SMALL SITES PROGRAM
GUIDELINES
Updated September 9, 2022

The following guidelines apply to the Small Sites Program ("SSP," and the "Program") financing administered by the San Francisco Mayor's Office of Housing and Community Development. The SSP Guidelines ("Guidelines") describe project eligibility and selection criteria. It also discusses the City's financing terms required for SSP projects ("Project"). These Guidelines will 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 SSP application approval process will prioritize sites achieving a minimum score of 70 determined by the initial intake scoring rubric described in **Attachment A.** Projects scoring less than 70 points will require further review subject to director approval. The SSP scoring rubric will be updated regularly based on the San Francisco Planning Department's Housing Balance bi-annual report and MOHCD's "Maximum Income by Household Size" AMI Chart published annually. These Guidelines intend to support consistency of final loan terms across projects and to ensure long-term affordability and physical and financial sustainability throughout a project's loan term.

SSP projects are designed to have subordinate financing paired with senior debt such as the City's Preservation and Seismic Safety (PASS) Program, or other first-position loans. 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 Guidelines (see Section VII) at its sole and absolute discretion. SSP Underwriting Guidelines will be updated regularly in response to market conditions, and MOHCD priorities, and to clarify program policies and procedures.

Note: the income and rent limits referenced in these Guidelines are determined and published annually by MOHCD for all multifamily rental housing developments under MOHCD's purview, including SSP-funded projects. All income and rent limits are expressed in MOHCD Area Median Income (AMI).

I. PROJECT ELIGIBILITY/SELECTION
Applications for SSP funding will be reviewed in the order received and responded to within five (5) business days. Sponsors must meet the eligibility criteria described in **Attachment B** when submitting a SSP Application ("Application") (see **Attachment C)** to be eligible for funding. In cases where a project is receiving outside acquisition and rehabilitation pre-development financing, MOHCD must receive a completed Application before issuing a Project Support Letter.

A. Building Type
1. 5-40-unit residential buildings will be prioritized for SSP funding. Sites with greater than 40 units and fewer than 5 units will be considered subject to achievement of the minimum scoring criteria.

2. Mixed-use buildings are eligible to receive SSP funds provided that the project meets at least two of the following three criteria:
    a) More than 50% of the project's square footage is residential space.
    b) More than 50% of the project's revenue is from residential income.

c) More than 50% of the project's funding is for residential uses.

3. 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. Legalization of unpermitted units that meet minimum livability standards according to Chapter 5 of the 2019 San Francisco Housing Code may be eligible for SSP funding. The addition of Accessory Dwelling Units (ADUs) may also be eligible for SSP funding subject to project feasibility and ADU regulations.

B. Eligible Borrowers

Recipients of SSP Loans ("Borrowers") may be either not-for-profit or for-profit borrowers (the "Sponsor") which include existing landlords. However, MOHCD may grant preference to not-for-profit entities when allocating Loan funds. Also, as part of the Loan underwriting process, MOHCD will evaluate all prospective Borrowers based on the Sponsor Threshold Qualifications described in Attachment B. Eligible Borrowers may be organized as special-purpose, single-asset entities. In such cases, MOHCD may look to the entity or entities that ultimately own or control the Borrower (the "Sponsors") when assessing enterprise risk, seeking financial guarantees, or for other purposes. Sponsors must meet the minimum experience requirements outlined in Attachment B. A Sponsor that does not meet the minimum experience requirement must joint venture with a developer who does meet the requirements.

II. GENERAL CITY FINANCING TERMS

A. Maximum City Subsidy

Maximum base funding including acquisition, rehabilitation, and permanent financing is:

1. $550,000 per ADU studio unit (additional $50,000 per bedroom added)
2. $500,000 per 3BD unit
3. $450,000 per 2BD unit
4. $400,000 per 1BD unit
5. $350,000 per Studio unit
6. $275,000 per Group Housing bedroom or Single Room Occupancy (SRO) unit (additional $25,000 if in-unit bathroom)
7. Income-Generating Commercial units may be counted towards the project's unit count. Funding will be determined on a case-by-case basis subject to the appraised value.

Projects exceeding maximum base funding may be eligible subject to meeting minimum scoring criteria and or Director approval.

SSP funding 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).

Commercial tenant improvements beyond City-required life safety upgrades (e. g., seismic or electrical upgrades) are not eligible for SSP funding and would require additional funds from other City sources.

B. Appraisal Requirements

An appraisal must substantiate the acquisition price and cannot exceed the purchase price for comparable buildings in the area. MOHCD reserves the right to decline any application for funding due to an unreasonable acquisition price. Appraisals must be dated within 12 months of the anticipated closing on MOHCD financing and must show:

a) the "as is" fair market value
b) the "as completed" fair market value
c) the "as completed" restricted value

Fair market appraisals must be conducted to Uniform Standards of Professional Appraisal Practice standards by a qualified appraiser with a California-certified appraisal license.

C. Terms

1. Loan Term: 40 years ("Loan Term")

2. Restriction Term:
   a) Declaration of Restrictions Term: The longer of the life of the project or 75 years, surviving expiration of the Loan Term, default, foreclosure, and/or loan repayment. MOHCD would support a new Declaration of Restrictions subject to the approval of equal or greater affordability requirements, tenant protections, and alignment with city policy.

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

D. Interest Rate

3% annual simple interest. Loan repayments shall be applied first to interest and second to principal. However, if, in any given year, an SSP project generates insufficient cash flow to repay all interest due, unpaid interest due for that year may be forgiven subject to MOHCD's approval following a timely submission of audited financials and AMR reporting requirements.

E. Repayment, Refinance, and Subordinate Financing

1. Full Loan Repayment: Loan to be repaid in full at the end of the Loan Term or upon any transfer of title.

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 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 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 first mortgage term 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. If the refinanced senior debt is approved, MOHCD will subordinate its loan, but will not subordinate the Declaration of Restrictions, to the new loan.

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

c) Cash-out Refinances must comply with MOHCD Cash Out Acquisition/Rehabilitation, Re-syndication, and Refinancing Policy or its successor.

d) At no time may the sponsor add 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. <u>Subordinate Financing:</u>
Financing subordinate to the City's loan and lines of credit secured against the property is 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 prior to obtaining the subordinate financing. 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.

F. <u>Tenant Intake Requirements</u>

1. <u>Tenant Notification Requirements:</u>

a) 100% of households in tenant-occupied units 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 as described in the sample SSP Lease Agreement (**Attachment D**).

b) **Executing SSP Leases for existing households:** Sponsors must execute new leases or provide a binding written 30-day notice of change of terms in existing leases with tenants on month-to-month leases that clearly describe the SSP rent restrictions and clarify that the tenancy is no longer subject to the San Francisco Residential Rent Stabilization and Arbitration Ordinance. SSP Lease Agreements and 30-day notices are subject to MOHCD review and approval.

2. <u>Initial Income Certification Requirements:</u>

a) **Income certification threshold:** For a project to qualify for SSP funding, 80% of households must income certify and complete a MOHCD approved Lease Agreement (see **Attachment C**) prior to the sponsor's release of purchase deposit.

b) For the remaining 20% of households, Sponsor **must demonstrate** household rents are the lesser of: (i) 100% AMI, or (ii) 20% below market rents of similar comparable units as evidenced by a qualified market study.

c) If the total SSP funding is equal to or less than $275,000 per unit for standard residential/mixed-use buildings of 5-40 units or less than $150,000 per unit for group housing/SRO buildings, the project sponsor may obtain an SSP loan without complying with Income Certification Requirements described in Section II(F)(2) above. In such cases, the project sponsor must notify all households in the building as described above in Sections II(F)(1)(a), meet lease requirements described in Sections II(F)(1)(b), and below, and ensure that income certification occurs within the first year of operation. Unless the 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. Income Certification exemption does not apply to vacant or newly leased units.

3. Affordability Restrictions:
   a) Regardless of whether a unit's occupant(s) complete the Tenant Intake process, all units must be restricted for the term of the Declaration of Restrictions.

   b) The average household income for a minimum of 2/3 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.

4. Rent Restrictions and Threshold for Existing Households:
   a) **20% Rent Burden Requirement:** If an existing household's rent is less than 20% of the household's gross monthly income, their rent will be increased to 20% of the household's gross monthly income. The household's gross monthly income reported at acquisition will be used to determine such rent increases; an increase in households' income at recertification in subsequent years will not affect the original rent increase schedule. Such rent increase may be phased in over a period of years, with a maximum annual increase of 7%. In no event may the 20% rent burden requirement cause any household's rent to exceed the lesser of (i)100% AMI rent, or (ii) 20% below the market rents of comparable units.

   b) **Households with incomes exceeding welfare tax qualifying levels**: If an existing household's income renders 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 years, with a maximum annual increase of 7%. In no event may the property tax rent increase cause any household's rent to exceed the lesser of (i)100% AMI rent, (ii) 20% below the market rents of comparable units, or (iii) 20% of its gross household income. If the household's income subsequently decreases as determined during the annual recertification process, and the unit becomes eligible for the welfare property tax exemption, the tenant's rent will be reduced by the pro-rata share of the property taxes that are attributable to that unit.

   c) **Household Noncompliance with Tenant Intake Process:** If an existing household opts out of the Tenant Intake process, rendering their unit ineligible for the welfare property tax exemption, 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 years, with a maximum annual increase of 7%. In no event may the property tax rent increase cause any household's rent to exceed the lesser of (i) 100% AMI rent, or (ii) 20% below market rents of comparable units. If the household elects to income certify in subsequent years and household income becomes eligible for the welfare property tax exemption, the tenant’s rent will be reduced by the pro-rata share of the property taxes that are attributable to that unit.

d) **SSP Project Support letters:** Project Support Letters will only be issued subject to MOHCD review and approval of a completed Tenant Takeout Package, a market rent study of comparable units, and an operating budget reflecting agreed-upon rent levels and assumed property tax burden.

5. Right-Sizing Units:
MOHCD policy for all units is that tenant households be housed in units with a bedroom count that matches the household size. The following guidelines apply in cases where households are under-housed or over-housed.

a) **Under-Housed Households:** Given the challenges of relocating under-housed households, MOHCD will allow the acquisition of buildings in which no more than one unit is occupied by a household defined as overcrowded according to Section 503 of the San Francisco Housing Code, and only in the event that a relocation strategy is identified and approved for the household by MOHCD before loan closing. Under-housed households may be relocated into an appropriately sized unit within the property or another non Low-Income Housing Tax Credit funded property in the sponsor’s portfolio (assuming no lottery, as a reasonable accommodation) within one year, if possible, and, if not, when one becomes available. The unit that becomes vacant will, therefore, become available for lease to another household through MOHCD’s standard marketing and lottery process. The under-housed household will not have priority on an active SSP waitlist in order to be relocated.

b) **Over-Housed Households:** 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 to move into the appropriately sized unit. If a sponsor can demonstrate project feasibility, rent for that household will be reduced to reflect the smaller unit size, adjusted to match the AMI rent level that the household paid in its original unit. Sponsor may request a hardship waiver from MOHCD if such a transfer is unduly burdensome to the tenant **(e.g., a senior household aging in place).**

G. Ongoing Program Requirements

1. AMI Average Requirement:
To the extent feasible, SSP buildings will aim to achieve an average of 80% AMI rents over time as the building experiences turnover. However, MOHCD may make exceptions to the 80% AMI average rent requirement on a case-by-case basis when a unit becomes vacant, subject to a sponsor analysis of rental market comparables, and the leveraging of other resources such as operating subsidies, or if MOHCD determines that an 80% average is not financially feasible. **Group Housing and SRO units are exempt from 80% AMI average requirements.**

2. <u>Marketing and Leasing Requirements:</u>
   Sponsors must comply with all applicable federal, state, and local fair housing laws. Marketing and leasing of vacant units must not have the effect of excluding or discriminating against any person based on race, religion, national origin, sex, gender identity, sexual orientation, AIDS/HIV status, disability, source of income such as disability insurance, social security, TANF, or any other basis protected by federal, state, or local law.

   a) At each vacancy, SSP building sponsors are required to ensure that the building achieves 80% AMI Average rents. For each unit that becomes vacant, before 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 possible to 80% AMI. Rents for any single unit may be set up to a maximum of 20% below market rate rents in the surrounding immediate neighborhood, as substantiated by a qualified market study. Sponsors should refer to the SSP Marketing and Leasing Manual for a complete list of leasing requirements intended to support the equitable marketing and efficient leasing of SSP buildings.

   b) 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 project or benefit from restricted rent.

   c) **On-going rent increases:** Rents must be increased 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, Sponsor requires a rent increase greater than 3.5% to maintain financial feasibility, Sponsor may petition MOHCD for such an increase. Any approval will be made at the Director's sole discretion and in compliance with loan documents and MOHCD's Hold Harmless Policy.

   d) **Households with incomes exceeding welfare tax qualifying levels**: If an existing household's income, renders 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 years, with a maximum annual increase of 7%. In no event may the property tax rent increase cause any household's rent to exceed the lesser of (i)100% AMI rent, (ii) 20% below the market rents of comparable units, or (iii) 20% of its gross household income. If the household's income subsequently decreases as determined during the annual recertification process, and the unit becomes eligible for the welfare property tax exemption, the tenant's rent will be reduced by the pro-rata share of the property taxes that are attributable to that unit.

   e) **Rental Assistance Vouchers:** 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) **Severely rent-burdened households:** If a required rent increase results in any individual household's rent rising above 50% of that household's gross annual income (i.e., "severely rent-burdened"), Sponsor may freeze the rent of the severely rent-burdened household for the year, provided that:

i. Sponsor demonstrates 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,

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

g) Rents may increase no more than once per year, regardless of whether the tenant is on a month-to-month lease.

h) If a sponsor increases rent beyond program guidelines or offer 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 Sponsor will be in default of the terms of its loan.

III. FIRST LOAN TERMS

A. Preferred Lenders

Projects that leverage the City's Preservation and Seismic Safety Loan Program ("PASS") first mortgage product will be prioritized for SSP funding to the extent that PASS funding is available. All SSP applicants must leverage SSP funding with a first mortgage. Applicants are subject to the underwriting requirements of the PASS Loan Program, or the senior lender for approval of the project's first mortgage.

B. Preferred First Loan Terms

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 at MOHCD's sole discretion based on the senior lender's underwriting requirements and based on 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 financing with a 10-year minimum term
2. 30-year amortization schedule
3. 1.15 to 1.20 Debt Service Coverage Ratio
4. Nonrecourse to the borrower
5. Low rates
6. Maximum 1.5% lender loan fees
7. No cross-collateralization

IV. RESIDENTIAL DEVELOPMENT PROFORMA ASSUMPTIONS

A. Debt Service Coverage Ratio (DSCR)

1. Minimum: 1.15:1

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 the balance of the Operating Reserve Account drops below 25% of the 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 and before any distributions (e.g. SSP soft debt service, other reserve payments, etc.).

3. Capitalized Replacement Reserves: The higher of (i) $2,000 per unit for projects with fewer than 30 units, and $1,000 per unit for projects with 30 units or more, or (ii) the amount necessary to pay replacement costs for at least the next 20 years, as specified in an approved CNA and take into account any renovations. Replacement reserves must be deposited into an interest-bearing account.

4. Replacement Reserve Deposits: The higher of (i) the amount needed according to an approved 20-year CNA or, (ii) 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 of units, including commercial units	Replacement reserve deposits PUPY, including commercial units
<10	400
>11	350
>30	300

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 $105,000, payable at acquisition plus $10,000 per unit, payable at the end of rehabilitation, if rehabilitation is applicable, up to a maximum of 5% of the total development cost (excluding the developer fee). Projects may be eligible for additional developer fee where the scope includes the creation of accessory dwelling units. In addition, projects that achieve a final rubric score greater than [90], and are therefore deemed High Impact Sites, will be eligible for an additional $25,000 per project, payable at construction completion subject to the project completing its scope of work on time and within budget. The portion of the developer fee that is payable at the end of rehabilitation will be at-risk for costs exceeding the 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, 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. Supplemental Fee for CBO Collaboration: Sponsors who collaborate with a community-based organization to perform outreach and support for existing residents may claim an additional $1,500 per unit per year (PUPY) fee during the period of predevelopment, acquisition, and construction. Approval of such supplemental fee for CBO collaboration is subject to MOHCD's review and approval of the sponsor's agreement with the collaborating community-based organization regarding outreach activities.

3. Construction Management Fees: Sponsor is expected to negotiate the most competitive fee possible with the construction manager. Construction management fees may not exceed $30,000 per project. Projects may be eligible for additional construction management fees where the scope includes the creation of accessory dwelling units.

D. Contingencies

1. Construction Contingency
    - 15% of construction costs
    - Purpose: Contingency for unforeseen conditions, minor errors, and omissions.

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 be deposited into the project's operating reserve upon completion of project rehabilitation.

E. Relocation

Sponsors are required to submit a relocation plan to MOHCD prior to SSP loan closing; or in the case of projects receiving bridge financing, a relocation plan must be approved by MOHCD prior to issuance of a MOHCD Letter of Support. At a minimum, such a plan must include the following provisions.

a) A detailed relocation budget
b) Relocation of tenants must be temporary, not to exceed 90 days
c) Tenants may not incur costs related to relocation but will continue to pay rent for their original unit

d) A relocation consultant or other similar staffing will 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) 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 projects.
h) It is the City's intent that SSP enhances stability for small businesses and commercial tenants. Relocation of commercial tenants should be kept to a minimum and not cause the commercial tenant an unnecessary burden. Commercial relocation will 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 and attached to the SNDA executed at the time of acquisition. To the extent possible, sponsors should coordinate with the City's Office of Economic and Workforce Development to support small businesses in preparing for relocation and to potentially leverage additional funding for commercial improvements.

V. OPERATING PROFORMA ASSUMPTIONS

A. Vacancy Allowance

- 10% of annual residential rental income.
- 20% of annual commercial rental income. This percentage may be reduced, subject to MOHCD approval, to as low as 10% upon evidence 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 also may be increased if weak market conditions exist.

B. Increases in Gross Income

- 2.5% annually

C. Increases in Operating Expenses

- 3.5% annually

D. Operating Fees: Asset Management and Property Management

Monthly per-unit asset management and property management fees are to be calculated as of the calendar year the property receives SSP funding, according to the following tables:

Maximum Asset Management Fee ("Maximum AMF")

2022	2023	2024	2025	2026	2027	2028	2029
$105	$108	$111	$114	$117	$120	$123	$126

Maximum Property Management Fee ("Maximum PMF")

2022	2023	2024	2025	2026	2027	2028	2029
$105	$108	$111	$114	$117	$120	$123	$126

The Maximum Asset Management and Property Management Fees are expected to cover all costs of managing an SSP property. Sponsor may, on a case-by-case basis, request additional documented costs be incorporated into the operating budget, subject to MOHCD review and approval.

VI. OTHER UNDERWRITING GUIDELINES

A. <u>Architect and Engineering Fees</u>

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," including fees, will apply. All architectural contracts should be full-service and include all necessary consultants. They should also use standard AIA forms (or approved equivalent). 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 fees will be allowed, subject to MOHCD approval if there are significant changes in the Architecture/Engineering services contract scope.

A. **<u>Construction Management Guidelines</u>**: Sponsor must identify specific staff or consultant(s) who will provide construction management functions on behalf of Sponsor, including permit applications and expediting, cost analysis, completion evaluations, change order evaluations, scope analysis, and schedule analysis. It is the 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. Sponsors are expected to negotiate the most competitive fee possible with the construction manager. Sponsors should seek further guidance regarding construction management in the SSP Construction Manual.

B. **<u>General Contractor Fees/Price</u>**

1. <u>Selection of contractor by RFP</u>: When Sponsor selects a contractor through a negotiated bid process, Sponsor's 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. The selection process and selection results must be approved by the City with respect to LBE/SBE participation, wage requirements, and proposed contract price.

2. <u>Overhead and Profit</u>: This may not exceed 15% of the contract price.

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

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

5. <u>Subcontractor Pricing:</u> General contractors must submit a schedule of values for the City's review that lists: 1) all proposed subcontractor pricing, without any general contractor markup; 2) identified general contractor fees, as separate line items, including overhead, profit, and general conditions; and 3) a final contract price. Subcontractor and sub-tier

markup may 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 must be reviewed and approved by the City. The markup on change orders must be limited to 15% in the aggregate, inclusive of any general contractor's markup.

VII. CITY OPTION TO PURCHASE

A City Option to Purchase Agreement will be recorded in second position on title after the Declaration of Restrictions and will be senior to all deeds of trust. In addition, sponsors will enter into a recordable Memorandum of Option to Purchase with the City at loan closing.

VIII. EXCEPTIONS

MOHCD reserves the right to waive any portion of these Guidelines or to make exceptions on a case-by-case basis, for the purpose of preserving at-risk buildings as permanently affordable housing. If granted, such waiver and/or an exception will be made with 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.

ATTACHMENT A:

2022 SMALL SITES PROGRAM PROJECT SCORING RUBRIC

Community Stabilization	
Long-Term Residents: Percentage of households that have lived in San Francisco for 10 or more years. 66% of Households < 60% AMI: 35 points 50% of Households < 60% AMI: 25 points 33% of Households < 60% AMI: 15 points	15
Imminent Displacement Risk: Households formerly displaced or face imminent displacement risk**.** 50% of Households: 15 points 33% of Households: 10 points 25% of Households: 05 points	15
Vulnerable Populations: Households with transitional-aged youth, re-entry populations, undocumented, seniors, persons w/ disabilities, and other protected classes as defined by the CA Dept of Fair Employment and Housing. 25% of Households: 05 points	5

Geographic Equity

BoS District	Expanded Cumulative Housing Balance	Points	Units Removed from Protected Status	Points	Cumulative Points
1	-36.1%	14	477	13	27
2	7.7%	10	289	7	17
3	42.1%	6	298	8	14
4	-75.5%	15	474	12	27
5	50.7%	5	324	10	15
6	27.4%	9	142	5	14
7	5.0%	11	225	6	17
8	4.8%	12	610	14	26
9	29.7%	7	660	15	22
10	28.3%	8	299	9	17
11	1.5%	13	402	11	24

Districts ranked from lowest to highest per SF Housing Balance Report

Housing Affordability

Project serves Low-Income Households

66% of Households < 60% AMI: 35 points	35
50% of Households < 60% AMI: 25 points	
33% of Households < 60% AMI: 15 points	

Final Project Scoring Calculaiton

Base Funding per Unit Type	Additional Funding	Unit Count	Base Funding
$550,000 per ADU Studio unit	+ $50,000 per additional bedroom		$ -
$500,000 per 3bd unit			$ -
$450,000 per 2bd unit			$ -
$400,000 per 1bd unit			$ -
$350,000 per Studio unit			$ -
$275,000 per Group Housing Bedroom or SRO unit	+ $25,000 per in-unit bathroom		$ -
Commercial units funding subject to appraised value			$ -

Step #1: Enter Total Base Funding per Unit Type	$ -	Box A
Step #2: Enter Project's Base Score		Box B
Step #3: Enter Base Score Multiplier using chart below	%	Box C

Base Score	Base Score Multiplyer
95+	130%
90 - 94	125%
85 - 89	120%
80 - 84	115%
75 - 79	110%
70 - 74	105%

`

Step #4: Box A multiplied by Box C equals Funding per Project Score	$ -	Box D
Step #5: Enter Application Funding Request	$ -	Box E
Step #6: (Box E) divided by (Box D) - (1) = Variance Multiplier	0%	Box F
Step #7: Calculate Final Project Score by multiplying (Box B) by (Box F)	0	Box G

ATTACHMENT B:

SPONSOR MINIMUM QUALIFICATIONS

Applicants must meet the following criteria to be considered eligible for SSP funding:

1. Must be a duly formed non-profit or for-profit corporation.

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/joint venture with other organizations, including:

    a. **Acquisition Experience:** The applicant must have acquired at least one "Qualifying Project" in the past 5 years or acted as part of a joint venture with another organization on an acquisition of a Qualifying Project. A "Qualifying Project" means a rental housing property that includes at least five units of housing regulated as affordable to low- and moderate-income households.
    b. **Property Management Experience:** The applicant or the applicant's management agent must have managed at least one Qualifying Project for at least 24 months and have received satisfactory performance reviews by any City agency from which the project received funding.
    c. **Project Management Experience:** The applicant's project manager must have experience with at least one Qualifying Project or be assisted by a consultant or other staff person with such 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 two (2) 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 applicant, including permit applications and expediting, cost analysis, completion evaluations, change order evaluations, scope analysis, and schedule analysis. The applicant's construction manager must have demonstrated experience with at least one Qualifying Project.
    e. **Asset Management Capacity:** Development teams must provide the 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 its approach to asset management meets the City's stewardship expectations, particularly with regard to the timely performance of capital needs assessments, maintaining adequate replacement reserves, and timely collection of tenant rents.
    f. **Financial Capacity**: Sponsor must demonstrate financial capacity and controls as they relate to existing or past portfolio projects. Financial capacity and controls will include:

        i. Narrative of financial capacity and qualifications of directors, staff, and/or consultants, and implemented accounting technology platforms.
        ii. Narrative of the financial standing of at least one Qualifying Project.
        iii. Recent certified annual audited financials reflecting revenue and expenses of at least one Qualifying Project".
        iv. Recent certified annual audited financials of applicant organization.

ATTACHMENT C:

APPLICATION INTAKE

[Insert SSP Proforma]

ATTACHMENT D:

[Insert Sample Lease Agreement]