MAYOR'S OFFICE OF HOUSING
CITY AND COUNTY OF SAN FRANCISCO

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MAYOR

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ACTING DIRECTOR

To:	Interested Parties
From:	Ruby Harris, Small Sites Program Manager
Re:	2017 Small Sites Program Updates
Date:	December 1, 2017

This document is comprised of three sections related to the 2017 Small Sites Program (SSP) updates: 1) a summary of public comments received; 2) a summary of substantive revisions; and 3) a redlined copy of the Small Sites Program Guidelines.

Summary of Public Comments and MOHCD Responses

This section summarizes comments related to the Small Sites Program Guidelines that were received between July 31, 2017 and October 20, 2017 as well as those comments received in public meetings held on October 10, 2017 and October 17, 2017. The public meetings were announced via email, posted on MOHCD's website and were accessible to all members of the public. Public meetings were attended by nonprofit affordable housing developers, tenant rights organizations, community organizers, lenders, and City staff.

The thoughtful feedback received and participation in the City's effort to preserve affordable housing and improve the Small Sites Program are important and appreciated.

Comments have been organized into 7 categories, below. Public comments are in plain font and MOHCD responses are displayed in *Times New Roman italicized* font directly below the comment.

1. Overall Program Design

- Allow for lower than 80% AMI average income if the project sponsor can demonstrate financial sustainability of the project.

  MOHCD established an 80% average AMI requirement in order to achieve the short-term goal of stabilizing current low-income tenants in their homes and the long-term goal of financial sustainability for these small buildings. MOHCD based this policy on financial models that took into account acquisition prices, rent levels and available public resources. MOHCD's typical investment into Small Sites is $330,000

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-$400,000 per unit in order to ensure affordability and sustainability with current restrictions in place. MOHCD has a fiduciary responsibility to ensure that public resources reach as many households as possible and declines to change this policy.

Policy change: None.

- Desire to expand the program into more geographic areas of the city.

  MOHCD agrees that there is a need for more geographic coverage throughout the city. An effort to expand developer capacity is underway to address this issue.

  Policy change: None.

- Establish a target AMI by neighborhood. Allow for lower AMI average in certain neighborhoods. At no time should SSP rents exceed market-rate for that neighborhood.

  MOHCD does not agree to an AMI designation that is specific to a particular neighborhood. Sponsors may, on a case-by-case basis, appeal to MOHCD to consider the specific needs of the neighborhood it is serving with respect to the setting of rents and income targeting. MOHCD agrees that the SSP rents must be below market rate and will not exceed market rent in a neighborhood.

  Policy change: Added language to Section IIE(2)(b) stating that "SSP maximum rents shall be capped at 20% below market rate for the building's immediate neighborhood, as substantiated by rental comparables."

- Certain neighborhoods' housing stocks do not match SSP priorities of 5-25 units, with a larger concentration of small 2-4 unit buildings. Expand SSP to include these smaller building types.

  MOHCD's current policies allow the project sponsor to acquire sites that are smaller than 5 units on a case-by-case basis. To date, MOHCD has funded 10 (of 24 total) buildings with 3-4 units. MOHCD's Small Sites Program is not designed for single family homes or duplexes.

  Policy change: None.

- Generally improve SSP administration, including swifter closings and lease-ups.

  MOHCD remains open to feedback on how to achieve more efficiency in its process and is dedicated to forging relationships with other City departments to assist SSP projects in moving forward as expeditiously as possible. In September 2017, the Mayor issued Executive Directive 17-02 to support the City's commitment to *delivering at least 5,000 units of new or rehabilitated housing every year for the foreseeable future. The Directive is structured to result in faster approvals for housing development projects at both the entitlement stage and the post-entitlement permitting stage, and includes approval deadlines, accountability measures, process improvements, and staffing and resources to meet the requirements.*

Policy change: None.

- Buildings that are undergoing buyouts should be listed in the site selection criteria as a priority.

  MOHCD agrees that these properties are at-risk of displacement and has funded such properties.

  Policy change: The Site Selection Criteria (Section IB(1)) has been updated to clarify that, "At-risk buildings include those where tenants are enduring harassment, threats of eviction, and have received offers to buy-out their tenancies, among other indicators."

2. Tenant Rent Increases/Income Certifications

- For existing tenants, increasing rents to the 20% rent-to-income threshold, especially in larger buildings, is challenging. Eliminate rent increases at acquisition for buildings that are 10 units or larger.

  The 20% rent-to-income threshold is designed to address the needs of both the building and the tenants of SSP properties. 20% of income is 10% below the standard 30% that is typically employed for affordable housing projects at initial lease-up. MOHCD does not agree to eliminate the requirement to adjust rents at acquisition to 20% of the household's monthly income.

  Policy change: None.

- If tenants must adjust their rent to 20% of their monthly income at acquisition, allow up to 10 years to make the adjustment instead of the standard 5 year timeframe.

  MOHCD provides up to 5 years to adjust rents at acquisition in order soften the impact the adjustment has on the tenant's finances. MOHCD does not agree to an increase in the adjustment period.

  Policy change: None.

- Suggest adherence to rent control increases at acquisition unless tenants voluntarily agree to a higher increase.

  MOHCD restrictions offer increased stability for tenants over the long-term and restricts all rents in the building to below market rate, thereby protecting the property from going to market due to the vacancy decontrol allowed under the Rent Ordinance.

  While there are fluctuations year-to-year in the allowable rent increases under the Rent Ordinance because it is pegged to the Consumer Price Index (CPI), SSP rents are projected to remain stable at 2% per year. For example, this year, the 2% SSP annual increase is less than the Rent Ordinance allowable rent increase at 2.2%. Additionally, SSP does not allow rent passthroughs to tenants for owner expenses, such as the capital improvement passthrough that is allowable under the Rent Ordinance.

  MOHCD does not agree to adhere to Rent Ordinance increases.

  Policy change: None.

- Recommend that MOHCD allow roommates to income qualify separately instead of jointly as one household.

  MOHCD requires that income certification occur on a per unit basis in order to ensure that the unit is being rented to an income-qualified household. MOHCD does not dictate or define how a household is composed, other than that household members jointly occupy a unit. MOHCD does not agree to change its methodology for income-qualifying a unit.

  Policy change: None.

- Allow project sponsors to acquire buildings under SSP that include multiple overcrowded units instead of the proposed cap of one overcrowded unit per building.

  MOHCD proposed language that would allow for up to one overcrowded unit per SSP building. Given the typical SSP building size of 6 units, one overcrowded unit accounts for 17% of the building and represents the City's intent to assist overcrowded households and encourage safe, healthy homes for residents. MOHCD does not agree to further expand the overcrowded provision.

  Policy change: None.

- Increase threshold for allowing sponsors to bypass certain rent increases and income certs at acquisition to $275,000 per unit in City subsidy (Section IIE(1)(a)).

  MOHCD agrees to this change.

  Policy change: Adjusted Section IIE(1)(a) of the guidelines from $250,000 to $275,000.

- Allow sponsors to freeze rents at 30% instead of 50% rent-to-income ratios.

  SSP's provision for Severely Rent Burdened (defined as 50% rent-to-income ratio) tenants was implemented to provide protections to tenants. MOHCD does not agree to further restrict rent increases for these small and often tightly budgeted properties.

  Policy change: None.

- Allow bridge lenders to close without full income certification complete.

  It is the bridge lender and borrower's responsibility to ensure that the project will be able to qualify for SSP take-out in the future. MOHCD will allow the bridge lender to exercise its own judgement as to how likely the project will be positioned for City take-out.

  Policy change: None.

3. Loan Terms

- Interest and debt accrual is problematic for accounting purposes.

  Per Section IIC of the guidelines, SSP loan interest is contingent and is forgiven each year if the building's cash flow is not adequate to pay it. The principal portion of the SSP loan remains with the property until is it repaid.

  Policy change: None.

- Increase per unit loan limits by $25,000 for each building type.

  MOHCD agrees to increase the maximum loan amount for two of the three building categories, as outlined below. MOHCD data does not substantiate the need for a loan increase for 10 or more unit buildings.

  Policy change: Increase the per unit loan limit for 3-9 unit buildings to $375,000. Increase the per unit loan limit for group houses and SROs to $175,000.

- Add lease-up reserve.

MOHCD regularly includes lease-up or debt service reserves in its budgets. MOHCD agrees to clarify this in the guidelines.

Policy change: Included the following language in Section IVB(5), "Capitalized Vacancy Reserves: The monthly rent for commercial and residential units that are vacant at acquisition multiplied by the number of months the unit will remain vacant during predevelopment, rehabilitation and marketing/lease-up."

4. Asset Management/Property Management/Development Fees

- Increase allowable Asset Management and Property Management Fees.

MOHCD agrees to increase the allowable Asset Management and Property Management fees to ensure the financial health of participating sponsors. As such, MOHCD is increasing the allowable Asset Management Fee to $80 per unit per month and the allowable Property Management Fee to $80 per unit per month. This amount will be increased each year by 3.5%, per the charts below.

Policy change: Inserted the following language into Section IVC(2) of the guidelines:

"Asset Management and Property Management Fees: Monthly asset management and property management fees to be calculated on a per month basis as of the calendar year that the property receives SSP funding, according to the following tables:

Maximum Asset Management Fee ("Maximum AMF")

2017	*2018*	*2019*	*2020*	*2021*	*2022*	*2023*	*2024*
$80	*$83*	*$86*	*$89*	*$92*	*$95*	*$98*	*$102*

Maximum Property Management Fee ("Maximum PMF")

2017	*2018*	*2019*	*2020*	*2021*	*2022*	*2023*	*2024*
$80	*$83*	*$86*	*$89*	*$92*	*$95*	*$98*	*$102*

The Maximum AMF and PMF is expected to cover all costs of managing an SSP property. Project sponsors may, on a case-by-case basis, request additional documented costs be incorporated in the operating budget, subject to MOHCD review and approval."

- Additional asset management fees for small unit buildings (less than 9 units).

  MOHCD does not agree to additional fees for smaller buildings.

  Policy change: None.

- Allow bookkeeping fees, compliance fee and a portion of property manager salary (when the portfolio hits 50 units) to be captured in the operating budget.

  To the extent possible, sponsors should use their allotted fees to pay for overhead. If additional resources are required, the sponsor may include, subject to MOHCD approval, additional costs in the project budget to the extent that the sponsor can document the need for additional resources and the project remains feasible.

  Policy change: None.

- Allow a single maintenance plan for all SSP properties in a sponsor's portfolio.

  MOHCD agrees to this term. The Maintenance Plan should include addendums that are specific to each property if aspects of a particular property differ from other SSP buildings in the sponsor's portfolio.

  Policy change: None.

- Allow a single loan agreement for all SSP properties in a sponsor's portfolio.

  MOHCD does not agree to this term. Each property must have its own loan agreement and operate independently from other properties.

  Policy change: None.

- Allow multiple SSP properties to be owned by a single LLC.

  Since its inception, SSP has allowed multiple properties to be held by a single entity. MOHCD staff is working with SSP developers and their counsel to determine when a new LLC entity will be required.

  Policy change: None.

- Allow one Annual Monitoring Report (AMR) for all SSP properties in a sponsor's portfolio.

MOHCD does not agree to this term. Each property must have a separate Annual Monitoring Report.

Policy change: None.

- Allow sponsors to deposit reserves from multiple buildings into a segregated account.

  MOHCD is seeking additional information on how this accounting mechanism would work and will make a determination at that time.

  Policy change: None.

- Allow sponsors to deposit tenant deposits into a single segregated account.

  As long as this complies with State law, MOHCD does not object. It is the sponsor's responsibility to ensure that its practices are in compliance with applicable laws.

  Policy change: None.

- Allow additional developer fee for completing an Accessory Dwelling Unit (ADU).

  MOHCD agrees that the addition of new affordable units requires additional staff resources and that it fulfills the public goal of expanding housing opportunities. Therefore, MOHCD agrees to consider requests for additional developer fee and construction management fee in order to complete ADU conversions in SSP properties.

  Policy change: Amend Section IVC(1) and Section VIB to include the following language, "Projects may be eligible for additional developer and construction management fee where the scope includes creation of accessory dwelling units."

- Calculate developer fee based on how the building was configured at the time of acquisition if unit count is reduced to benefit the long-term viability of the project.

  MOHCD underwrites its loans based on the current and future use of the project – both scenarios must adhere to program guidelines in order to be funded. Developer fee is calculated based on the unit mix at acquisition unless the unit count will change after construction due to the addition or loss of units.

  Policy change: None.

- Property management contracts include a set-up fee and extra charges during the rehabilitation and lease-up processes.

These costs should be incorporated into the project's development budget so they do not conflict with the allowable Property Management Fee schedule.

Policy change: None.

5. Marketing/Lease-up

- Shorten the amount of time it takes to lease an SSP unit.

  MOHCD remains receptive to suggestions on how to improve its systems. MOHCD will continue to work with project sponsors to identify opportunities for improvement and remain vigilant about timeliness for filling unit vacancies.

  Policy change: None.

- Allow a single marketing plan for all SSP properties in a sponsor's portfolio.

  Project sponsors may use a template for marketing that can be populated with information specific to the unit being marketed at each vacancy.

  Policy change: None.

- Design an alternative lease-up process for self-managed and shared-housing properties.

  In response to input received from sponsors and tenants of group housing, MOHCD has developed an alternate lease-up process for group housing units. The document is attached for reference.

  Policy change: No changes to the SSP guidelines.

6. SROs

- Create separate criteria for SROs. Specifically, consider lower affordability averages than the standard SSP program.

  MOHCD acknowledges that SROs will require a separate set of affordability criteria and likely other criteria, as well. MOHCD will schedule a meeting with nonprofit sponsors in the coming weeks to discuss this issue. In the meantime, we continue to accept applications for SROs and encourage sponsors to discuss specific small SRO acquisition opportunities with us.

  Policy change: None at this time.

7. Miscellaneous

- Add language that specifically states that Small Sites Projects accept housing vouchers, such as Section 8 and VASH, among others.

  MOHCD expressly encourages and mandates the acceptance of housing vouchers in its SSP properties. This requirement is located in the loan agreement for each of its properties which states, "Borrower shall accept rental assistance (such as Section 8 and VASH, or any successor or similar rent subsidy programs) to the extent that Rent charged for the Unit complies with such program regulations and a Tenant who submits a voucher or other form of rental assistance has been selected through the marketing process described in Article 6 and is otherwise qualified for the Unit." MOHCD is dedicated to encouraging vouchers which allows the program to reach lower income households even when the rent is set at a higher rate. To reaffirm MOHCD's intent to make SSP properties available to voucher holders, MOHCD agrees to include language in the SSP guidelines.

  Policy change: Added voucher language from the SSP loan documents in Section IIE(2)(g) of the guidelines.

- Create a separate program and/or separate criteria for small properties of 3-6 units because they are more expensive to acquire and manage.

  MOHCD does not agree to create a smaller sites program. SSP has provided funding for 18 (of 25 total) projects that fit into this building size category and will continue to consider applications as they are received. MOHCD will also continue to work with project sponsors to troubleshoot project issues for SSP properties.

  Policy change: None.

- Consider vacant buildings for SSP funding.

  MOHCD's current priority is to protect existing low- to moderate-income tenants against displacement pressures. MOHCD does not agree to utilize finite SSP funds on vacant buildings at this time.

  Policy change: None.

Summary of Substantive Revisions

Page 1:

1. Section IA(1) "Building Type" – Clarified that the program is geared toward occupied buildings
2. Section IA(3) "Building Type" – Added the ability to legalize existing unpermitted units that meet minimum livability standards through SSP
3. Section IA(4) "Building Type" – Included a reasonable acquisition price standard
4. Section IB(1) "Site Selection Criteria" – Clarified that at-risk buildings include those where tenants are enduring harassment, threats of eviction, and have received buy-out offers

Page 2:

1. Section IIA(2) "Maximum City Subsidy" – Increased the maximum subsidy per unit for 3-9 unit buildings to $375,000
2. Section IIA(3) "Maximum City Subsidy" – Increased the maximum subsidy per bedroom for SRO or group housing buildings to $175,000

Page 4:

1. Section IID(3)(c)(iii) "Cash-out Refinances" – Added a requirement that repayment of MOHCD's loan be accelerated if adequate cash flow is available at refinance
2. Section IIE(1)(a) "Income and Rent Restrictions" – Increased the City subsidy threshold required for sponsors to bypass certain aspects of income certification and rent setting at acquisition to $275,000 for standard residential/mixed-use buildings

Page 5:

1. Section IIE(1)(h) "Income and Rent Restrictions" – For households whose incomes are over the welfare property tax exemption limit, rents may go up to 120% of Area Median Income
2. Section IIE(1)(j)(i) "Income and Rent Restrictions" – Allows for 1 unit in a building acquired with the assistance of SSP to be overcrowded if the sponsor has an acceptable relocation strategy

Page 6:

1. Section IIE(2)(b) "Income and Rent Restrictions" – Added language that allows the maximum rent to be capped at 20% below market rate for the building's neighborhood

Page 7:

1. Section IIE(2)(g) "Income and Rent Restrictions" – Added language requiring the sponsor to accept rental assistance vouchers and maximize the annual income generated from those vouchers to the extent that the SSP rent meets the rental assistance regulations and the household otherwise qualifies for the SSP

<u>Page 8:</u>

1. Section IIIB(7) “Suggested First Loan Terms” – Clarified that no cross-collateralization is allowed

<u>Page 9:</u>

1. Section IVB(4) “Replacement Reserve Deposits” – Clarified that commercial “units” are to be included in the total unit count and contribute to replacement reserves
2. Section IVB(5) “Capitalized Vacancy Reserves” – Added guidance on sizing capitalized vacancy reserves
3. Section IVC(1) “Developer Fee” – Added language allowing additional developer fee for accessory dwelling units
4. Section IVC(2) “Asset Management and Property Management Fees” – Increased both the allowable maximum asset management and property management fees by an additional $15 PUPM in calendar year 2017; increasing by 3.5% per year; to be set as of the year the project receives SSP funding according to the chart provided.
5. Section IVC(2) “Asset Management and Property Management Fees” – Clarified that the AMF and PMF are expected to cover typical operating costs, but that additional costs will be considered on a case-by-case basis

<u>Page 10:</u>

1. Section IVE(1-2) “Relocation” – Added relocation requirements

<u>Page 11:</u>

1. Section VI(B) “Construction Management Fees” – Added language allowing additional construction management fee for accessory dwelling units

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SMALL SITES PROGRAM
PROGRAM GUIDELINES

The Small Sites Program ("SSP" or "Program") Program Guidelines were originally approved as "Underwriting Guidelines" by the San Francisco Citywide Affordable Housing Loan Committee on July 18, 2014 and subsequently revised on December 8, 2014, June 1, 2015, September 30, 2016 and December 1, 2017. These guidelines apply to all applications for Small Sites Program financing and other projects requiring conformance with the Small Sites Program. SSP applications will be reviewed in the order received and thoroughly underwritten according to these standards in order to determine the project and project team's eligibility for SSP funds. These Program Guidelines will be updated from time to time in response to market conditions and to clarify Program policies and procedures.

I. SITE ELIGIBLITY/SELECTION

A. Building Type

1. 5-25 unit occupied residential buildings are prioritized; buildings with fewer than 5 residential units will be considered on a case-by-case basis.

2. Mixed-use buildings are eligible to receive SSP funds provided that the majority of the building is used for residential purposes.

3. All residential units must meet the San Francisco Planning Department's definition of "dwelling unit" and fully conform with Planning Code requirements applicable to the site, including zoning, General Code compliance, and any relevant neighborhood plan controls. Where there are tenants living in unpermitted units and the unit meets minimum livability standards according to Chapter 5 of the San Francisco Housing Code 2016, legalization of such unit may be eligible for SSP funds.

4. Acquisition price must be substantiated by an appraisal and may not exceed purchase prices for comparable buildings in the area. MOHCD reserves the right to decline an application for funding due to an unreasonable acquisition price. All appraisals submitted with SSP applications must show both the fair market value and the restricted value. It is expected that once restrictions are in place, all future appraisals and refinances will be based on the restricted value.

B. Site Selection Criteria

Applications will be reviewed in the order received; however, in the instance where two applications are received within 30 days of each other and there are not sufficient SSP funds available to finance both projects, applications will be prioritized according to scoring criteria contained in the SSP Notice of Funding Availability (NOFA), published on July 24, 2014, according to the following priority characteristics:

1. Building is at immediate risk for Ellis Act eviction or in the process of an Ellis Act eviction. At-risk buildings include those where tenants are enduring harassment, threats of eviction, and have received offers to buy-out their tenancies, among other indicators.

~~1.~~2. Building is located in a neighborhood with a high level of Ellis Act evictions

3. Existing residents include vulnerable populations: families with minor children, elderly, disabled and catastrophically-ill persons

4. Buildings housing residents with the lowest incomes (assuming other program criteria are met)

~~2.~~5. Buildings which require the lowest amount of subsidy per unit

II. GENERAL CITY FINANCING TERMS

A. Maximum City Subsidy

Maximum City subsidy including acquisition and rehab/permanent financing is:

1. $300,000 per unit for buildings of 10-25 units
2. $~~350~~375,000 per unit for buildings of 3-9 units
3. $~~150~~175,000 per bedroom for group or single room occupancy (SRO) housing

In extreme cases, where eviction of vulnerable tenants, as defined in Section I(B)(3) above, is imminent, City will consider additional City subsidy on a case-by-case basis but in no case will City subsidy exceed $400,000 per unit. Such additional City subsidy may not be applied to units that are occupied by households earning more than 120% AMI.

To calculate the maximum per-unit subsidy, income generating commercial space may be counted as a unit. Leased parking spaces may not be counted as a unit for the purpose of establishing the City subsidy cap. City subsidy includes all sources of funds available through MOHCD for the residential project, including but not limited to SoMa Stabilization funds, Rehab/Lead funds, and CDBG Housing Development Grants (HDG). If the project includes a commercial component, the project sponsor may access additional funds from City sources to pay for the cost of commercial tenant improvements. The SSP will not pay for commercial tenant improvements.

B. Term

1. Loan Term: 30 years ("Loan Term")

2. Restriction Term:

   a) Declaration of Restrictions Term: For the life of the project, surviving expiration of the Loan Term, default, foreclosure and/or loan repayment.

   ~~a)~~b) Declaration of Restrictions must be recorded in first position on title and is senior to all deeds of trust.

   ~~b)~~a) ~~All appraisals submitted with SSP applications must show both the fair market value and the restricted value. It is expected that once restrictions are in place, all future appraisals and refinances will be based on the restricted value.~~

C. Loan Interest Rate

3% annual simple interest. Loan repayments shall be applied first to interest and second to ~~principle~~principal. However, if, in any given year, an SSP building generates insufficient cash flow to repay all interest due, unpaid interest due for that year shall be forgiven.

D. Repayment, Refinance and Subordinate Financing

1. Full Loan Repayment: Loan to be repaid in full at conclusion of the Loan Term or upon any transfer of title that results in loss of affordability.

2. Residual Receipts Payments:
   a) For any year when the replacement reserve balance is less than 1.5 times the original capitalized replacement reserve required in Section IV(B)(3), below: 1/3 of residual receipts may be retained by the project sponsor~~/owner~~ and the remaining 2/3 must be deposited into the project's replacement reserve account.

   b) For any year when the replacement reserve balance exceeds 1.5 times the original capitalized replacement reserve required in Section IV(B)(3), below: 1/3 of residual receipts may be retained by the project sponsor~~/owner~~ and the remaining 2/3 must be distributed to MOHCD for debt repayment.

3. Refinancing of Senior Debt:
   a) MOHCD encourages sponsors to seek the longest term first mortgage possible. To the extent that the first mortgage includes a balloon payment, refinancing of senior debt is acceptable. Refinanced senior debt terms are subject to MOHCD's approval. Once approved, MOHCD will subordinate to the new loan, accordingly.

   b) MOHCD may extend the term of its loan at a refinance for the purpose of preserving affordability.

   c) Cash-out R~~r~~efinances:

      i. Cash-out refinances are allowable only for the purpose of improving and rehabilitating the same building for which debt is being financed.

      ii. In general, 100% of the cash-out amount must be deposited into the building's replacement reserve or be utilized for an immediate capital project. However, i~~I~~f the project sponsor can demonstrate ~~the~~ that reserves are adequately funded for a 20 year period and if hard rehab costs exceed $20,000 per unit, then the reserves may be used to pay for construction management and project management fees associated with the rehab, provided that the sum of the two fees does not exceed 10% of hard costs.

      ~~i.~~iii. Where reserves are fully-funded and there is excess cash-flow available for debt service, MOHCD will require that the remaining portion of the cash-out equity be used to repay the City's loan which can then be made available to support new SSP projects.

~~c)~~d) At no time may the project sponsor borrow hard debt against the property that exceeds the supportable mortgage according to the appraised restricted value of the property and/or the restricted rental income.

4. Subordinate Financing:
Financing subordinate to the City's loan and lines of credit secured against the property are prohibited, except for the purpose of acquiring the site when sufficient other financing sources are not available or when necessary to finance capital projects that benefit the health, safety or efficiency of the building, such as seismic or energy efficiency improvements. All subordinate financing must be approved in writing by MOHCD. Sponsor must be able to demonstrate adequate cash flow for payment of subordinate debt and the ability to refinance or otherwise repay subordinate debt in a timely manner without additional resources from the City.

E. Income and Rent Restrictions

1. At SSP Loan Closing:
   a) If the total City subsidy per unit is equal to or less than $~~250~~275,000 for standard residential/mixed-use buildings or $100,000 per unit for group housing/SRO buildings, the project sponsor may close an SSP loan without compliance with this Section II(E)(1)(d-i). The project sponsor must notify all tenants according to Section II(E)(1)(c), below, and ensure that income certification occurs within the first year of operation. Unless project sponsor provides evidence of eligibility for the welfare property tax exemption, it must assume 100% of property taxes will be due in its operating budget.

   b) Area Median Income (AMI) means area median income as published annually by MOHCD, derived from the Income Limits determined by HUD for the San Francisco area, adjusted solely for household size, but not high housing cost area, also referred to as "Unadjusted Median Income". Households occupying SSP buildings are considered within the income limits of the Program so long as their income is equal to or less than 120% AMI.

   c) 100% of tenant-occupied units ("households") must be notified of the intention to acquire and restrict the building under the Small Sites Program. Such notification must include language indicating that the City's Rent Stabilization and Arbitration Ordinance will no longer apply.

   d) As an indication of general tenant approval of the proposed building purchase and the tenants' willingness to participate, a minimum of 75% of existing households must acknowledge their agreement and 66% of households must income certify for the building to be eligible for inclusion in the SSP. Up to 34% may be over income (above 120% AMI) or refuse to certify without rendering the property ineligible. Regardless of whether a unit's occupant(s) complete the income certification process or are over income at SSP loan closing, all units must be restricted for the life of the project.

e) Average household income of a minimum of 66% of households must not exceed 80% of AMI at the time of SSP loan closing. Project sponsors may include proposed rent levels for vacant units in this calculation.

f) If an existing household's rent is equal to or exceeds 30% of household's gross monthly income, the household's lease will be upheld at the then-current monthly rent level. At the next anniversary of tenancy or SSP loan closing, the household will be subject to rent increases according to Section II(E)(2).

g) If an existing household's rent is less than 30% of household's gross monthly income, their rent will be increased to a minimum of 20% of the household's gross monthly income and, if required for project financial feasibility, up to a maximum of 30% of household's gross monthly income. As necessary, such rent increases may be phased in over a period of up to 5 years.

h) If an existing household's income is greater than State "Low Income" or 80% of median family income (MFI), as published annually by the Department of Housing and Community Development (HCD), therefore rendering the unit ineligible for the welfare property tax exemption, then the pro rata share of the property tax assessment shall be charged to the household in the form of increased rent. Such rent increase may be phased in over a period of up to 5 years, but in no event may the property tax rent increase cause any household's rent to exceed 30% of its gross household income or ~~market rent~~120% AMI rent, whichever is less.

i) If an existing household does not comply with income certification and to the extent that the household is not currently paying more than 120% AMI rent, such household's rent will be increased, at a minimum, by the amount of the unit's pro rata share of property taxes up to a maximum of 120% AMI rent, as long as the overall average rents do not exceed 80% AMI.

j) MOHCD policy for all units is that tenant households be housed in units with a bedroom count that matches household size. The following guidelines shall apply in cases where households are under-housed or over-housed.

i. Given the challenges of relocating under-housed households, MOHCD will allow the acquisition of buildings where no more than 1 unit is occupied by a household defined as overcrowded according to Section 503 of the San Francisco Housing Code only in the event that a relocation strategy is identified and approved by MOHCD prior to loan closing. Overcrowded households shall be relocated into an appropriately sized unit within the property within one year, if possible, and, if not, when one becomes available. Overcrowded households shall also be relocated to non-Low Income Housing Tax Credit funded properties within the sponsor's SSP portfolio without a lottery as a reasonable accommodation. The unit that becomes vacant will, therefore, become available for lease to another low- to moderate-income household through MOHCD's standard marketing and lottery process. The overcrowded household may not supersede an active Small Sites Program waitlist in order to be relocated.

~~i.~~ii. Following project rehabilitation, if SSP households are over-housed (i.e., residing in a unit with a bedroom count that exceeds the household size), the household's existing living arrangement will be allowed until such time that another appropriately sized unit in the building becomes available, at which time the household will be required, subject to the waiver language below, to move into the appropriately-sized unit. Rent for that household shall decrease to reflect the smaller unit size, adjusted to match the AMI rent level that the household paid in its original unit. ~~Building~~ Project ~~owners~~ sponsors may request a hardship waiver from MOHCD if such a transfer is unduly burdensome to the tenant.

~~j)~~k) Project sponsors must execute new leases or provide written 30-day notice of change of terms in existing leases with tenants that clearly delineate the Small Sites Program rent restrictions in conformance with Section II(E)(2) and that the tenancy is not subject to the San Francisco Residential Rent Stabilization and Arbitration Ordinance. Tenant leases are subject to MOHCD review and approval.

2. Ongoing Affordability:
   a) SSP buildings must achieve an average of 80% AMI rents~~,~~ over time as the building experiences turnover. ~~The a~~Average rents in the building are evaluated by MOHCD only at vacancy, as described in Section II(E)(2)(b), below. In a fully occupied building, average rents will fluctuate year-to-year due to mandatory annual rent increases and/or changes in the published AMI levels without falling out of compliance with the program. Additionally, once a tenant household has qualified to rent a unit, changes in the household's income will not disqualify the household from continuing to reside in an SSP property.

   b) At each vacancy, SSP building ~~owners~~ sponsors are required to ensure that the building achieves 80% AMI average rents. For each unit that becomes vacant, prior to re-occupancy, the rent for such unit shall be set at the amount necessary to bring the Site's combined average rents as close as is possible to 80% AMI. Rent for any single unit may be set up to a maximum of 120% AMI in order to comply with the preceding sentence; however, SSP maximum rents shall be capped at 20% below market rate for the building's immediate neighborhood, as substantiated by rental comparables. Notwithstanding the foregoing, if an existing tenant has become severely rent burdened (see Subsection (e), below) during tenancy, upon vacancy of a unit in the building, and to the extent that the building has adequate cash flow, such tenant may apply to the building ~~owner~~ sponsor to reduce rent to as low as ~~40~~30% of tenant's gross monthly income, resulting in a higher rent on the vacant unit. If more than one tenant is severely rent burdened, such rent reduction will be equally distributed among the parties.

   c) Rents must increase annually by the greater of 2% or the change in annual operating expenses, up to a maximum of 3.5%. If, in any given year, the ~~owner~~ sponsor requires a rent increase greater than 3.5% in order to maintain financial feasibility, the ~~owner~~ sponsor may petition MOHCD for such an increase, which approval shall be subject to the Director's sole discretion and in compliance with MOHCD's loan documents. For those households that hold rent subsidy vouchers, such as Section 8 and VASH, ~~owner~~ sponsor shall request and make best efforts on an annual basis to receive an increase in contract rent equivalent to the percentage change in Fair

Market Rent (FMR) or equivalent payment standard, whichever is greater. Annual rent increases are required even if the average rents for the building increase above 80% AMI due to annual rent increases and/or changes in the published AMI levels.

d) If a household's income increases during tenancy to greater than State "Low Income" or 80% of median family income (MFI), as published annually by the Department of Housing and Community Development (HCD), therefore rendering the unit ineligible for the welfare property tax exemption, then the pro rata share of the property tax assessment may be charged to the tenant in the form of increased rent. Such rent increase may be phased in over a period of up to five years. If such household's income subsequently decreases and the unit becomes eligible for the welfare property tax exemption, such tenant's rent will be reduced by the pro-rata share of the property taxes that are attributable to that unit.

e) If the ~~owner's~~ sponsor's application of a rent increase in the manner described in this section results in any individual household's rent rising above 50% of that household's gross annual income (i.e., "severely rent burdened"), the ~~owner~~ sponsor may freeze the rent of the severely rent burdened household for the year, provided that:

i. The ~~owner~~ sponsor must demonstrate to the satisfaction of MOHCD that the property maintains short- and long-term financial sustainability in the form of positive cash flow, adequately funded reserves, and other indicators as MOHCD may reasonably request; and,

~~i.~~ii. At each annual income recertification, the ability of all households to pay required rent increases will be reassessed, as will the ~~owner's~~ sponsor's requirement to demonstrate short- and long-term financial sustainability if the ~~owner~~ sponsor requests a continued rent freeze for any severely rent-burdened household.

f) Rents may increase no more than once per year, according to the inflation factor described above, regardless of whether the tenant is on a month-to-month lease.

~~e)~~g) Sponsor shall accept rental assistance (such as Section 8 and VASH, or any successor or similar rent subsidy program) to the extent that rent charged for the unit complies with such program regulations and that the tenant who submits rental assistance has been selected through the City's standard marketing process and is otherwise qualified for the unit. Sponsor shall request and make best efforts on an annual basis to receive an increase in contract rent equivalent to the percentage change in Fair Market Rent (FMR) or equivalent payment standard, whichever is greater.

~~f)~~h) If a~~n~~ ~~owner~~ sponsor increases rents or offers a vacant unit for rent at a rate that exceeds program rules, the resulting excess cash flow will be due to the tenants who were overcharged and the ~~owner~~ sponsor will be in default of the terms of its loan.

III. FIRST LOAN TERMS

A. Preferred Lenders

All SSP applicants must leverage City soft debt with a first mortgage. A list of preferred lenders who are familiar with the Small Sites Program is on MOHCD's website; however, applicants are free to select a lender who is not on the preferred lender list if the applicant is able to find better terms elsewhere and the lender is able to comply with program requirements. Applicants are subject to the underwriting requirements of the senior lender for approval of the first mortgage.

B. Suggested First Loan Terms

Understanding the need for a range of loan terms that are dependent on underwriting standards by outside lenders, MOHCD has established the following suggested loan terms for the SSP. While it is MOHCD's strong preference for SSP applicants to obtain loans with the combination of all terms listed, certain terms may be omitted or refined based on the senior lender's underwriting requirements and based upon whether the project includes commercial space. MOHCD's loan approval is subject to its review of all underlying third-party financing terms and determination that such terms are not in conflict with the terms of MOHCD's loan agreement and ancillary documents.

1. Acquisition loans that automatically convert to permanent with a 10-year minimum term
2. 30-year amortization schedule
3. 1.10 to 1.15 Debt Service Coverage Ratio
4. Nonrecourse to the borrower
5. Low interest rates
6. No more than 1.5% lender loan fees
~~6.~~7. No cross-collateralization

IV. RESIDENTIAL DEVELOPMENT PROFORMA ASSUMPTIONS

A. Debt Service Coverage Ratio (DSCR)

1. Minimum: 1.10:1

2. Maximum: 1.20:1

3. Calculation Method: DSCR should be calculated after accounting for reserve deposits. DSCR should be calculated by dividing Net Operating Income (NOI), defined as revenue minus expenses minus replacement reserve deposits, by first mortgage payments (NOI/first mortgage payments). The goal in all cases is to maximize the amount of leveraged debt.

B. Reserves

1. Capitalized Operating Reserves: 25% of budgeted 1st full year operating expenses (including hard debt service) in an interest-bearing account.

2. Operating Reserve Deposits: None unless balance drops below 25% of prior year's operating expenses (including hard debt service). Any such required payments would be made from cash flow that remains after all other required payments are made (e.g. hard debt service, other reserve payments, etc.).

3. Capitalized Replacement Reserves: The higher of $2,000 per unit or the amount necessary to pay replacement costs for the next 10 years, as specified in an approved CNA and taking into account any renovation achieved through the Small Sites Program that cannot be supported by replacement reserve deposits due to inadequate operating income. Replacement reserves must be deposited into an interest-bearing account.

4. Replacement Reserve Deposits: The higher of the amount needed according to an approved 20-year CNA or the amounts listed in the table below as permitted by available cash flow. May be updated every seven (7) years based on a revised CNA acceptable to the City. In addition to the deposits listed below, all property taxes that were included in the project's development budget and later refunded by the City's tax collector and 50% of the balance of unused construction contingency must be deposited into the project's replacement reserve account.

Number~~o.~~ of u~~U~~nits, including commercial units	Replacement r~~R~~eserve d~~D~~eposits PUPY, including commercial units
<10	400
11-25	350

5. Capitalized Vacancy Reserves: The monthly rent for commercial and residential units that are vacant at acquisition multiplied by the number of months the unit will remain vacant during predevelopment, rehabilitation and marketing/lease-up.

C. Fees

1. Developer Fee: A flat developer fee will be calculated as the sum of $80,000, payable at acquisition and $10,000 per unit, payable at the end of rehabilitation, if rehabilitation is applicable, up to a maximum of 5% of total development cost (excluding the developer fee). Projects may be eligible for additional developer fee where the scope includes creation of accessory dwelling units. The portion of developer fee that is payable at the end of rehabilitation will be at-risk for costs exceeding final approved budget at commitment of financing by MOHCD. If the project's development budget is unable to support the level of developer fee indicated, the project sponsor may request that the remaining fee be deferred over a maximum 10-year period, payable after all other required expenses are paid but before the residual receipts split.

2. Asset Management and Property Management Fees: Monthly a~~A~~sset management and property management fees to be calculated as of the calendar year that the property receives SSP funding, according to the following tables:

Maximum Asset Management Fee ("Maximum AMF")

2017	2018	2019	2020	2021	2022	2023	2024
$80	$83	$86	$89	$92	$95	$98	$102

Maximum Property Management Fee ("Maximum PMF")

2017	2018	2019	2020	2021	2022	2023	2024
$80	$83	$86	$89	$92	$95	$98	$102

~~at $65 per unit per month with annual growth rate of 3.5%.~~
The Maximum AMF and PMF is expected to cover all costs of managing an SSP property. Project sponsors may, on a case-by-case basis, request additional documented costs be incorporated in the operating budget, subject to MOHCD review and approval.

~~Property Management Fee: Maximum property management fee to be calculated at $65 per unit per month or the amount published by the U.S. Department of Housing and Urban Development Management Fee Schedule, as adjusted for specific project characteristics, whichever is greater. The property management fee shall increase at an annual growth rate of 3.5%.~~

~~4.~~3. Construction Incentive Fee: 50% of remaining construction contingency may be retained by the project sponsor as an incentive fee at construction completion. See Section IV(D) below.

D. Contingencies

1. Construction Contingency
   - 15% of construction costs
   - Purpose: Contingency for unforeseen conditions, minor errors and omissions. 50% of any contingency funds remaining after sponsor's receipt of a certificate of completion from the San Francisco Building Department may be retained by the sponsor as an incentive fee. The remaining 50% must be deposited into the building's replacement reserve account.

2. Soft Cost Contingency: 15% of soft costs, excluding developer and administrative fees, construction loan interest, and reserves. Unspent funds allocated to soft costs shall return to MOHCD as excess proceeds.

E. Relocation:

1. SSP sponsors are required to submit a relocation plan to MOHCD within 60 days after SSP loan closing. At a minimum, such plan must include the following provisions and is subject to MOHCD approval.

   a) A detailed relocation budget
   b) Relocation of tenants shall be temporary, not to exceed 90 days
   c) Tenants shall not incur costs related to relocation but will continue to pay rent for their original unit
   d) A relocation consultant or other similar staffing to provide advisory services to tenants
   e) Notice will be given to tenants 90 days and 30 days prior to commencement of relocation
   f) Adequate temporary housing will be provided that is in decent, safe, and sanitary condition and of comparable size
   g) It is the City's intent that the Small Sites Program enhance stability for small business and commercial tenants. Relocation of commercial tenants should be kept to a minimum and not cause the commercial tenant undue burden. Commercial relocation shall be offered to

commercial tenants in the form of a temporary suspension of rent due plus a negotiated lump sum to ensure that the business is able to withstand the relocation period. Relocation agreements must be documented and signed by the applicable parties.

~~1.~~2. SSP tenants may be temporarily relocated to non-Low Income Housing Tax Credit funded properties within the sponsor's SSP portfolio without a lottery. Non-SSP tenants are not permitted to temporarily relocate to SSP properties.

V. OPERATING PROFORMA ASSUMPTIONS

A. Vacancy Allowance:

- 5% of annual residential rent income
- 20% of annual commercial rent income. This percentage may be reduced, subject to MOHCD approval, to as low as 5% upon demonstration of a long term stable tenant and/or strong market conditions that would facilitate rapid lease-up, should the commercial space become vacant. This percentage may also be increased if weak market conditions exist.

B. Increases in Gross Income

- 2.5% annually

C. Increases in Operating Expenses

- 3.5% annually

VI. OTHER UNDERWRITING GUIDELINES

A. Architect and Engineering Fees: If the scope of rehab requires architectural drawings (as opposed, e.g., to hiring a design/build contractor), then MOHCD's "Guidelines for Architect and Engineering Basic Services" shall apply. All architectural contracts should be full-service and include all necessary consultants. They should also use standard AIA forms (or approved equivalent). ~~Owner~~ Sponsor addenda are encouraged, including requiring the architect to design to a specified construction budget. Contracts must be signed prior to the commencement of any design work. Additional services will be allowed if there are significant changes in the A/E scope. Fees for Architecture/Engineering services should follow the schedule set forth in the Guidelines for Architect and Engineering Basic Services.

B. Construction Management Fees: ~~Developer~~ Sponsor must identify specific staff or consultant(s) who will provide construction management functions on behalf of the ~~owner~~sponsor, including permit applications and expediting, cost analysis, completion evaluations, change order evaluations, scope analysis and schedule analysis. It is the ~~owner's~~ sponsor's responsibility to ensure its construction management staff/consultant has adequate experience and availability to carry out the job; however, MOHCD may request additional information about the construction manager to establish capacity. ~~Owner~~ Sponsor is expected to negotiate the most competitive fee possible with the construction manager. Construction management fees may not exceed $25,500 per project: $2,500 per month for up to 6 months of pre-construction and $3,500 per month for up to 3 months of construction. Projects may be eligible for additional construction management fee where the scope includes creation of accessory dwelling units.

C. General Contractor Fees/Price

1. Selection of contractor by RFP: When the ~~developer~~ sponsor selects a contractor through a negotiated bid process, the RFP should require competitive cost proposals that specify Overhead and Profit (OH&P) percentages and General Conditions (GC) costs as separate line-items. Values for specific trade work, subcontractor work, and all other costs under the purview of the general contractor should be listed separately and exclude OH&P and GC mark-ups. The fee is a criterion, but not the sole criterion for selection. Selection process and selection results must be approved by the City with respect to LBE/SBE participation, wage requirements and proposed contract price.

2. Overhead and Profit: May not exceed 15% of the contract price.

3. General Conditions: These costs must be documented and reasonable given the conditions at the site.

4. Contractor's Contingency: If applicable, contractor's contingency must be tracked and documented as a separate line item.

5. Subcontractor Pricing: General contractors shall submit for the City's review a schedule of values that lists: 1) all proposed subcontractor pricing, without any general contractor markup; 2) clearly identified general contractor fees, as separate line-items, including overhead, profit, and general conditions; and 3) a final contract price. Subcontractor and sub-tier mark-up shall not exceed 15% in the aggregate, including on change orders. The City reserves the right to review all bids.

6. Change Orders: All change orders shall be reviewed and approved by the City. Mark-up on change orders shall be limited to 15% in the aggregate, inclusive of any general contractor's mark-up.

D. Project Management Capacity: ~~Developer's~~ Sponsor'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.

E. Asset Management Capacity: Development teams must provide information requested by MOHCD to describe asset management staffing plans and show how they manage the financial performance and capital needs of their existing and future assets. MOHCD will use the information provided to verify that their approach to asset management meets the City's stewardship expectations particularly with regard to timely performance of capital needs assessments, maintaining adequate replacement reserves and timely collection of tenant rents.

F. Excess Proceeds: Following issuance by the San Francisco Department of Building Inspection of a Notice of Completion or similar document signifying full completion of the MOHCD-approved rehabilitation program, up to $100,000 of MOHCD loan proceeds remaining after payment of all approved rehabilitation expenses may be retained by borrower for deposit into the project's reserves. Any amount above $100,000 shall be returned to MOHCD and loan documents shall be amended to reflect the lower loan amount.

VII. EXCEPTIONS

MOHCD reserves the right to waive any portion of MOHCD's Small Sites Program Guidelines, or to make exceptions on a case-by-case basis, for the purpose of preserving at-risk buildings as permanently affordable housing. Such waivers and/or exceptions shall be granted through the written approval of the Director of MOHCD, in his/her sole discretion, in consultation with the senior lender. Waivers and exceptions will not apply to the senior debt unless approved by the senior lender.

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SMALL SITES PROGRAM

Marketing Procedures for Group Housing Sites

1. These procedures apply to group housing sites that receive funding from the Mayor's Office of Housing and Community Development (MOHCD) Small Sites Program. Group housing is defined in the San Francisco Planning Code Section 102 as:

   A Residential Use that provides lodging or both meals and lodging, without individual cooking facilities, by prearrangement for a week or more at a time, in a space not defined by this Code as a dwelling unit. Such group housing shall include, but not necessarily be limited to, a Residential Hotel, boardinghouse, guesthouse, rooming house, lodging house, residence club, commune, fraternity or sorority house, monastery, nunnery, convent, or ashram. It shall also include group housing affiliated with and operated by a medical or educational institution, when not located on the same lot as such institution, which shall meet the applicable provisions of Section 304.5 of this Code concerning institutional master plans.

2. All group housing residents and Sponsors involved in the lease-up process must complete an MOHCD-approved fair housing training. Sponsors are required to adhere to fair housing law and local ordinances.

3. If a Sponsor is seeking MOHCD funding for a group housing site that includes a vacant unit, the Sponsor must (i) submit a complete marketing plan (including a Community Statement and House Rules), tenant selection and scoring criteria, and interview questions, and (ii) receive written approval of each document by MOHCD prior to loan closing. For group housing sites that do not include a vacancy, Sponsors must submit these documents no more than 3 months after loan closing and each document must be approved by MOHCD prior to marketing.

4. Sponsor will include the following attachments with the marketing plan template provided by MOHCD:
   a. A Community Statement describing their community, including shared living spaces, to be added to the rental announcement
   b. House Rules translated from English into these languages: Chinese, Spanish, and Tagalog
   c. A Group Housing Applicant Acknowledgement (as defined below)
   d. Interview Questions
   e. Tenant Selection and Scoring Criteria
   f. A Video Tour (optional)

5. Sponsor will offer an info session prior to the lottery. Curriculum must be approved by MOHCD. Current tenants may be present but may not conduct the session. It is not mandatory for a prospective tenant to attend the info session in order to be entered into the lottery.

6. Marketing and the lottery will occur per MOHCD's standard process as outlined in the most current MOHCD Housing Preference and Lottery Procedures Manual.

7. Once the Sponsor has received a lottery list from MOHCD, the Sponsor will send a letter to prospective tenants inviting them to attend a mandatory orientation and to submit application documents.

8. Applicants will be required to attend an orientation session after the lottery is complete and prior to applicants continuing with the qualification and selection process. At least 10 lottery applicants per available unit will be invited to attend in lottery rank order according to applicable housing preferences. The curriculum must be approved by MOHCD and must include review of the information provided on the website, including the

Community Statement and House Rules. This orientation is to be conducted by the project sponsor and not current tenants.

9. In order to streamline the income certification process, the Sponsor will invite the first 10 applicant households to submit full applications with income documentation and executed Group Housing Applicant Acknowledgments in lottery rank order.

    a. With MOHCD guidance, the sponsor will income and asset qualify households in lottery rank order until they have the first qualified batch of 5 applicants ("Lottery Batch"). If an applicant with a higher lottery rank is pending income and asset approval, the Sponsor must wait for an outcome regarding that household before including a lower ranking lottery applicant in the Lottery Batch. Income and asset qualification for applicants will occur prior to any interview with the Sponsor. Criminal background checks shall not occur until after an Interview has been completed.

    b. In order to move on to the interview process, applicants must also sign a Group Housing Applicant Acknowledgement of the following: (i) they have reviewed the provided marketing materials, (ii) they understand that they are applying for and desire to live in group housing, (iii) their approval is subject to an interview by the Sponsor, and (iv) if approved, they can and will comply with the house rules.

10. Using a standard set of questions, selection and scoring criteria in compliance with fair housing laws and local ordinances and approved by MOHCD prior to marketing, the Sponsor may conduct interviews with each household in the Lottery Batch. The Lottery Batch cannot be expanded unless an applicant removes themselves from consideration. In that case, Sponsor must select the next highest lottery ranking qualified applicant to add to the Lottery Batch. Sponsor must select a qualified applicant from the Lottery Batch according to the scoring criteria. If two applicants receive the same score, the applicant with the highest lottery rank must be selected. The Sponsor must provide MOHCD with documentation for all denials. Sponsors must notify applicants who are denied in writing and applicants must be granted the right to appeal the Sponsor's decision. A tenant representative may attend the interview and provide input on the selection of an applicant, only as it relates to specific questions that are asked during the interview. Any input given that does not respond directly to one of the questions asked during the interview must be disregarded by the Sponsor and must not be a factor in scoring.

11. Once a household from the Lottery Batch is selected, the remaining households that were interviewed will be placed in two categories: yes or no. The "yes" households will be ranked in order of preference by the Sponsor and placed on the waitlist. The "no" households will not be eligible for the waitlist but may apply for future openings in the building. Households who participated in the lottery but were not interviewed will be added to the wait list in lottery rank order after the households who completed interviews.

12. If a room becomes available and the waitlist has expired or there are no more "yes" households to place in the room, the Sponsor must conduct a new lottery.