Mayor's Office of Housing and Community Development
City and County of San Francisco

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Mayor

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NOTICE OF FUNDING AVAILABILITY

The Downtown Neighborhoods Preservation Fund
Acquisition and Rehabilitation Financing for Sites within a One-Mile Radius of 50 First Street

Issue Date: **October 15, 2018**
Expected Funds Available up to: **$33MM[1]**

A. Introduction

The San Francisco Mayor's Office of Housing and Community Development ("MOHCD") is pleased to announce the availability of funding in the amount of up to $33 million for the acquisition and rehabilitation of existing housing within the City and County of San Francisco (the "City"), and its preservation as permanent affordable housing.

The Downtown Neighborhoods Preservation Fund ("DNPF"), was established by the Board of Supervisors as a result of the sale of City-owned property and approval of a street vacation necessary for the development of the Oceanwide Center located at 50 First Street. Funds offered through this Notice of Funding Availability ("NOFA") shall be used exclusively for the acquisition and preservation of housing within a one-mile radius of the Oceanwide Center, as required by the DPNF enabling legislation. This NOFA will be modeled after the City's Small Sites Program ("SSP"), which targets smaller properties of fewer than 25 units.

[1] The City's implementation of DNPF will consist of multiple funding rounds, with timing subject to the availability of funds. Sources of funds for this NOFA have geographic and/or use restrictions that limit their use. All amounts are approximate and subject to change. MOHCD reserves the right to commit more or less funds than the amounts listed.

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Overarching funding goals include:

1) Protect and stabilize housing for residents of the Downtown area at a range of income levels, so long as a majority of the building's tenants have an income at or below 80% of area median income for San Francisco as published by MOHCD ("AMI").
2) Remove existing rental housing properties from the speculative market, while increasing the supply of permanently affordable rental housing
3) Create financially stable, self-sustaining housing that serves multiple generations of low- to moderate-income households by ensuring that DNPF properties operate with sufficient cash flow to adequately care for the property and repay debt obligations.
4) Complement the work under SSP by giving priority to buildings with 26 units or more residential units.

B. Project Eligibility and Prioritization

DPNF is available to acquire and rehabilitate residential buildings. As a minimum threshold, applicants must demonstrate that a proposed property is: (1) located in the City within a one-mile radius of 50 First Street (Oceanwide Center), and (2) a multifamily residential building providing rental housing. For this NOFA, MOHCD will consider Single Room Occupancy ("SRO") properties as eligible residential buildings. Mixed-use properties will also be considered, but applicants must demonstrate that any commercial use is ancillary to a primarily residential building. <u>Group housing will not be considered for funding as part of this NOFA</u>.

The DNPF funds are available on a first-come, first-served basis for properties that meet the threshold eligibility criteria as described above. If there is more than one project competing at any given time, MOHCD will prioritize proposals with the following characteristics:

1) Buildings containing 26 residential units or more.
2) Buildings that include tenants who are at immediate risk of eviction or displacement, are enduring harassment, threats of eviction, or have received buy-out offers for their tenancies.
3) Properties where the existing tenants include vulnerable populations, including families with minor children, elderly, and the disabled.
4) Proposals that successfully balance the provision of permanent affordable housing for very low-income tenants with demonstrated long-term project financial feasibility, assuming subsidies below the limits set out below.
5) Buildings that require the lowest amount of subsidy per unit.

C. Target Population: Low- and Moderate-income Tenants

With the SSP as precedent, the DNPF has been structured to serve households at a variety of income levels, up to a maximum of 120% of AMI, with a building-wide average of <u>up to</u> 80% AMI.

At acquisition, existing tenant incomes may range from very low (at or below 50% of AMI) to above moderate (at or above 120% of AMI). In order to qualify for the program, a majority (more than 50%) of the existing tenants must earn 80% of AMI or below, as estimated by the applicant. Given the size of the buildings prioritized, MOHCD recognizes that providing income certifications for all resident households at application may be challenging, and as such, applicants should justify their estimates of tenant incomes based on the information gathered from current property owners, direct contact with existing tenants, or any other form of data available. Following acquisition, and regardless of whether a unit's occupant(s) complete the income certification process or are over-income, all units will be restricted for the life of the project.

Upon vacancy, buildings funded through the DNPF must achieve an average rent level that ensures the building's continued viability over the long term without the need for additional MOHCD funding. Buildings should seek to achieve a maximum average AMI of 80%, with units rented up to a maximum of 120% of AMI. Note that applicants may propose average AMI levels lower than 80% only to the extent that the building is able to sustain operations with sufficient reserves for the life of the project. No additional MOHCD funding is available for buildings funded through the DNPF following the initial acquisition and rehabilitation work funded through this NOFA.

D. Eligible Uses of Funds

Funding that is awarded through this NOFA may be used for acquisition and rehabilitation. Specific eligible uses include:

- Property acquisition and holding costs, including take-out of financing sources that have less favorable terms
- Due diligence reports, including appraisals, environmental assessments, physical needs assessments and property inspections
- Legal costs
- Architectural and engineering expenses, as applicable
- Temporary relocation costs, if necessary
- Project management or developer fees, as approved by MOHCD
- Rehabilitation costs
- Capitalized reserves, if necessary
- Other necessary soft costs associated with acquisition or rehabilitation of the site

<u>Ineligible Use of Funds</u>
Tenant improvements to commercial space.

E. Loan Terms

All DNPF applicants must leverage City debt with a first mortgage. A list of preferred SSP lenders can be found on MOHCD's website. Applicants are free to select a lender who is not on the preferred SSP lender list if the applicant is able to find better terms elsewhere.

Understanding the need for a range of loan terms that are dependent on underwriting standards by commercial lenders, MOHCD has established the following preferred commercial loan terms to complement the DNPF and will be evaluating each DNPF applicant's first mortgage for similar terms:

- acquisition loans that automatically convert to permanent with a 10-year minimum term
- 30-year amortization schedule
- 1.10 to 1.15 debt service coverage ratio
- nonrecourse to the borrower
- low interest rates
- no more than 1.5% lender fees

Because funding through the DNPF will remain in the project as permanent financing, the effective interest rate on permanent debt (City soft debt + conventional mortgage) will be below market rate. This strategy ensures that DNPF properties can afford to repay their loans from cash flow while maintaining below market rate rents for their current and future tenants. Additionally, the City's role as a subordinate (gap) lender allows for required rehabilitation of the acquired sites and, consequently, a higher loan-to-value ratio ("LTV") than would be available in its absence. The following is a synopsis of key DNPF loan terms:

- $250,000 maximum City subsidy per dwelling unit; $175,000 maximum per SRO unit
- 3% annual simple interest
- 30-year term
- subordinate to the first lender
- repayment due to the extent that residual cash flow is available and at expiration of the loan term
- rents restricted at a maximum average of 80% AMI for the life of the project, regardless of City loan payoff or expiration of the loan term
- **restrictions must be recorded in first position on title**

In addition to the above guidelines, applicants may also present alternate financing models that anticipate taking advantage of City-issued acquisition and permanent debt. Following the passage of Proposition C in 2016, the City has repurposed existing bonding capacity to fund the Seismic Safety Retrofit and Affordable Housing Loan Program (aka "Prop C"), which includes acquisition and preservation of affordable housing as an eligible use. MOHCD is now able to offer below-market senior financing for projects funded under this NOFA. While program guidelines and loan terms are still being finalized, for the purposes of this NOFA, applicants may assume the following:

- Use of Prop C senior financing for acquisition, rehabilitation and preservation of existing housing.
- 3.5% interest rate
- 30-year term
- Debt service coverage ratio of at least 1.10x
- LTV that does not exceed the lesser of (a) 90% appraised value, or (b) 80% of total development costs.

Applicants who choose to submit a "Prop C Option" must also include financial projections reflecting a conventional mortgage and terms.

Finally, at the City's option, all applicants should anticipate the transfer of ownership of the land to the City in exchange for a long-term ground lease for any property acquired using the DNPF. This transfer may occur after initial acquisition.

F. Financing Plan and Affordability Restrictions

Applicants should incorporate the loan terms outlined above into their financing plans and submit a detailed Sources and Uses budget that includes construction cost estimates identified in a current capital needs assessment, as available, or estimates based on projects of similar size, type and complexity. Construction cost estimates should exclude escalation assumptions. Applicants must use MOHCD's form of Sources and Uses, Operating Budget, and 20-year Cash Flow, as provided in the DNPF Application (Excel) for this NOFA.

G. Rent Roll

Applicants must submit a rent roll reflecting the current unit mix, rents charged, any rent subsidies received (i.e. Section 8), tenant household composition and estimated tenant income level, as available. Tenant information will be confirmed on an annual basis, thereafter, to ensure ongoing compliance with the program. Applicants must use MOHCD's form of rent roll, as provided in the DNPF Application (Excel) for this NOFA.

H. Applicant Threshold Eligibility Criteria

Only applicants who meet all of the following criteria will be considered eligible for funding under this NOFA.

1) Must be a duly formed non-profit public benefit corporation exempt from taxation under Internal Revenue Code Section 501(c)(3).

2) Must demonstrate the technical capacity and experience to successfully acquire, own, rehabilitate and manage affordable housing, either through staff, contracted services, or in collaboration with other organizations. Such measure of success also includes on time and on budget progress with any Small Sites projects. Applicants should at minimum demonstrate:

    a. <u>Acquisition Experience</u>: The applicant must have acquired at least one "Qualifying Project" in the past 5 years (subject to satisfactory performance review by an appropriate public finance agency). A "Qualifying Project" is defined as a rental housing property that includes at least twenty five (25) units of affordable housing affordable to low- and moderate-income households.

    b. <u>Property Management Experience</u>: The applicant or the applicant's management agent must have managed at least five (5) Qualifying Projects for at least 36 months (subject to satisfactory performance review by any City agency from which the Project received funding). The applicant must also have marketed and leased at least one (1) Qualifying Project within the last 2 years (subject to satisfactory performance review by any City agency, including the Office of Community Investment and Infrastructure (“OCII”). from which the Project received funding).

c. Project Management Experience: The applicant’s project manager must have experience with at least three (3) Qualifying Projects or be assisted by a consultant or other staff person with greater experience and the demonstrated capacity to oversee the project. When using a consultant, the consultant’s resume should demonstrate that the consultant has successfully managed all aspects of at least five (5) comparable development projects in the recent past.

d. Construction Management Experience: Applicant must identify specific staff or consultant(s) who will provide construction management functions on behalf of the owner, including: permit applications and expediting, cost analysis, completion evaluations, change order evaluations, scope analysis and schedule analysis. The applicant’s construction manager must have experience with at least five (5) Qualifying Projects.

e. Asset Management Experience: Applicant must demonstrate that they have experience meeting compliance requirements for at least five (5) Qualifying Projects and they must be current with any MOHCD reporting requirements.

3) Must demonstrate site control with appropriate documentation (e.g. option to purchase).

I. Evaluation Criteria and Scoring Summary

All applications/proposals that meet the Threshold Eligibility Criteria above will be scored and ranked according to the following scoring criteria:

Category	Potential Points
Acquisition Experience exceeding threshold requirement	Y/N
Property Management Experience exceeding threshold requirement	Y/N
Project Management Experience exceeding threshold requirement	Y/N
Construction Management Experience exceeding threshold requirement	Y/N
Asset Management Experience exceeding threshold requirement	Y/N
Building is at immediate risk for Ellis Act eviction or in the process of an Ellis Act eviction	10
Estimated number of households at risk of displacement or percentage of households paying more than 50% of income for rent (1 point for each 10% of units)	10
Existing tenants include vulnerable populations: families with minor children, elderly, disabled, and catastrophically-ill persons (1 point for each 10% of units)	10

Building houses tenants with the lowest incomes	10
Building requires the lowest amount of subsidy per unit	10
TOTAL POSSIBLE POINTS	50

J. Funding Requirements and Guidelines

Funding Terms

DNPF will be provided as a residual receipts loan. Rehabilitation/permanent loans will bear a 3% simple interest rate. For all loans, however, in the event of uncorrected default under the loan agreement, interest shall be charged at the minimum rate of 10% per year from the date of the loan agreement and shall become immediately due and payable.

Equal Employment Opportunities

Project sponsors selected under this NOFA will be required to comply with City procurement requirements, including the provision of equal employment opportunities for disadvantaged business consultants, architects, contractors, and other potential development team members to participate in projects funded under this NOFA. To ensure that equal opportunity plans are consistent with local procurement requirements, applicants should meet with MOHCD and San Francisco Contract Monitoring Division staff prior to hiring their development team to develop a plan for such compliance.

Environmental Review

Depending on conditions at the site and on the rehab scope, proposed DNPF projects may be subject to review under the California Environmental Quality Act (CEQA) and the National Historic Preservation Act (NHPA) and specifically the Section 106 historical resources preservation review. Review by the Department of City Planning may also be required. Applicants to this NOFA must not undertake activities, including acquisition, which would have an adverse environmental impact or limit the choice of reasonable alternatives between the time of application submittal and completion of the CEQA/NHPA/Section 106 review process, if applicable.

Accessibility Requirements

Project sponsors may be responsible for meeting applicable accessibility standards related to publicly-funded multifamily housing development under Section 504 of the Rehabilitation Act of 1973, the Architectural Barriers Act, the Americans with Disabilities Act, and certain statutes and regulations of the City. Applicants should strive to the extent possible to make 5% of all rehabilitated units accessible in conformance with Section 504, and provide an additional 2% of units for the hearing and/or vision impaired. Applicants should submit proposed accessibility upgrades with their proposed rehabilitation scopes of work, as well as a description of any anticipated requests for hardship waivers.

Relocation Requirements

Applicants may be subject to the provisions of state relocation law and/or MOHCD-approved relocation requirements if the scope of the project will include the use of DNPF (or any other MOHCD funding) for rehabilitation that requires tenants to temporarily vacate their units while work is being completed. Applicants should be prepared to notify any existing residents of the plans to rehabilitate the site and that public funds are being sought for this purpose, if such notice has not already been given. No permanent displacement should occur as a result of the rehabilitation performed under this NOFA.

Prevailing Wages

Projects selected for funding under this NOFA will be subject to applicable local, state or federal requirements with regard to labor standards. Applicants should take prevailing wage requirements and labor standards into account when seeking estimates for contracted work, especially the cost of construction, and other work to which the requirements apply, and when preparing development budgets overall.

Employment and Training

Projects selected for funding will be required to work with the CityBuild initiative of the Mayor's Office of Economic and Workforce Development to comply with local and federal requirements regarding the provision of employment opportunities for local and low-income residents and small businesses during both the development and operation of the project.

Sustainable Design

MOHCD seeks to maximize the overall sustainability of financed projects through the integrated use of "green" building elements in compliance with local and state ordinances.

Projects selected for funding must comply with the mandatory minimum provisions of one of several recognized green building criteria for multifamily rehabilitation to the extent they apply to the proposed scope of work, including Build it Green, and USGBC LEED.

K. Application Process

Application Forms and Deadline

Application forms will be provided by email upon request to jonah.lee@sfgov.org or by visiting the City's website at https://sfmohcd.org.

The DNPF submittal documents includes all of the following materials:

1) DNPF Application (Word) – a Word document with applicable supporting documentation
2) DNPF Application (Excel) – an Excel spreadsheet (on Dropbox) with all tabs completed
3) DNPF Master Checklist – an Excel spreadsheet with Tab1 updated
4) DNPF Landlord Background Check Form
5) DNPF Household Income Certification Form

A complete application must be received in order to be assigned to a MOHCD project manager for review. Additional materials may be required, as appropriate for the site and requested by MOHCD staff.

MOHCD requires that applications be submitted in an electronic format. Electronic copies can be delivered either by email to jonah.lee@sfgov.org, a flash drive, or an online file-sharing platform. Applications will be accepted at any time following publication of this NOFA on an "over-the-counter" basis until the earlier of the commitment of all funds under this NOFA, or December 31, 2019.

The DNPF application must be submitted no later than the 5th day of a minimum escrow period of 105 days in order to allow time for thorough underwriting and loan approval prior to the expiration of the applicant's finance contingency. Finance and inspection contingency periods may not be shorter than 45 days.

<u>Application Review</u>

Applications will be reviewed in the order in which they are received for completeness and eligibility. If more than one application is received concurrently (within an approximate 2-week time frame), applications will be ranked internally according to the scoring criteria described in Section B and I. Eligible application(s) will then be reviewed for compliance with relevant City policies and for overall feasibility, including but not limited to the following issues:

1) Financial Feasibility - The project must be financially feasible with both current rents and restricted rents, including realistic development and operating budget projections that conform to industry standards. There should be a reasonable likelihood that all identified funding sources will be secured in a timely manner.

2) Cost - Cost per unit and per square foot (gross square footage of building space) will be examined relative to comparable projects' costs. City subsidy per unit may not exceed $250,000, or $175,000 for SRO projects.

3) Leveraging - The project's ability to demonstrate other sources of funding.

4) Displacement and Relocation - Projects may not include displacement of residential tenants. If temporary relocation of residents is anticipated, the applicant must provide a preliminary relocation plan and budget.

Once compliance has been determined, the selected project(s) will be announced by the MOHCD Director of Portfolio Management and Preservation.

L. Other Requirements

Before executing a loan agreement and disbursing any funds to a successful applicant for funding under this NOFA, MOHCD will require, among other requirements, the following:

1) An opinion by the applicant's legal counsel, satisfactory to the City's legal counsel, that the applicant or applicant's borrowing entity is duly formed, validly existing, in good standing under the laws of the State of California, has the power and authority to enter into an Agreement with the City, and shall be bound by the terms of the Agreement when executed and delivered, and that addresses such other matters as the City may reasonably request.

2) A copy of appropriate insurance policies naming the City as co-insured.

3) A Phase I (and II, if appropriate) Environmental Assessment.

4) Project sponsors will be required to comply with all requirements applicable to entities contracting with the City, including, but not limited to insurance coverage, business relationships, and domestic partners' benefits.

5) Audited or financially reviewed financial statements for the entity's last three fiscal years.

6) If the applicant is not an experienced developer, an executed development services contract with proposed development partner or development consultant.

7) Proof of financing commitments for all non-City funding identified in the application.

For questions concerning this NOFA, please contact Jonah Lee, Director of Portfolio Management and Preservation (415-701-5619; jonah.lee@sfgov.org) at the Mayor's Office of Housing and Community Development.