizations. Sponsor will be required to document the experience and capacity of key staff, their workloads, and the organizational structure for supporting staff. If there are outstanding concerns with regards to past performance or capacity, MOHCD may require corrective actions as a condition of funding approval.

- C. Asset Management Capacity:** Sponsor must provide information requested by MOHCD to show how they monitor the financial performance and manage the capital needs of their existing affordable housing assets. Sponsor must also provide information describing current and future asset management staffing plans. MOHCD will use the information provided to verify that Sponsor's approach to asset management meets the City's stewardship expectations particularly with regard to timely completion of Annual Monitoring Reports, performance of Capital Needs Assessments, maintaining adequate Replacement Reserves, timely collection of tenant rents, housing retention, payments of annual residual receipts due, and advancing racial equity. If there are outstanding concerns with regards to past performance or compliance, MOHCD may require corrective actions as a condition of funding approval.

**V. COMMERCIAL SPACES IN RESIDENTIAL PROJECTS**

See separate Commercial Space Underwriting Guidelines.

**VI. REFINANCE ASSUMPTIONS**

See separate Cash Out, Acquisition/Rehabilitation, Resyndication, and Refinancing Policy.

**VII. WAIVER REQUESTS**

Any requests from the Sponsor to waive any part of these Underwriting Guidelines must be submitted in writing to the MOHCD project manager. All waiver requests are subject to the approval of MOHCD staff and the Citywide Affordable Housing Loan Committee, each at its own discretion.

## VIII. ADDENDUM 1: KEY REQUIREMENTS OF NO PLACE LIKE HOME PROGRAM

For supportive housing funded by the State of California's No Place Like Home Program, MOHCD has developed this addendum to summarize key requirements of the NPLH Program. Sponsors of NPLH-funded supportive housing must comply with all relevant requirements of the NPLH Program Guidelines. The full program guidelines are available at the State of California Housing and Community Development Department's website: <http://www.hcd.ca.gov/grants-funding/active-funding/nplh.shtml#guidelines>.

The goal of MOHCD's NPLH Program is to facilitate acquisition, design, construction, rehabilitation, and preservation of affordable multifamily rental housing for persons with a serious mental illness who are homeless, chronically homeless, or at-risk of chronic homelessness. Qualifying multifamily structures must collectively contain five or more units and shall consist of scattered site housing and multifamily affordable developments. Shared housing is not an eligible development under MOHCD's guidelines.

Please disregard provisions of the HCD NPLH Program Guidelines in Article III, related to the Capitalized Operating Subsidy Reserve (COSR) and transition reserve requirements, as these are superseded by MOHCD's own guidelines found in the LOSP Policies and Procedures.

**Eligible Uses of Funds.** MOHCD will evaluate each qualified multifamily project for suitability for NPLH funding. Awarding NPLH funding is conditional on acceptance or eligibility for available state funding. The total amount of funds to be awarded to NPLH-assisted units shall not exceed the costs associated with assisted units. To determine these costs, the cost allocation rules from the State of California's Multifamily Housing Program Regulations (25 California Code of Regulations, Section 7304(c)) that govern eligible uses of funds shall apply.

[http://www.hcd.ca.gov/grants-funding/already-have-funding/uniform-multifamily-regulations/docs/MHPandSHRegs5\\_14\\_05.pdf](http://www.hcd.ca.gov/grants-funding/already-have-funding/uniform-multifamily-regulations/docs/MHPandSHRegs5_14_05.pdf)

**Selection Criteria.** MOHCD will evaluate the site's eligibility for NPLH funding utilizing the following criteria identified in the HCD NPLH Guidelines (section 301(a) 4-8 and 13-14), including, but not limited to:

- Suitability of each location for the NPLH residents, including proximity to transportation, services, and other amenities in a manner that ensures integration of the NPLH residents in the community;
- The Project site must be free from severe adverse environmental conditions, such as the presence of toxic waste that is economically infeasible to remove and that cannot be mitigated.
- All units must be on a permanent foundation and must meet all applicable State and local requirements pertaining to rental housing, including but not limited to, requirements for minimum square footage, and requirements related to maintaining the property in a safe and sanitary condition.
- Readiness to proceed to construction;
- Capital, operating subsidy, and supportive services leverage;
- Compliance with applicable state and federal relocation laws including California Government

Code Section 7260 et seq., and 25 CCR Section 6000 et seq.; and

- Compliance with Article XXXIV Section 1 of the California Constitution, as clarified by Public Housing Election Implementation Law (H&S Code Section 37000 et seq.).

**Experience.** MOHCD will evaluate the experience of the project team including the development sponsor, property manager, and lead service provider to ensure that the following minimum experience requirements are met:

- (1) Development and ownership of at least two affordable rental housing projects in the last ten years, with at least one of those projects containing at least one unit housing a tenant who qualifies as a member of the NPLH target population
- (2) Property management operation of at least two affordable rental housing projects in the last ten years, with at least one of those projects containing at least one unit housing a tenant who qualifies as a member of the NPLH target population
- (3) Lead services provider, which may be the City, shall have three or more years of experience serving persons who qualify as members of the NPLH target population. If this experience does not include experience serving persons in supportive housing, it must include experience helping persons address barriers to housing stability or providing other support services related to housing retention (from Section 202 (e) that details Project Threshold Requirements)

**Integration.** Proposed projects must demonstrate integration of the NPLH target population with the general public. In order to demonstrate compliance with this requirement, following conditions must be met:

- (1) Assisted units must be integrated with other units in the project and not separated onto separate floors or areas in the building
- (2) To promote integration of the target population with other project tenants, in projects of greater than 20 units, MOHCD will fund no more than 49 percent of the project's total units as NPLH assisted units. This limitation shall not be interpreted to preclude occupancy of any project units by persons with disabilities, or restrictions by other funding sources, including but not limited to CTCAC, that result in more than 49 percent of the total project units being restricted to persons with disabilities
- (3) Sponsors must certify that they will facilitate or provide regular community building activities and architectural design features that promote tenant interaction, as feasible depending on the scope of the construction or rehabilitation activity
- (4) The service plan and property management plan submitted with the funding application must document policies that promote participation by tenants in community activities, and impose no restrictions on guests that are not otherwise required by other project funding sources or would not be common in other unsubsidized rental housing in the community. (from Section 202 (g))

**A. Uses and Terms of NPLH Program Assistance** (from Section 302 of NPLH Program Guidelines)

MOHCD will allocate NPLH funds to finance capital costs of supportive housing development including but not limited to acquisition, design, construction, rehabilitation, or preservation of affordable multifamily rental housing. (from Section 302 (a))

MOHCD will not allocate NPLH funds to capitalize operating subsidy reserves for assisted units. (from

### Section 302 (b))

NPLH funds may be provided as predevelopment, construction, or post-construction permanent financing. If funding is used as predevelopment or construction financing, NPLH funding must convert to post construction permanent financing. (from Section 302 (d))

NPLH allocations to multifamily rental housing of five or more units shall be provided in the form of a deferred payment loan that shall have an initial affordability period of 55 years or longer commencing on the date of recordation of the NPLH regulatory agreement. (Section 302 (e)) The loan may bear a zero percent interest rate. Any interest payment, loan repayments, or other return of funds must be returned to the State Department of Housing and Community Development pursuant to Welfare and Institutions Code Section 5849.4 (b) that governs the NPLH Program. (from Section 302 (e))

[https://leginfo.legislature.ca.gov/faces/codes\\_displaySection.xhtml?lawCode=WIC&sectionNum=5849.4](https://leginfo.legislature.ca.gov/faces/codes_displaySection.xhtml?lawCode=WIC&sectionNum=5849.4) (included as reference only)

Program funds shall be secured by the project's real property and improvements, and subject only to liens, encumbrances and other matters of record approved by MOHCD. (from Section 302 (f))

MOHCD may charge reasonable and customary annual monitoring fees to be used in conjunction with administration funds for compliance monitoring required under Section 311 of the NPLH Program Guidelines during the applicable period of affordability set forth in Section 302, paragraph (e). These fees must be based upon the average actual cost of performing the monitoring of the assisted units.

The basis for determining the amount of the fee must be documented and the fee must be included in the costs of the project as part of the project underwriting analysis. (from Section 302 (g)). Currently, MOHCD has opted not to charge a separate NPLH monitoring fee. Any changes to this policy would be made to these Guidelines.

NPLH funds not committed to projects within 24 months of award by the State Department of Housing and Community Development shall be returned to the State, and such funds shall be made available for award to applicants as part of the State's Competitive Allocations. Evidence of committed funds may include award letters, commitment letters, or other written agreements evidencing a commitment of funds. (from Section 302 (h))

### **B. Occupancy, Income and Rent Limit Requirements** (from Section 303 of NPLH Program Guidelines)

Occupancy of all NPLH assisted units shall be restricted to households with at least one member who qualifies as a member of the target population. (from Section 303 (a)) The NPLH target population includes adults or older adults with a serious mental disorder or children or adolescents with serious emotional disturbance who are homeless, chronically homeless, or at-risk of chronic homelessness. This includes persons with co-occurring mental and physical disabilities or co-occurring mental and substance use disorders. (from the State's Welfare and Institutions Code Section 5600.3 (a) and (b) that governs the Mental Health Services Act Program and the target population for the MHSA Program)

[http://leginfo.legislature.ca.gov/faces/codes\\_displaySection.xhtml?sectionNum=5600.3.&lawCode=WIC](http://leginfo.legislature.ca.gov/faces/codes_displaySection.xhtml?sectionNum=5600.3.&lawCode=WIC)



Total household income at the time of move-in shall not exceed 30 percent AMI limit as published by the State Department of Housing and Community Development. (from Section 303 (a))

Income determination shall be made in accordance with the requirements in the State of California's Multifamily Housing Program Regulations that govern the calculation of gross income and net income for eligible households for assisted units (25 California Code of Regulations, Section 6914 and 25 CCR, Section 6916) (from Section 303 (b))

For assisted units, if at the time of recertification, a tenant household's income exceeds the 30 percent AMI level and this increase is based solely on the current SSI/SSP payment rate or cost of living adjustment, the household rent shall not exceed 30 percent of household income. These units shall continue to be designated as assisted units. (from Section 303 (c))

For assisted units, if at the time of recertification, a tenant household's income exceeds the 30 percent AMI level and this increase is based on factors other than or in addition to the current SSI/SSP payment rate or cost of living adjustment, to the extent a rent increase for the household is permitted by statutes and regulations governing the project's other financing sources, the sponsor:

- (1) Shall redesignate the tenant's unit as a unit at the higher income level, provided that there are non-assisted units restricted at the higher income level. These units shall not be designated as NPLH assisted units.
- (2) Shall increase the tenant's rent to the level applicable to units at the higher income level; and
- (3) Shall designate the next available comparable non-assisted unit as an assisted unit by the income level originally applicable to the household unit the unit mix required by the program regulatory agreement is achieved.
- (4) If all of the project units are assisted units, that project can continue with the over-income unit until such time as the over-income household(s) no longer reside in the project.
- (5) A unit shall be deemed comparable if it has the same number of bedrooms and reasonably similar square footage as the original unit. (from Section 303 (d))

For assisted units, if at the time of recertification, a tenant household's income exceeds the income limit designated for the household's unit, but does not exceed the limit for a higher income level applicable to new NPH tenants, the sponsor may increase the household's rent to an amount not exceeding the closest rent limit applicable to the household's income level at the time of recertification. (from Section 303 (e))

Projects shall maintain documentation of tenant eligibility consistent in all of the following ways, as applicable:

- (1) Documentation of an adult or older adult with a serious mental disorder or a child or adolescent with a serious emotional disturbance, as provided by a qualified mental health worker in accordance with the requirements of WIC Section 5600.3 (from the State's Welfare and Institutions Code Section 5600.3 that governs the Mental Health Services Act Program and the target population for the MHSA Program)
- (2) Documentation of a person's status as homeless or chronically homeless as defined in Section 101 of the NPLH Program Guidelines and established through the local coordinated entry system or at-

risk of chronic homelessness as defined in Section 101 of the NPLH Program Guidelines and established through the local coordinated entry system or other procedures for determining qualification

- (3) In no event shall a person be required to be a client of the City of San Francisco's behavioral health department or a recipient of mental health or other services in order to qualify for or remain in an assisted unit (from Section 303 (f))

These occupancy, income and rent limit requirements shall apply for the full term of the NPLH program loan (from Section 303 (g)).

### **C. Underwriting Standards and Other Requirements (from Section 304 of NPLH Program Guidelines)**

All assisted units shall have rents restricted to 30 percent AMI (as defined by HCD) or below as specified in the project regulatory agreement with MOHCD, except as otherwise permitted in the above Occupancy, Income and Rent Limit Requirements (detailed in Section 303 (c) of NPLH Program Guidelines) (from 304 (a)).

Rent levels shall be expressed in five percent increments as a percentage of SMI (from 304 (b)).

Before committing funds to project, MOHCD must evaluate the project in accordance with underwriting standards it has chosen to use for this program. These standards must consider at a minimum, such things as: reasonableness of projected construction and operating expenses, income and expense escalators, vacancy rate assumptions, debt coverage ratio, operating reserves, replacement reserves, budgeted construction contingency, limits on development costs, developer fees, asset management and partnership fees, and use of operating cash flow (from 304 (c)).

The maximum amount of assistance per assisted unit shall take into account the number of bedrooms per unit or other measures of unit size, as well as the level of affordability provided per unit, with more affordable units being provided more subsidy (from Section 304 (d)).

The total amount of program assistance to a project shall not exceed the eligible costs associated with assisted units in accordance with a methodology that allocates costs among the assisted and non-assisted units in reasonable proportion to their anticipated share of costs (from Section 304 (e)). The total amount of NPLH funds per site will be determined at the sole determination of MOHCD, subject to funding availability and HCD limitations on State funds stacking, and in no case higher than the gap between the cost to build and the other available subsidies.

California Labor Code Section 1720 et seq. requires payment of prevailing wages for certain developments paid for in whole or in part from any public funding source, and exempts other developments from this requirement. All funds provided under this program are public funds within the meaning of these Labor Code sections. Program funding for a portion of a project shall not necessarily, in and of itself, be considered public funding of the entire project. MOHCD shall be responsible for determining on a case-by-case basis, the extent of the applicability of state prevailing wage law to each individual project. (from Section 304 (f)).

[http://leginfo.legislature.ca.gov/faces/codes\\_displaySection.xhtml?lawCode=LAB&sectionNum=1720.](http://leginfo.legislature.ca.gov/faces/codes_displaySection.xhtml?lawCode=LAB&sectionNum=1720)

Projects of five or more units must meet the accessibility requirements specified in the California Tax Credit Allocation Committee regulations, as may be amended and renumbered from time to time, including those of Section 10325(f)(7)(K) and, for senior projects, those of Section 10325(g)(2)(B) and (C), or a higher standard if required by MOHCD. Exemption requests, as provided for in the CTCAC regulations, must be approved by MOHCD. Projects must also provide a preference for accessible units to persons with disabilities requiring the features of the accessible units in accordance with Section 10337(b)(2) of the CTCAC regulations, or a higher standard if required by MOHCD. All projects must also ensure that any other applicable federal, state, and local accessibility requirements are met. (from Section 304 (g)).

<https://www.treasurer.ca.gov/ctcac/programreg/2018/20180516/clean.pdf> (CCR governing CTCAC regulations)

Projects shall have a transition reserve (further described in the LOSP Policies and Procedures) in an amount established by the MOHCD in the event that any project-based rental assistance is not renewed and the project cannot secure other rental or operating subsidies to continue without immediately raising rents on the assisted units.

- (1) If rent increases on the assisted units are necessary after exhausting all transition reserve funds such increases shall only be permitted to the minimum extent required for financial feasibility, as determined by MOHCD. In addition, rents on assisted units shall not, in any event, be increased to an amount in excess of 30 percent of 50 percent of AMI (as defined by HCD), adjusted by number of bedrooms.
- (2) MOHCD shall notify the State Department of Housing and Community Development at least 12 months in advance of any rent increase on the assisted units due to exhaustion of the transition reserve.
- (3) If rent increases on the assisted units are necessary due to loss of rental or operating assistance, if it is determined that NPLH tenants will need to move after exhausting all transition reserve funds, a transition plan shall be implemented to identify other permanent housing options that may be more affordable to NPLH tenants who cannot afford the increased rent, and to assist those persons in accessing other available housing. Funds from the transition reserve may be used for these expenses. (from Section 304 (h))

#### **D. Operating Budget Requirements**

MOHCD shall review annually proposed annual operating budgets of funded projects to ensure that budget line items, including any proposed rent increases, are reasonable and necessary in light of costs for comparable permanent supportive housing projects and prior year budgets (from Section 306).

#### **E. Supportive Services Requirements**

Each application selected for funding must include a project-specific supportive services plan developed by the county in partnership with the project sponsor, supportive service providers, and the property manager. (from Section 203 (a))

The property management staff and service providers must make participation in supportive services

by NPLH tenants voluntary. Access to or continued occupancy in housing cannot be conditioned on participation in services or on sobriety. The supportive services plan must describe the services to be made available to NPLH tenants in a manner that is voluntary, flexible and individualized, so NPLH tenants may continue to engage with supportive services providers, even as the intensity of services needed may change. Adaptability in the level of services should support tenant engagement and housing retention. (from Section 203 (b))

The following supportive services shall be made available to NPLH tenants based on tenant need. Available mental health services shall be provided directly by the County or through a subcontracted lead service provider. The City or the City's lead service provider for the Project shall coordinate the provision of or referral to services needed by individual tenants, including but not limited to substance use treatment services, for a minimum of 20 years. Except as otherwise noted below, the following required services can be provided onsite at the project or offsite at another location easily accessible to tenants:

- (1) Case management;
- (2) Peer support activities;
- (3) Mental health care, such as assessment, crisis counseling, individual and group therapy, and peer support groups;
- (4) Substance use services, such as treatment, relapse prevention, and peer support groups;
- (5) Support in linking to physical health care, including access to routine and preventive health and dental care, medication management, and wellness services;
- (6) Benefits counseling and advocacy, including assistance in accessing SSI/SSP, enrolling in Medi-Cal; and
- (7) Basic housing retention skills (such as Unit maintenance and upkeep, cooking, laundry, and money management). (from Section 203 (c))

The following additional information shall be provided in the supportive services plan:

- (8) Description of the Target Population to be served, and identification of any additional subpopulation target or occupancy preference for the NPLH Project that the Applicant wishes to undertake beyond what is permitted under the Target Population requirements. Any additional subpopulation targeting or occupancy preference for NPLH Project must be approved by the Department prior to construction loan closing and must be consistent with federal and state fair housing requirements;
- (9) Description of tenant outreach, engagement and retention strategies to be used;
- (10) Description of each service to be offered, how frequently each service will be offered or provided depending on the nature of the service, who is anticipated to be providing the services and the location and general hours of availability of the services;
- (11) For services provided off-site, the plan must describe what public or private transportation options will be available to NPLH tenants in order to provide them reasonable access to these services. Reasonable access is access that does not require walking more than ½ mile.
- (12) Description of how the supportive services are culturally and linguistically competent for persons of different races, ethnicities, sexual orientations, gender identities, and gender expressions. This includes explaining how services will be provided to NPLH tenants who do not speak English, or have other communication barriers, including sensory disabilities, and how communication among the services providers, the property manager and these tenants will be facilitated;
- (13) Estimated itemized budget, and sources of funding for services;

- (14) Description of how the supportive services staff and property management staff will work together to prevent evictions, to adopt and ensure compliance with harm reduction principles, and to facilitate the implementation of reasonable accommodation policies from rent-up to ongoing operations of the Project;
- (15) General service provider and property manager communication protocols;
- (16) Description of how the physical design of the Project fosters tenant engagement, onsite supportive services provision, safety and security, and sustainability of furnishings, equipment, and fixtures; and
- (17) Other information needed by the Department to evaluate the supportive services to be offered consistent with the Program. (from Section 203 (e))

Copies of draft written agreements or memoranda of understanding (MOUs) must be provided which identify the roles and responsibilities of the City, the project owner, other service providers, and the property manager. Specific organizations do not need to be identified unless those organizations are used to satisfy the experience requirements required to submit an application under NPLH Project Threshold Requirements. The draft written agreements or MOUs must be materially consistent with the information set forth in the supportive services plan. (from Section 203 (f))

MOHCD may request that any necessary updates to the supportive services plan or related documents, including fully executed written agreements between the City, service providers, the Project owner, and the property manager, be provided prior to the beginning of the initial rent-up period or prior to permanent loan closing. (from Section 203 (g))

#### **F. Tenant Selection, Rental Agreements and Grievance Procedure Requirements**

Chronically homeless and homeless persons shall be referred to NPLH assisted units through the local coordinated entry system (from Section 307 (a)).

If San Francisco's coordinated entry system cannot refer persons at-risk of chronic homelessness, the City will first prioritize chronically homeless and homeless persons through the local coordinated entry system. Then, San Francisco will develop an alternate system to prioritize those with the greatest need who are at-risk of chronic homelessness for NPLH assisted units. (from Section 307 (b))

Projects utilizing MOHCD's Noncompetitive Allocation of NPLH funding shall first prioritize homeless individuals with a serious mental illness and then individuals at-risk of chronic homelessness with a serious mental illness. (from Section 307 (c))

MOHCD shall have reasonable standards for project rental agreements, property management plans, and tenant grievance procedures to ensure compliance with the State's Housing First requirements (from the State's Welfare and Institutions Code Section 8255(b) that detail the core components of Housing First), and compliance with basic tenant protections established under federal, state and local law. (from Section 307 (d))

[https://leginfo.legislature.ca.gov/faces/codes\\_displayText.xhtml?lawCode=WIC&division=8.&title=&part=&chapter=6.5.&article=](https://leginfo.legislature.ca.gov/faces/codes_displayText.xhtml?lawCode=WIC&division=8.&title=&part=&chapter=6.5.&article=)

Tenants shall be accepted regardless of sobriety, participation in services or treatment, history of incarceration, credit, or history of eviction in accordance with practices permitted pursuant to the

State's Welfare and Institutions Code Section 8255 that details core components of Housing First, or other federal or state project funding sources. (from Section 307 (e))

#### **G. Reporting Requirements**

MOHCD and project owners shall comply with the reporting requirements listed in the NPLH Program Guidelines Section 214, except for subsections (a) and (b). (from Section 309 (a)) In the event of any conflicting reporting requirements, HCD NPLH Guidelines will prevail. These are listed below for reference:

- On an annual basis, the City shall submit the data elements listed below for each of its NPLH Assisted Units. The City shall work with each Project's property manager and lead service provider to gather the data. The data may be, but is not required to be, gathered from the local Homeless Management Information System (HMIS).
- The data shall be submitted in electronic format on a form provided by the Department of Housing and Community Development. The City, the property manager and the lead service provider shall work together to resolve any data quality concerns to the best of their ability prior to submission of the data to the Department.
- The data below shall be submitted to the Department no later than September 30 of each year for the previous State fiscal year of activity (July 1-June 30) and shall include all the following information for each Project:

##### Elements for reporting include:

- (1) Project location, services, and amenities;
- (2) Number of NPLH Assisted Units, total Units assisted by other government programs, and total non-Assisted Units;
- (3) Project occupancy restrictions;
- (4) Number of individuals and households served;
- (5) Homeless status, veteran status as requested in item (12) below, and mental health status. No information on specific mental health diagnoses will be collected; and
- (6) Average Project vacancy rate during the reporting period (12-month average).

##### For NPLH Units Only:

- (1) Average vacancy rate of NPLH Assisted Units during the reporting period (12-month average);
- (2) Head of Household gender, race, ethnicity, age;
- (3) Income levels of NPLH tenants as a percentage of AMI, (i.e., 10 percent of AMI, 15 percent of AMI, 20 percent of AMI, etc.);
- (4) The percentage of NPLH tenants who have lived in the building less than 12 months, 12 to 24 months, and longer than 24 months;
- (5) The number of tenants who moved into a NPLH Assisted Unit during the reporting period who, prior to Project entry, were (A) Chronically Homeless, (B) Homeless, or (C) At-Risk of Chronic Homelessness, as defined under Section 101 of these Guidelines;
- (6) The number of tenants who served on active duty in the armed forces of the United States (for tenants over age 18);
- (7) The number of tenants who continue to have a Serious Mental Disorder or the number who are Seriously Emotionally Disturbed Children or Adolescents, as defined in Welfare and Institutions Code Section 5600.3;

- (8) Of those who moved in during the reporting period, the number of tenants who were referred from:
    - A. CES and/or;
    - B. The City behavioral health department or a service provider acting on its behalf;
    - C. A State Department of Developmental Services regional center, or
    - D. Another reported source.
  - (9) Of those who moved in during the reporting period, the length of time prior to moving in that they reported they were:
    - A. On the streets (including a vehicle or other place not meant for human habitation), or
    - B. In an emergency shelter, safe haven, or transitional or interim housing.
  - (10) Of those who moved in during the reporting period, and to the extent the information was available prior to referral to the Project, the number of tenants who had:
    - A. A physical, mental, or emotional impairment, including an impairment caused by alcohol or drug abuse, post-traumatic stress disorder, or brain injury that:
      - (i) Is expected to be long-continuing or of indefinite duration;
      - (ii) Substantially impedes the individual's ability to live independently; and
      - (iii) Could be improved by the provision of more suitable housing conditions.
    - B. A developmental disability, as defined in section 102 of the Developmental Disabilities Assistance and Bill of Rights Act of 2000 (42 U.S.C. 15002); or
    - C. The disease of acquired immunodeficiency syndrome (AIDS) or any condition arising from human immunodeficiency virus (HIV).
  - (11) For tenants who exited NPLH Assisted Units during the reporting period:
    - A. The number of tenants who exited during the reporting period to:
      - (i) other permanent housing,
      - (ii) the street, emergency shelter, transitional housing, or safe haven, or
      - (iii) an institutional destination, and the specific institutional destination, if known (including, but not limited to hospitalization or psychiatric hospitalization, residential substance use treatment facility, skilled nursing facility, jail or prison).
  - (12) The number of tenants who died during the reporting period.
  - (13) For tenants who leased or remained in NPLH Assisted Units during the reporting period:
    - A. Changes in employment income during the reporting period;
    - B. Changes in non-employment cash income during the reporting period; and
    - C. Changes in total cash income during the reporting period.
- Notwithstanding the above requirements, the Department of Housing and Community Development may modify the data collected over time to conform to changes in the specific data metrics required by HUD through CES, or required by another state or federal agency
  - If readily available, counties may also provide aggregate data on: (1) emergency room visits for NPLH tenants before and after move-in; (2) average number of hospital and psychiatric facility admissions and in-patient days before and after move-in; and (3) number of arrests and returns to jail or prison before and after move-in
  - Data collected annually will be compiled by the Department of Housing and Community Development and made available on the Department's website
  - Where there is a difference between these guidelines and the Department of Housing and Community Development's current reporting requirements, the provisions of these guidelines shall prevail

For each project completed by June 30<sup>th</sup> of the reporting year, MOHCD shall submit to the State

Department of Housing and Community Development a project completion report, no later than September 30<sup>th</sup> of that year, with evidence acceptable to the State that the project is complete, and that all assisted units in the project are occupied by persons meeting the occupancy, income, rent, and tenant eligibility requirements for the assisted units. This information shall be provided on forms made available by the State. (from Section 309 (b))

The State may extend the deadline for submission of a project completion report, if a project was completed less than 150 days prior to the deadline for submission of the report under the NPLH Program Guidelines Section 213 (e) in order to enable the project to submit occupancy information based on an initial rent-up period not to exceed 120 days. (from Section 309 (c))

#### **H. Monitoring Requirements**

MOHCD is responsible for ensuring that NPLH funds are used in accordance with all program requirements and Alternative Process County Program agreements (between the State Department of Housing and Community Development and MOHCD). MOHCD must take appropriate action when performance problems arise. The performance and compliance of each project must be reviewed as set forth in NPLH Program Guidelines Section 311 (b). (paragraph below) MOHCD must have and follow written procedures, and systems, including a system for assessing risk of activities and projects and a system for monitoring projects, to ensure developers, property managers, and service providers are meeting all program requirements. (from Section 311 (a))

To ensure that funded projects are completed, projects are able to meet long-term affordability, and project are meeting other program requirements as set forth in the NPLH Program Guidelines and relevant statutes, MOHCD must meet the following minimum requirements for project monitoring:

- (1) On-site physical inspections of all projects as needed during construction, at project completion, and at least once every three years during the term of the loan;
- (2) Annual review of project operating budgets, audits, or other certified financial statements.
- (3) Annual review of supportive services plans and outcome measures to ensure that the supportive services being offered are the most appropriate and effective for existing NPLH tenants and the NPLH tenants proposed to be served in the NPLH regulatory agreement (from Section 311(b))



**Attachment B: Updated Underwriting Guidelines – blacklines compared to 2018 Policy**

See attached.

[illegible]

<a href="#"><u>MOHCD Policy on Ground Leases</u></a>	<a href="#"><u>MOHCD Policy on Development Fees For Tax Credit Projects (“Developer Fee Policy”)</u></a>
<a href="#"><u>MOHCD Operating Fees Policy</u></a>	<a href="#"><u>MOHCD Policy on Subordination</u></a>
<a href="#"><u>MOHCD Ground Lease Policy</u></a> <a href="#"><u>MOHCD Residual Receipts Policy</u></a>	<a href="#"><u>MOHCD Developer Fee Policy</u></a> <a href="#"><u>MOHCD Commercial Space Underwriting Guidelines</u></a>
<a href="#"><u>MOHCD Cash Out, Acquisition/Rehabilitation, Resyndication, and Refinancing Policy</u></a>	<a href="#"><u>Hold Harmless Policy for MOHCD’s Income Limits and Maximum Rents</u></a> <a href="#"><u>MOHCD</u></a>
<a href="#"><u>MOHCD Operating Fees Policy</u></a> <a href="#"><u>MOHCD’s Fee Proposal Guidelines for Architect and Engineering Basic Services</u></a>	<a href="#"><u>MOHCD Subordination Policy</u></a> <a href="#"><u>MOHCD’s Communications Systems Standards (request from MOHCD project manager)</u></a>
<a href="#"><u>MOHCD Residual Receipts Policy</u></a> <a href="#"><u>MOHCD LOSP Policies and Procedures Manual</u></a>	<a href="#"><u>MOHCD Commercial Space Policy &amp; Underwriting Guidelines</u></a> <a href="#"><u>GO Bond Eligible Expense Matrix (request latest version from</u></a>
<a href="#"><u>MOHCD Guidelines for Architect and Engineering Basic Services</u></a> <a href="#"><u>Regulatory and Policy Requirements Matrix for MOHCD</u></a>	<a href="#"><u>MOHCD Refinance, Restructure and Recapitalization of Existing Affordable Housing Developments Policy</u></a> <a href="#"><u>Multifamily Securities</u></a>

## I. GENERAL FINANCING TERMS

### A. Term

1. Permanent Residual Receipts Loan or Grant Term: 40 Typically, the loan/grant term is 55 years from the closing date of conversion from construction financing to permanent financing (or 57 years from the recordation of a deed of trust). Sponsors may request up to 75 years, depending on borrower's request and Sponsor's source of funds. Typically 55 years.
2. Declaration of Restrictions/Regulatory Agreement Term: 55 years minimum, 75 years for HOME regardless of repayment unless tax credit. The life of the project, then 55 but no less than 75 years for HOME.
3. Ground Lease Term: Typically 55-99 years, a 75-year term with a 24-year option to extend. See separate Ground Lease Policy Ground Lease Policy for additional terms.
4. Predevelopment Loan: Typical term is 3 years; may May be extended upon request, with MOHCD approval to 55 years, due to predevelopment period delays beyond Sponsor's control, or, up to 55 years (typically, see above) when rolled consolidated into other City permanent debt or beyond 3 years due to predevelopment period delays beyond developer's control.

5. Bridge Loans: See Section I.H. below.

### B. Security and Lien Position

Sponsors must execute a promissory note to evidence a loan. The Loan Agreement (or grant, if applicable) and Promissory Note must be secured by a Deed of Trust recorded on the land or leasehold estate (as applicable). The MOHCD Deed of Trust may be junior to other permanent financing necessary for the construction or rehabilitation of a project and to other government agencies based on applicable regulations. For predevelopment loans, borrowers may secure the loan through work product if the project is on government land and no ground lease has been executed.

### C. Loan Size (Predevelopment Loan)

1. Minimum: \$1,000,000
2. Standard: MOHCD will only evaluate one predevelopment loan request per project. MOHCD intends to size predevelopment loans so that they, along with additional funding sources obtained by the Sponsor, meet the predevelopment needs of the project through construction finance closing.

### B.D. Affordability;

1. Maximum: MOHCD restricts income and rents for all projects in its Declaration of Restrictions/Regulatory Agreement at MOHCD AMI levels. Restrictions are as follows based on population served:
  1. Families: Typically MOHCD AMI (defined, and as the tri-county unadjusted AMI) required by local funding source, up to an average of 60% MOHCD AMI, with a range of 30%-80% MOHCD AMI, but may vary depending on project's financial feasibility and may include a 20% set-aside (typically a minimum of 20%-30%) for extremely low-income households (30% MOHCD AMI and below) with

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- a. specific population goals to be determined by MOHCD subject to the availability of subsidies or other MOHCD policy goals.
- b. Other Populations: Maximum of 60% MOHCD AMI, but may vary depending on project's financial feasibility and may include a set-aside (typically a minimum of 20%-30%) for extremely low-income households with specific population goals to be determined by MOHCD subject to the availability of subsidies or other MOHCD policy goals.
2. Subordination: City MOHCD's Declaration of Restrictions will subordinate the terms of its Declaration of Restrictions in be recorded on the event of an uncured default by a 1<sup>st</sup> mortgage lender; otherwise land or leasehold estate (as applicable) and in first position; exceptions only for government agencies based on applicable regulations.
2. Termination of Subsidies / Float Up: If a project receives operating subsidies (i.e. project based vouchers or Local Operating Subsidy Program (LOSP)) and the City's subsidies are reduced or terminated at no fault of the Sponsor, such Sponsor is required to find replacement subsidies to mitigate any displacement of tenants. If the Sponsor is unable to find replacement subsidies, rent and income levels for the formerly subsidized unit(s) may rise up to the AMI levels set forth in MOHCD's Declaration of Restrictions must always be in senior position. See separate Subordination Policy.
3. Termination of Subsidies: Should rental subsidies terminate, rent levels may rise to the extent necessary to maintain financial feasibility (i.e. cover debt service and operations to breakeven to the). Sponsors will be required to increase rent and income levels first on vacant units. If a project continues to have demonstrated financial difficulties, MOHCD may allow the Sponsor to increase income and rent (also on vacant units first) up to a maximum of 60% AMI as defined by TCAC (tri-county adjusted AMI) the California Tax Credit Allocation Committee (CTCAC) to the extent necessary to maintain financial feasibility, except where further limited due to the source of funds (for example, HCD No Place Like Home funds administered by MOHCD; see NPLH Section VIII, Addendum 1 to these Guidelines.) or restrictions of other funding agencies.
4. Hold Harmless: Annual rent increases are capped at 4% per the Hold Harmless Policy for MOHCD's Income Limits and Maximum Rents. MOHCD expects Sponsors to increase rents to allowed levels as required to maintain a project's financial feasibility.

#### **E. Interest Rate**

1. Predevelopment Loan Interest Rate:
  - a. Minimum: None, but not less than 0% simple interest
  - b. Standard Rate: 3% simple interest
  - c. Maximum: May be set at a rate appropriate to accommodate tax credit loss requirements for the project. (To be determined based on borrower's request and ability to repay), or the Applicable Federal Rate (AFR) for rescindations with existing MOHCD loans.
  - d. At conversion or rollover to gap loan, the interest rate will be re-evaluated to conform to the gap or permanent loan rate.
  - d. Sizing interest rates: If a Sponsor requests an interest rate other than the standard 3% rate, it must be able to demonstrate why the project's financing structure requires a different interest rate. Sponsor must provide a true debt test analysis and obtain approval from MOHCD staff. At MOHCD's discretion, MOHCD will provide interest-free loans for projects sponsored by Emerging Developers as defined in Section I.H. (Note: at conversion or rollover to a permanent loan, the interest rate may be re-evaluated based on financing structure of project.)
  - e. Accrued interest: If the predevelopment loan will be extended into permanent financing, any interest accrued during the predevelopment period must be repaid to MOHCD or may be included (as accrued interest or as principal) in the permanent loan. Where accrued interest is carried over to the permanent loan, Sponsor should show this as both a source and use on the MOHCD application proforma.

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2. Permanent Residual Receipts Loan Interest Rate:

- a. Minimum: None, but not less than 0% simple interest
- b. Standard Rate: 3% simple interest
- c. Maximum: the greater of A rate appropriate to accommodate tax credit loss requirements for the project, or the Applicable Federal Rate if required for a project's financial feasibility (To be determined based on borrower's ability to repay.)
- d. Interest rate between 0 to 3% can be determined by demonstrated need if required (AFR) for financial feasibility.

D.c. Lien Position/Subordination: resyndications with existing MOHCD debt shall be subordinate to 1<sup>st</sup> mortgage debt and to federal and state provided loans if State loan is 10 times greater than City loan. All other subordination requests must be reviewed and approved by City. See separate Subordination Policy.

- d. Sizing interest rates: If a Sponsor requests an interest rate other than the standard 3% rate, it must be able to demonstrate why the project's financing structure requires a different interest rate (for example, by providing a true debt analysis) and obtain approval from MOHCD staff. At MOHCD's discretion, MOHCD will provide interest-free loans for projects sponsored by Emerging Developers as defined below

E.F. Cross-collateralization:

No cross-collateralization now or in the future of MOHCD/OCII funded developments, except for a scattered sites rehabilitation approved by MOHCD.

F.G. Annual Payments Due

- a. Annual Payments due: Ground At MOHCD's discretion, MOHCD may waive annual repayments of MOHCD's loan with a share of Residual Receipts for up to five years after initial lease-up for projects sponsored by Emerging Developers as defined in Section H below.
- b. MOHCD Ground Leases: Annual rent is established according to the MOHCD Ground Lease Policy. Typically, annual rent includes a base rent payment is (\$15,000/year), which is a must pay expense and will be paid as an operating cost before any surplus cash residual receipts distributions. Ground Leases and Loans typically require annual repayments. The residual rent is paid from residual receipts (see separate Ground Lease Policy). Any, typically only after the MOHCD loan has been fully repaid. Typically, unpaid principal and interest due under the loans is deferred but payable at the end of term residual rent does not accrue. At MOHCD's discretion, ground lease base rent may be reduced in the following circumstances: a) for 100% permanent supportive housing projects and, b) for projects sponsored by Emerging Developers as defined in Section I.H.

2. Surplus Cash Waterfall: Surplus cash is Residual Receipts Split Calculation: Residual receipts means the operating income remaining after the satisfaction payment of operating project expenses, reserves and fees, as defined in the MOHCD loan documents – typically, operating expenses, reserve deposits, and project fees, in addition to must-pay debt, (minimum debt service), including State HCD loan mandatory interest payments and Ground Lease Base Rent base rent payable to MOHCD. City will apply its
- a. Typically, the portion to be paid to the City shall be 2/3<sup>rd</sup> of residual receipts share to City debt repayment. Tax credit projects may be eligible to use an alternative 1/2 - 1/2 split for up to the first 15 years of project operations and the Sponsor's portion of residual receipts shall be considered payment of Deferred Developer Fee. Residual receipts are split with other government lenders where required to meet by law (for example, certain HCD and CalHFA programs.)

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- #### H. Emerging Developers.

- 2- As determined by MOHCD in its reasonable discretion, “Emerging Developer” means an entity, including a Tribal Entity, that has developed, owned, rehabilitated, or operated at least one (1) but not more than three (3) Affordable Housing Developments that are equivalent to the proposed Affordable Housing Development in size, scale, amenity, and target population. The Department may determine experience by evaluating the experience of the entity itself, the experience of senior staff within the organization, or the experience of a more experienced entity (more than 3 Affordable Housing Development projects) to contract with (through partnership or joint venture) that meets the experience requirements in tax credit projects. The use of Surplus Cash is controlled by the City’s Operating Fees Policy, which.

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~~identifies allowable operating budget fees and any applicable limits; annual payments payable to the City from Surplus Cash are described in the City's Residual Receipts Policy.~~

#### **I. Bridging Other Sources of Funding**

There are separate terms for any portion of a MOHCD permanent loan that is bridging other funds (either funds that have been awarded but are not disbursed at construction closing, or funds that will be applied for and presumably awarded after construction closing).

##### **1. Affordable Housing Program (AHP):**

- a. Establishing competitiveness: If Sponsor plans to apply for AHP funds after construction closing, Sponsor must show at gap loan request that self-score is competitive according to its financial consultant.
- b. Separate Term: The bridge portion of the MOHCD loan will have a separate term indicated in the Loan Agreement and Note, which will be due 270 days after AHP award date or at permanent conversion, whichever comes first. If AHP funds are not awarded to the project, the AHP bridge portion of the MOHCD loan will carry the same terms as the permanent MOHCD loan.

##### **2. Other: On a case-by-case basis, MOHCD may bridge other types of funding at amounts and terms acceptable to MOHCD.**

#### **J. Insurance Requirements**

Commercial liability insurance for the Sponsor and its contractors and agents, as appropriate, and property and builder's risk insurance coverage and payment and performance bonds for the subject property will be required as established by MOHCD in its loan documents. If a Sponsor does not control the subject property (via ownership or ground lease), the applicable property and builder's risk insurance requirements will apply at the time of acquisition. Sponsor should request MOHCD's Insurance Requirements from the MOHCD project manager on the project's kick off call. Any request to modify MOHCD's Insurance Requirements must be approved by the City's Risk Manager.

#### **K. Expenditure Requests**

Invoice Date: With the exception of a project's first expenditure request (if approved by Loan Committee), MOHCD is not obligated to pay expenditure requests for any invoices submitted more than 180 days after invoice date.

#### **L. Regulatory and Policy Requirements for MOHCD Construction Projects**

1. General: There is a complex array of requirements related to MOHCD-funded construction projects which must be met by project Sponsors, including accessibility, procurement, prevailing wage, workforce, public art and civic design review, municipal power service, environmental, and relocation. Sponsors should work closely with MOHCD staff from the beginning to determine project-specific requirements and the applicable City agencies that oversee them. Refer to the most recent **Regulatory and Policy Requirements Matrix for Construction Projects** by requesting from MOHCD staff.
2. Procurement and Small Business Enterprises (SBEs) / Local Business Entities (LBEs): Sponsors must contact the City's Contract Monitoring Division (CMD) at the very beginning of a project to develop a **procurement plan** for Architecture and Engineering, the General Contractor, subcontractors, and other project consultants. The plan must also establish project goals with respect to SBEs/LBEs for both Professional Services and Construction. Sponsor must provide the CMD-approved plan and project goals to their MOHCD project manager.
3. Public Art and Civic Design Review: Most MOHCD-funded projects are subject to public art and



- civic design review requirements, per an MOU between MOHCD and the Arts Commission. Sponsors must verify with their MOHCD project manager at the very beginning of a project.
- a. Public Art: Sponsors are responsible for creating public art at the project. Sponsors must contact the Arts Commission to set the public art budget (based on a formula calculated at the time of the project's schematic design phase budget) and work with the Arts Commission on artist selection and art approval.
  - b. Civic Design Review: Sponsors can satisfy this requirement by including a member of the Arts Commission on the selection committee for the project architect.
4. MOHCD Cultural Districts Program: Sponsors must partner with MOHCD's Cultural Districts Program to inform the project's community outreach and engagement plan. At the beginning of the project, Sponsor should work with their MOHCD project manager to connect to Cultural Districts Program staff where a site is located within or adjacent to a Cultural District.

## II. RESIDENTIAL DEVELOPMENT PROFORMA ASSUMPTIONS

All projects are required to get secure permanent loans to reduce the overall MOHCD funding gap should the project cash flow support such debt.

### A. Debt Service Coverage Ratio (DSC/DSCR)

1. Minimum Standard: 1.4015:1 except when CalHFA has approved a 1.05:1 DSC.
- 2.1. Maximum ratio or DSCR must be sufficient to insure ensure 1.0:1 in through Year 17 for tax credit projects 20 of pro forma.
- 3.2. Calculation Method: DSC should DSCR must be calculated after accounting for reserve deposits, bond monitoring fees, and Ground Lease base rent payment. In the case of subordinate amortized loans, DSC/DSCR should be calculated using cash flow remaining after debt service on 1<sup>st</sup> mortgage. The goal in all cases is to maximize the amount of leveraged debt.

### B. Terms of Third-Party Project Financing

1. Lender/Investor: MOHCD must review and approve the terms of equity investors, mortgage lenders, and construction lenders before Sponsor may enter into commitments with those parties. These terms should be summarized in a matrix format, including reference to MOHCD's Underwriting Guidelines and any waiver that is requested, and submitted to the MOHCD project manager for review.
  - a. ROFR: Investor Limited Partnership Agreements (LPA) must include a Right of First Refusal (ROFR) that is aligned with IRS regulations and which allows the Sponsor to buy out the LP around year 15 at a purchase price equal to debt plus exit taxes.
  - b. 1<sup>st</sup> Mortgage Rate Lock: If there is a reduction in the 1<sup>st</sup> mortgage interest rate between the final sizing of the MOHCD permanent loan and the 1<sup>st</sup> mortgage rate lock, all savings resulting from the interest rate reduction will be repaid to MOHCD and will not be considered excess proceeds. MOHCD must review and approve any request to add scope into the project.
2. Predevelopment financing: MOHCD will only pay interest on third-party predevelopment financing, including Sponsor sources such as lines of credit, with prior approval from the MOHCD project supervisor. Sponsor must provide MOHCD with a proposed term sheet and estimate of total fees/interest with such request.

### B.C. Reserves

All capitalized reserves must be funded prior to no later than permanent conversion or as required by the project underwriting. All reserves will remain assets of the project and cannot be released at the end of the tax credit term to the Limited Partnership.

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1. Capitalized Operating Reserves: ~~Three months (Twenty-five percent (25%)), and up to six months of the 1<sup>st</sup> full year if required by lender or investor) of, up to fifty percent (50%) of the 1<sup>st</sup> full-year of budgeted operating expenses (including debt service, if any), must be capitalized in an interest-bearing account with provision that annual deposits must also be made if controlled by the balance drops below the original amount. [Sponsor. Note: HOME and CDBG funds cannot be used for to fund capitalized operating reserves.]~~
2. Operating Reserve Deposits: ~~None unless Annual deposits must be made as necessary to maintain a balance drops below equal to 25% of prior year's operating expenses (including plus debt service, if any). Any such required payments would be made from cash flow that remains after all other required payments are made (e.g. debt service, other reserve payments, etc.). The rate of replenishment would be three months (and up to six months of the 1<sup>st</sup> full year if required by lender or investor) of operating expenses (including debt service payments) to the extent there is available cash to make such deposits.~~
3. Capitalized Replacement Reserves
  - a. New Construction: ~~None, excepting certain Permanent Supportive Housing sites if approved by MOHCD.~~
  - b. Acquisition/Rehab: ~~Up to: i) \$1,000 per unit, or ii) based on a reserve study, 20-year Capital Needs Assessment (CNA), including existing reserve reserves, if any, at time of acquisition.~~
4. Replacement Reserve Deposits
  - a. New Construction: ~~Lesser of: i) 0.6% of unit construction cost, defined as all hard construction costs excluding cost of site work and podium foundations but including construction contingency, or the following amounts (expressed as per ii) \$500/unit per (year). After the first 10-5 years of operation, the sponsor/Sponsor may request adjustments to the above amounts/amount every five (5) years based on a 20-year capital needs assessment (CNA), which is required to be submitted to MOHCD every five (5) years after the project's construction completion.~~

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4. Construction Contingency – Owner Held

• Purpose: Contingency for unforeseen conditions, minor errors and omissions and voluntary owner upgrades. Any contingency remaining after completion of construction must be returned to the City and other lenders on a prorated basis.

• a. New Construction: 5% of construction contract value.

• b. Rehabilitation: 10 - 15% of construction contract value.

• c. Limits on Voluntary Owner Upgrades: Voluntary owner upgrades must be approved by MOHCD and are limited to an aggregate amount that does not exceed the amount returned to the City excess proceeds, if any.

5. 3-Relocation Contingency: 15% of relocation budget. Include in relocation line item in development budget.

6. Soft Cost Contingency: 5-10% of soft costs, excluding developer and administrative fees; construction loan and soft loan interest; cost of issuance, loan fees, and CTCAC/CDLAC fees; and reserves for projects costing \$5 million or more. May be increase increased for smaller projects.

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#### E. Furnishings

#### F. Furniture, Fixtures, and Equipment (FF&E)

Detailed budgets must be provided to the MOHCD project manager as part of the gap loan approval.

1. Unit Furnishings: Not a permitted use of MOH/SFRA/MOHCD funds unless for supportive housing designed to serve homeless households. Assume \$2,500 units. For supportive housing units, assume \$3,000 per unit for SROs or studios, and \$1,500 per bedroom for other units. Additional \$650 permitted per homeless unit for soft goods such as start-up kitchen equipment and linens.
2. Common Area Furnishings: For new construction, assume budget equal to \$2,000 per unit. For rehab, must be based on actual need but not to exceed above amount \$2,500 per unit. This budget line item must also include any interior designer costs.
3. Property Management Services & Maintenance Start-Up Costs: Includes purchase of maintenance equipment and supplies and property management start-up costs. Excludes service and services office start-up costs. For LOSP projects, services office start-up costs must be paid out of the Sponsor's services contract with the Department of Homelessness and Supportive Housing ("HSH") rather than the development budget.

Fee limits in this section may increase annually by the Consumer Price Index.

#### G. Communications Wiring and Internet Access

All projects must meet MOHCD's Communications Systems Standards, to be provided by the MOHCD project manager.

#### H. Parking

Parking maximums per San Francisco Planning Code.

#### I. Marketing and Rent-Up

Includes marketing and staffing expenses incurred from the start of project marketing through initial lease up. Typically, a minimum of six months, and up to nine months for middle-income (80-120% SF AMI) projects. A detailed budget must be provided to the MOHCD project manager.

#### J. Services Staffing: Assume the following –

1. For general population units: Operating budget should assume a staffing ratio of no more than 1 FTE (Full Time Employee) Services Connector/Resident Services Coordinator per 100 units (rounded to the nearest .5 FTE), in addition to supervision and program expenses/supplies. Sponsors to provide MOHCD with a sources and uses Services budget, with major line items identified in the uses (staff, admin costs, contracts etc.) and each source clearly identified with commitment status.
2. For supportive housing units: Sponsor will enter into a contract with HSH. This contract should start three (3) months before TCO. See the LOSP Policies and Procedures Manual for more information on staffing ratios and budgets. MOHCD and HSH must simultaneously review and approve the services budget.

#### F.K. Architect and Engineering Fees:

1. Basic Services: for architect. Architect contracts is defined in MOHCD Guidelines for Architect and Engineering Basic Services. Architect contracts should be should be full-service and include all consultants except for those excluded in MOHCD's guidelines and design/build

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2. Peer Review: Peer review of the architect's and/or the engineer's work may be required at the discretion of the City but the cost of Peer Review is not included in Basic Services and is not subject to the fee cap.

### G.L. Construction Management:

1. Staffing: Developer/Sponsor must identify specific staff or consultant(s) who will provide construction management functions on behalf of the owner, including permit applications and expediting/coordination, cost analysis, completion evaluations, change order evaluations, scope analysis and schedule analysis. A Construction Manager/Owner's Representative is required for each MOHCD/OCJ funded-funded project. Note: Any expenses associated with permit coordination may be distributed amongst the Owner/Architect/Owner's Representative, though must be limited to \$15,000 per project.
2. Scope of Services: The Construction Manager/Owner's Representative scope of services should generally follow the MOHCD's Scope of Services for Owner's Representative document attached hereto, provided on request.
3. Construction Management Fee: The Construction Manager/Owner's Representative fee, if using a third-party consultant, should follow the tiered fee structure outlined below, depending on project size and whether new construction or rehabilitation.

For a small size project (\$2.5M to \$8M construction contract):	Monthly	Annual
Preconstruction (assumes less than 12 months)	average monthly fee: \$2,500,000	Max annual fee: \$30,000 (assumes Preconstruction)
Construction	average monthly fee: \$3,500,800	Max annual fee:

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**H.M. General Contractor (GC) Fees/Price and Construction Contract**

1. ~~Selection of contractor by RFP: When the developer selects the contractor through negotiated bid process, the RFP should require competitive cost proposals that specify Overhead, Profit and General Conditions percentages and identify all schedule of values line items that are excluded from these categories. The RFP should also specify the contractor's fee for pre-construction services. The fee is a criterion, but not the sole criterion for selection. Selection process and selection results must be approved by City/Agency with respect to LBE/SBE participation, wage requirements and proposed contract price.~~

2. Overhead, Profit and General Conditions Price: For New Construction, an overall cost limitation of fourteen percent (14%) of the cost of construction (site work and structures) shall apply to builder overhead, profit and general requirements, excluding builder's general liability insurance (or as modified by TCAC); for Rehabilitation, developer should compare these costs to comparable other recent developments. General contractor overhead and profit shall be tiered by total Hard Cost value (not including contingencies) based on the following contract amounts:

- a. ~~\$0-\$30MM = up to 4.75%~~
- b. ~~\$30MM-\$45MM = 4.5%~~
- c. ~~\$45MM-\$50MM = 4.25%~~
- d. ~~\$50MM+ = 4%~~

3. Contract (or Contractor's) Contingency: Must be called out as a separate line item, tracked and documented.

4. Subcontractor's Prices: When determining final Contract Price and identifying dollar amounts of Contractor's fees, scheduled values should reflect when appropriate, actual subcontractor prices without any general contractor's markup. Subcontractor and sub-tier mark up shall not exceed 15% in the aggregate, including on change orders. City/Agency reserve the right to review all bids.

1. Overhead, Profit and General Conditions: See CTCAC regulations (Section 10327(c)1), regardless of whether a project is funded with tax credit equity, to determine the maximum value of these line items in the aggregate.

5-2. Escalation: Escalation shall be included as a separate hard cost line item during the predevelopment phase. The amount of escalation shall must be commensurate with the time period until expected construction start. ~~Developer's escalation shall be removed from the budget of the first contractor estimate and based on schematic design on the assumption that any escalation would already be carried in the contractor's cost estimate.~~ current market conditions. Sponsor to consult with MOHCD.



3. Construction Contract: MOHCD monitors bidding, contracting, and cost containment. MOHCD must approve Schedule of Values and key contract terms before Sponsor can enter into construction contract.
- 6.4. Change Orders: All change orders shall be reviewed and approved/accepted by the City/MOHCD's construction representative. Mark-up on change orders shall be limited to 15% in the aggregate, inclusive of any general contractor's mark-up.
- 7.5. Early Release of Retention: Requests for early release of retention are subject to the City's/MOHCD construction representative's prior approval. Subcontractors for whom retention will be released early should be identified in the owner-general contractor construction contract.

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### III. RESIDENTIAL OPERATING PROFORMA ASSUMPTIONS

- A. Vacancy Allowance: Use TCAC underwriting standards except for projects with rent subsidy contracts of five (5)%, or more years as allowed by CTCAC.
- B. Increases in Gross Income: 2.5% annually, or as modified/allowed by TCAC/CTCAC.
  1. Project Based Voucher subsidies: For projects with Project Based Voucher contracts, annual subsidy increase assumptions should be adjusted based on historical and projected Fair Market Rent trends. Sponsors encouraged to consult with their financial consultant or MOHCD project manager. Sponsor should conduct a Rent Reasonableness Study (see [www.affordablehousing.com](http://www.affordablehousing.com)) before submitting proforma application to MOHCD.
  2. Tenant rents for supportive housing units: Assumed tenant rents should be estimated with feedback from HSH and MOHCD based on the target population's estimated income and comparable projects. See the MOHCD LOSP Policies and Procedures Manual. Escalation should reflect historic COLAs (Cost Of Living Adjustments) of Social Security benefits and other forms of public assistance.
- C. Increases in Operating Expenses: 3.5% annually, or as modified/allowed by TCAC/CTCAC.

### IV. OTHER UNDERWRITING GUIDELINES

- A. Organizational Capacity: Developers must have experience successfully completing at least three affordable housing development projects. At least one of the completed projects must be similar to the project for which funding is being sought. Developers may also joint venture with more experienced Developers in order to achieve threshold experience. Such joint ventures will be reviewed and approved by MOHCD. Developers will also be evaluated on their successful operating compliance with their properties in the MOHCD portfolio.
- B. Project Management Capacity: Developer's project manager must have experience with at least one comparable, successfully completed project or be assisted by a consultant or other staff person with greater experience and adequate time to commit. When using a consultant, the consultant's resume should demonstrate that the consultant has successfully completed managing all aspects of at least two (2) comparable development projects in the recent past. Project manager workload must also be taken into consideration.

IV. UNDERWRITING OF SPONSOR. Minimum requirements are indicated below. There may be additional Sponsor requirements for each project-specific procurement process. At MOHCD's discretion, MOHCD may provide flexibility in meeting minimum requirements for projects sponsored by Emerging Developers as described in H1, including the utilization of consultants to meet these requirements. Additionally, Emerging Developers or organizations interested in developing projects eligible to compete in CDLAC's

[BIPOC Pool should contact MOHCD about its Emerging Developers Program.](#)

**A. Organizational Capacity:** [Sponsors must be able to work with MOHCD to create developments that are responsive to populations disproportionately impacted by systemic racism, implement a culturally competent approach throughout the development process, and align the development program with City policies on anti-displacement, racially inclusive communities, and creation of stable housing for vulnerable populations. Developers must be able to make the guarantees and meet private lenders' and tax credit investors' underwriting requirements if pursuing the development as a sole sponsor. Sponsors may joint venture with more experienced Sponsors in order to achieve threshold experience. Such joint ventures will be reviewed and approved by MOHCD. See Developer Fee Policy for specific requirements on developer fee split for joint venture partners. Sponsors will be evaluated on the successful operating performance of their properties in the MOHCD portfolio. This evaluation will include the review of any performance audits of the Sponsor conducted by MOHCD or other City agencies. If there are outstanding concerns with regards to past performance, compliance, or capacity, MOHCD may require corrective actions as a condition of funding approval. Finally, as part of the Loan Committee process, Sponsors will be asked to provide demographic data on the race/ethnicity of board members, staff overall, and development team staff specifically.](#)

**B. Project Management Capacity:** [Sponsor must document its capacity to successfully plan, design, and develop the project for which it is requesting funding, throughout the period of development, either through staff with appropriate experience and capacity, contracted services, or collaboration with other organizations. Sponsor will be required to document the experience and capacity of key staff, their workloads, and the organizational structure for supporting staff. If there are outstanding concerns with regards to past performance or capacity, MOHCD may require corrective actions as a condition of funding approval.](#)

**C. Asset Management Capacity:** [Development Teams Sponsor must provide information requested by MOHCD to show how they monitor the financial performance and manage the capital needs of their existing affordable housing assets. Development Teams Sponsor must also provide information describing current and future asset management staffing plans. MOHCD will use the information provided to verify that their Sponsor's approach to asset management meets the City's stewardship expectations particularly with regard to timely completion of Annual Monitoring Reports, performance of Capital Needs Assessments, maintaining adequate Replacement Reserves and, timely collection of tenant rents, housing retention, payments of annual residual receipts due, and advancing racial equity. If there are outstanding concerns with regards to past performance or compliance, MOHCD may require corrective actions as a condition of funding approval.](#)

## **V. COMMERCIAL SPACE UNDERWRITING GUIDELINES SPACES IN RESIDENTIAL PROJECTS**

[See separate Commercial Space Policy and Underwriting Guidelines.](#)

[See separate Commercial Space Underwriting Guidelines.](#)

## **VI. REFINANCE ASSUMPTIONS**

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[See separate Refinance, Restructuring and Recapitalization of Existing Affordable Housing Developments Policy.](#)

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See separate Cash Out, Acquisition/Rehabilitation, Resyndication, and Refinancing Policy.

## **VII. WAIVER REQUESTS**

Any requests from the Sponsor to waive any part of these Underwriting Guidelines must be submitted in writing to the MOHCD project manager. All waiver requests are subject to the approval of MOHCD staff and the Citywide Affordable Housing Loan Committee, each at its own discretion.

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For supportive housing funded by the State of California's No Place Like Home Program, MOHCD has developed this addendum to summarize key requirements of the NPLH Program. Sponsors of NPLH-funded supportive housing must comply with all relevant requirements of the NPLH Program Guidelines. The full program guidelines are available at the State of California Housing and Community Development Department's website: <http://www.hcd.ca.gov/grants-funding/active-funding/nplh.shtml#guidelines>.

The goal of MOHCD's NPLH Program is to facilitate acquisition, design, construction, rehabilitation, and preservation of affordable multifamily rental housing for persons with a serious mental illness who are homeless, chronically homeless, or at-risk of chronic homelessness. Qualifying multifamily structures must collectively contain five or more units and shall consist of scattered site housing and multifamily affordable developments. Shared housing is not an eligible development under MOHCD's guidelines.

Please disregard provisions of the HCD NPLH Program Guidelines in Article III, related to the Capitalized Operating Subsidy Reserve (COSR) and transition reserve requirements, as these are superseded by MOHCD's own guidelines found in the LOSP Policies and Procedures.

**Eligible Uses of Funds.** MOHCD will evaluate each qualified multifamily project for suitability for NPLH funding. Awarding NPLH funding is conditional on acceptance or eligibility for available state funding. The total amount of funds to be awarded to NPLH-assisted units shall not exceed the costs associated with assisted units. To determine these costs, the cost allocation rules from the State of California's Multifamily Housing Program Regulations (25 California Code of Regulations, Section 7304(c)) that govern eligible uses of funds shall apply.

[http://www.hcd.ca.gov/grants-funding/already-have-funding/uniform-multifamily-regulations/docs/MHPandSHRegs5\\_14\\_05.pdf](http://www.hcd.ca.gov/grants-funding/already-have-funding/uniform-multifamily-regulations/docs/MHPandSHRegs5_14_05.pdf)

**Selection Criteria.** MOHCD will evaluate the site's eligibility for NPLH funding utilizing the following criteria identified in the HCD NPLH Guidelines (section 301(a) 4-8 and 13-14), including, but not limited to:

- Suitability of each location for the NPLH residents, including proximity to transportation, services, and other amenities in a manner that ensures integration of the NPLH residents in the community;
- The Project site must be free from severe adverse environmental conditions, such as the presence of toxic waste that is economically infeasible to remove and that cannot be mitigated.
- All units must be on a permanent foundation and must meet all applicable State and local requirements pertaining to rental housing, including but not limited to, requirements for minimum square footage, and requirements related to maintaining the property in a safe and sanitary condition.

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- (1) Development and ownership of at least two affordable rental housing projects in the last ten years, with at least one of those projects containing at least one unit housing a tenant who qualifies as a member of the NPLH target population
- (2) Property management operation of at least two affordable rental housing projects in the last ten years, with at least one of those projects containing at least one unit housing a tenant who qualifies as a member of the NPLH target population
- (3) Lead services provider, which may be the [County City](#), shall have three or more years of experience serving persons who qualify as members of the NPLH target population. If this experience does not include experience serving persons in supportive housing, it must include experience helping persons address barriers to housing stability or providing other support services related to housing retention (from Section 202 (e) that details Project Threshold Requirements)

- (1) Assisted units must be integrated with other units in the project and not separated onto separate floors or areas in the building
- (2) To promote integration of the target population with other project tenants, in projects of greater than 20 units, MOHCD will fund no more than 49 percent of the project's total units as NPLH assisted units. This limitation shall not be interpreted to preclude occupancy of any project units by persons with disabilities, or restrictions by other funding sources, including but not limited to ~~FCACCTCAC~~, that result in more than 49 percent of the total project units being restricted to persons with disabilities
- (3) Sponsors must certify that they will facilitate or provide regular community building activities and architectural design features that promote tenant interaction, as feasible depending on the scope of the construction or rehabilitation activity
- (4) The service plan and property management plan submitted with the funding application must document policies that promote participation by tenants in community activities, and impose no restrictions on guests that are not otherwise required by other project funding sources or would not be common in other unsubsidized rental housing in the community. (from Section 202(g))

MOHCD will allocate NPLH funds to finance capital costs of supportive housing development including, but not limited to acquisition, design, construction, rehabilitation, or preservation of affordable multifamily rental housing. (from Section 302 (a))

NPLH funds may be provided as predevelopment, construction, or post-construction permanent financing. If funding is used as predevelopment or construction financing, NPLH funding must convert to post construction permanent financing. (from Section 302.(d))

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MOHCD may charge reasonable and customary annual monitoring ~~fees~~fees to be used in conjunction with administration funds for compliance monitoring required under Section 311 of the NPLH Program Guidelines during the applicable period of affordability set forth in Section 302, paragraph (e). These ~~fees~~ must be based upon the average actual cost of performing the monitoring of the assisted units. The basis for determining the amount of the fee must be documented and the fee must be included in the costs of the project as part of the project underwriting analysis. (from Section 302 (g)). Currently, MOHCD has opted not to charge a separate NPLH monitoring fee. Any changes to this policy would be made to these Underwriting Guidelines.

**B. Occupancy, Income and Rent Limit Requirements** (from Section 303 of NPLH Program Guidelines)

Occupancy of all NPLH assisted units shall be restricted to households with at least one member who qualifies as a member of the target population, (from Section 303 (a)). The NPLH target population includes adults or older adults with a serious mental disorder or children or adolescents with serious emotional disturbance who are homeless, chronically homeless, or at-risk of chronic homelessness. This

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accordance with the requirements of WIC Section 5600.3 (from the State's Welfare and Institutions Code Section 5600.3 that governs the Mental Health Services Act Program and the target population for the MHSA Program)

- (2) Documentation of a person's status as homeless or chronically homeless as defined in Section 101 of the NPLH Program Guidelines and established through the local coordinated entry system or at-risk of chronic homelessness as defined in Section 101 of the NPLH Program Guidelines and established through the local coordinated entry system or other procedures for determining qualification
- (3) In no event shall a person be required to be a client of the City of San Francisco County's Francisco's behavioral health department or a recipient of mental health or other services in order to qualify for or remain in an assisted unit (from Section 303 (f))

These occupancy, income and rent limit requirements shall apply for the full term of the NPLH program loan (from Section 303 (g)).

### C. Underwriting Standards and Other Requirements (from Section 304 of NPLH Program Guidelines)

All assisted units shall have rents restricted to 30 percent AMI (as defined by HCD) or below as specified in the project regulatory agreement with MOHCD, except as otherwise permitted in the above Occupancy, Income, and Rent Limit Requirements (detailed in Section 303 (c) of NPLH Program Guidelines) (from 304 (a)).

Rent levels shall be expressed in five percent increments as a percentage of SMI (from 304 (b)).

Before committing funds to project, MOHCD must evaluate the project in accordance with underwriting standards it has chosen to use for this program. These standards must consider at a minimum, such things as: reasonableness of projected construction and operating expenses, income and expense escalators, vacancy rate assumptions, debt coverage ratio, operating reserves, replacement reserves, budgeted construction contingency, limits on development costs, developer fees, asset management, and partnership fees, and use of operating cash flow (from 304 (c)).

The maximum amount of assistance per assisted unit shall take into account the number of bedrooms per unit or other measures of unit size, as well as the level of affordability provided per unit, with more affordable units being provided more subsidy (from Section 304 (d)).

The total amount of program assistance to a project shall not exceed the eligible costs associated with assisted units in accordance with a methodology that allocates costs among the assisted and non-assisted units in reasonable proportion to their anticipated share of costs (from Section 304 (e)). The total amount of NPLH funds per site will be determined at the sole determination of MOHCD, subject to funding availability and HCD limitations on State funds stacking, and in no case higher than the gap between the cost to build and the other available subsidies.

California Labor Code Section 1720 et seq. requires payment of prevailing wages for certain developments paid for in whole or in part from any public funding source, and exempts other developments from this requirement. All funds provided under this program are public funds within the meaning of these Labor Code sections. Program funding for a portion of a project shall not necessarily, in and of itself, be considered public funding of the entire project. MOHCD shall be responsible for determining on a case-by-case basis, the extent of the applicability of state prevailing wage law to each individual project. (from Section 304 (f)).

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Projects of five or more units must meet the accessibility requirements specified in the California Tax Credit Allocation Committee regulations, as may be amended and renumbered from time to time, including those of Section 10325(f)(7)(K) and, for senior projects, those of Section 10325(g)(2)(B) and (C), or a higher standard if required by MOHCD. Exemption requests, as provided for in the ~~CTCAC~~ regulations, must be approved by MOHCD. Projects must also provide a preference for accessible units to persons with disabilities requiring the features of the accessible units in accordance with Section 10337(b)(2) of the ~~CTCAC~~ regulations, or a higher standard if required by MOHCD. All projects must also ensure that any other applicable federal, state, and local accessibility requirements are met. (from Section 304 (g)).

<https://www.treasurer.ca.gov/ctcac/programreg/2018/20180516/clean.pdf> (CCR governing CTCAC regulations)

Projects shall have a transition reserve (further described in the LOSP Policies and Procedures) in an amount established by the MOHCD in the event that any project-based rental assistance is not renewed and the project cannot secure other rental or operating subsidies to continue without immediately raising rents on the assisted units.

- (1) If rent increases on the assisted units are necessary after exhausting all transition reserve funds such increases shall only be permitted to the minimum extent required for financial feasibility, as determined by MOHCD. In addition, rents on assisted units shall not, in any event, be increased to an amount in excess of 30 percent of 50 percent of AMI, (as defined by HCD), adjusted by number of bedrooms.
- (2) MOHCD shall notify the State Department of Housing and Community Development at least 12 months in advance of any rent increase on the assisted units due to exhaustion of the transition reserve.
- (3) If rent increases on the assisted units are necessary due to loss of rental or operating assistance, if it is determined that NPLH tenants will need to move after exhausting all transition reserve funds, a transition plan shall be implemented to identify other permanent housing options that may be more affordable to NPLH tenants who cannot afford the increased rent, and to assist those persons in accessing other available housing. Funds from the transition reserve may be used for these expenses. (from Section 304 (h))

#### D. Operating Budget Requirements

MOHCD shall review annually proposed annual operating budgets of funded projects to ensure that budget line items, including any proposed rent increases, are reasonable and necessary in light of costs for comparable permanent supportive housing projects and prior year budgets (from Section 306).

#### E. Supportive Services Requirements

Each application selected for funding must include a project-specific supportive services plan developed by the county in partnership with the project sponsor, supportive service providers, and the property manager. (from Section 203 (a))

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The property management staff and service providers must make participation in supportive services by NPLH tenants voluntary. Access to or continued occupancy in housing cannot be conditioned on participation in services or on sobriety. The supportive services plan must describe the services to be made available to NPLH tenants in a manner that is voluntary, flexible and individualized, so NPLH tenants may continue to engage with supportive services providers, even as the intensity of services needed may change. Adaptability in the level of services should support tenant engagement and housing retention. (from Section 203 (b))

The following supportive services shall be made available to NPLH tenants based on tenant need. Available mental health services shall be provided directly by the County or through a subcontracted lead service provider. The County/City or the County's/City's lead service provider for the Project shall coordinate the provision of or referral to services needed by individual tenants, including but not limited to substance use treatment services, for a minimum of 20 years. Except as otherwise noted below, the following required services can be provided onsite at the project or offsite at another location easily accessible to tenants:

- (1) Case management;
- (2) Peer support activities;
- (3) Mental health care, such as assessment, crisis counseling, individual and group therapy, and peer support groups;
- (4) Substance use services, such as treatment, relapse prevention, and peer support groups;
- (5) Support in linking to physical health care, including access to routine and preventive health and dental care, medication management, and wellness services;
- (6) Benefits counseling and advocacy, including assistance in accessing SSI/SSP, enrolling in Medi-Cal; and
- (7) Basic housing retention skills (such as Unit maintenance and upkeep, cooking, laundry, and money management). (from Section 203 (c))

The following additional information shall be provided in the supportive services plan:

- (1)(8) Description of the Target Population to be served, and identification of any additional subpopulation target or occupancy preference for the NPLH Project that the Applicant wishes to undertake beyond what is permitted under the Target Population requirements. Any additional subpopulation targeting or occupancy preference for NPLH Project must be approved by the Department prior to construction loan closing and must be consistent with federal and state fair housing requirements;
- (2)(9) Description of tenant outreach, engagement and retention strategies to be used;
- (3)(10) Description of each service to be offered, how frequently each service will be offered or provided depending on the nature of the service, who is anticipated to be providing the services and the location and general hours of availability of the services;
- (4)(11) For services provided off-site, the plan must describe what public or private transportation options will be available to NPLH tenants in order to provide them reasonable access to these services. Reasonable access is access that does not require walking more than ½ mile.
- (5)(12) Description of how the supportive services are culturally and linguistically competent for persons of different races, ethnicities, sexual orientations, gender identities, and gender expressions. This includes explaining how services will be provided to NPLH tenants who do not speak English, or have other communication barriers, including sensory disabilities, and how communication among the services providers, the property manager and these tenants will be facilitated;

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## G. Reporting Requirements

- On an annual basis, the County City shall submit the data elements listed below for each of its NPLH Assisted Units. The County City shall work with each Project's property manager and lead service provider to gather the data. The data may be, but is not required to be, gathered from the local Homeless Management Information System (HMIS).
- The data shall be submitted in electronic format on a form provided by the Department of Housing and Community Development. The County City, the property manager and the lead service provider shall work together to resolve any data quality concerns to the best of their ability prior to submission of the data to the Department.
- The data below shall be submitted to the Department no later than September 30 of each year for the previous State fiscal year of activity (July 1-June 30), and shall include all the following information for each Project:

- (1) Project location, services, and amenities;
- (2) Number of NPLH Assisted Units, total Units assisted by other government programs, and total non-Assisted Units;
- (3) Project occupancy restrictions;
- (4) Number of individuals and households served;
- (5) Homeless status, veteran status as requested in item (12) below, and mental health status. No information on specific mental health diagnoses will be collected; and
- (6) Average Project vacancy rate during the reporting period (12-month average).

- (7)(1) Average vacancy rate of NPLH Assisted Units during the reporting period (12-month average);
- (8)(2) Head of Household gender, race, ethnicity, age;
- (9)(3) Income levels of NPLH tenants as a percentage of AMI, (i.e., 10 percent of AMI, 15 percent of AMI, 20 percent of AMI, etc.);
- (10)(4) The percentage of NPLH tenants who have lived in the building less than 12 months, 12 to 24 months, and longer than 24 months;
- (11)(5) The number of tenants who moved into a NPLH Assisted Unit during the reporting period who, prior to Project entry, were (A) Chronically Homeless, (B) Homeless, or (C) At-Risk of Chronic Homelessness, as defined under Section 101 of these Guidelines;
- (12)(6) The number of tenants who served on active duty in the armed forces of the United States (for tenants over age 18);

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**Figure 11.11**

**Exercice 11.1**

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(13)(7) The number of tenants who continue to have a Serious Mental Disorder or the number who are Seriously Emotionally Disturbed Children or Adolescents, as defined in Welfare and Institutions Code Section 5600.3;

(14)(8) Of those who moved in during the reporting period, the number of tenants who were referred from:

- A. CES and/or;
- B. The County/City behavioral health department or a service provider acting on its behalf;
- C. A State Department of Developmental Services regional center, or
- D. Another reported source.

(15)(9) Of those who moved in during the reporting period, the length of time prior to moving in that they reported they were:

- A. On the streets (including a vehicle or other place not meant for human habitation), or
- B. In an emergency shelter, safe haven, or transitional or interim housing.

(16)(10) Of those who moved in during the reporting period, and to the extent the information was available prior to referral to the Project, the number of tenants who had:

- A. A physical, mental, or emotional impairment, including an impairment caused by alcohol or drug abuse, post-traumatic stress disorder, or brain injury that:
  - (i) Is expected to be long-continuing or of indefinite duration;
  - (ii) Substantially impedes the individual's ability to live independently; and
  - (iii) Could be improved by the provision of more suitable housing conditions.
- B. A developmental disability, as defined in section 102 of the Developmental Disabilities Assistance and Bill of Rights Act of 2000 (42 U.S.C. 15002); or
- C. The disease of acquired immunodeficiency syndrome (AIDS) or any condition arising from human immunodeficiency virus (HIV).

(17)(11) For tenants who exited NPLH Assisted Units during the reporting period:

- A. The number of tenants who exited during the reporting period to:
  - (i) other permanent housing,
  - (ii) the street, emergency shelter, transitional housing, or safe haven, or
  - (iii) an institutional destination, and the specific institutional destination, if known (including, but not limited to hospitalization or psychiatric hospitalization, residential substance use treatment facility, skilled nursing facility, jail or prison).

(18)(12) The number of tenants who died during the reporting period.

(19)(13) For tenants who leased or remained in NPLH Assisted Units during the reporting period:

- A. Changes in employment income during the reporting period;
- B. Changes in non-employment cash income during the reporting period; and
- C. Changes in total cash income during the reporting period.

- Notwithstanding the above requirements, the Department of Housing and Community Development may modify the data collected over time to conform to changes in the specific data metrics required by HUD through CES, or required by another state or federal agency
- If readily available, counties may also provide aggregate data on: (1) emergency room visits for NPLH tenants before and after move-in; (2) average number of hospital and psychiatric facility admissions and in-patient days before and after move-in; and (3) number of arrests and returns to jail or prison before and after move-in
- Data collected annually will be compiled by the Department of Housing and Community Development and made available on the Department's website

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- Where there is a difference between these guidelines and the Department of Housing and Community Development's current reporting requirements, the provisions of these guidelines shall prevail

For each project completed by June 30<sup>th</sup> of the reporting year, MOHCD shall submit to the State Department of Housing and Community Development a project completion report, no later than September 30<sup>th</sup> of that year, with evidence acceptable to the State that the project is complete, and that all assisted units in the project are occupied by persons meeting the occupancy, income, rent, and tenant eligibility requirements for the assisted units. This information shall be provided on forms made available by the State. (from Section 309.(b))

The State may extend the deadline for submission of a project completion report, if a project was completed less than 150 days prior to the deadline for submission of the report under the NPLH Program Guidelines Section 213 (e) in order to enable the project to submit occupancy information based on an initial rent-up period not to exceed 120 days. (from Section 309.(c))

#### H. Monitoring Requirements

MOHCD is responsible for ensuring that NPLH funds are used in accordance with all program requirements and Alternative Process County Program agreements (between the State Department of Housing and Community Development and MOHCD). MOHCD must take appropriate action when performance problems arise. The performance and compliance of each project must be reviewed as set forth in NPLH Program Guidelines Section 311 (b). (paragraph below) MOHCD must have and follow written procedures, and systems, including a system for assessing risk of activities and projects and a system for monitoring projects, to ensure developers, property managers, and service providers are meeting all program requirements. (from Section 311.(a))

To ensure that funded projects are completed, projects are able to meet long-term affordability, and project are meeting other program requirements as set forth in the NPLH Program Guidelines and relevant statutes, MOHCD must meet the following minimum requirements for project monitoring:

- (1) On-site physical inspections of all projects as needed during construction, at project completion, and at least once every three years during the term of the loan;
- (2) Annual review of project operating budgets, audits, or other certified financial statements.
- (3) Annual review of supportive services plans and outcome measures to ensure that the supportive services being offered are the most appropriate and effective for existing NPLH tenants and the NPLH tenants proposed to be served in the NPLH regulatory agreement (from Section 311(b))

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