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

London N. Breed
Mayor

Eric D. Shaw
Director

TO: SPONSORS OF ALL HOUSING PRESERVATION OR "SMALL SITES" PROJECTS ADMINISTERED OR FUNDED BY MOHCD

RE: GUIDELINE REVISIONS SUMMARY AND RESPONSE TO PUBLIC COMMENT

DATE: November 4, 2022

Dear Partners,

The purpose of this memo is to provide a general summary of the comments received during the public comment period informing the revisions to the Small Sites Program Guidelines ("Guidelines") ("Housing Preservation Program Guidelines") along with the findings of the *Scaling Impacts of Acquisitions and Preservation Programs* Report.

The Mayor's Office of Housing ("MOHCD") released the Draft Guidelines for public comment on July 1, 2022. The Draft Guidelines were posted for viewing and download on the Small Sites Program webpage (sf.gov/information/about-small-sites-program). The public comment period was announced in a posting to community listservs, an email to previous participants in the planning process, and an announcement on the Small Sites Program webpage. The public comment period was scheduled to conclude on July 25th, 2022, however, was extended to July 29th, 2022 per stakeholder request.

Background on Process

In 2019, the Mayor's Office of Housing and Community Development commissioned the "Scaling Acquisition and Preservation Programs" Report to identify the program reforms needed to respond to market conditions and sustainable operations of acquired properties while exploring paths to the sustainable scaling up of the Small Sites Program.

The reform framework of the Small Sites Program Underwriting Guidelines was developed through a program-participant strategic planning process that involved a series of five roundtable discussions:

1. Roundtable #1, **Community and Tenant Engagement**, held on April 22nd, 2021
2. Roundtable #2, **Income & Rent Restrictions**, held on July 8th, 2021;
3. Roundtable #3, **Marketing and Lease-Up**, held on March 1st, 2022;
4. Roundtable #4, **SSP Underwriting Framework**; held on March 10th, 2022;
5. Roundtable #5, **Acquisition Program Wrap-Up**, held on April 8th, 2022.

Comment and Revision Summary

Six individuals and or organizations submitted written comments during the public comment period. All parties expressed general support for the reform of the SSP Underwriting Guidelines. Prior to written submissions during the public comment period, the Council of Community Housing Organizations submitted a redline draft of proposed revisions to the SSP Underwriting Guidelines dated March 22, 2022.

The following is a summary of comments and revisions.

Corrections/Entire Document

- Typographic, punctuation, grammatical and formatting errors were corrected throughout the document.
- The renaming of the Small Sites Program to the "Housing Preservation Program" ("HPP"), along with the "Neighborhood Preservation Program" ("NPP"), were taken into consideration and will require further review, with this year's updates focused primarily on the reforms needed to address market conditions, sustainable operations, and the publication of both transparent project and sponsor eligibility criteria.
- Public comment included the request for annual evaluation and updates to the program guidelines by February 1st of each program year. MOHCD has proposed the initial review and evaluation take place upon the completion of 100 units acquired and rehabilitated under the new reformed guidelines and scoring rubric and updated regularly thereafter upon the release of the annual MOHCD AMI chart.

Introduction, Process, Overview, and Context,

- The underwriting guidelines' introductory first paragraph now includes the sentence: *"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."*, clarifying ALL proposed SSP Projects require Citywide Loan Committee approval as a part of their approval process.
- Additional updates to the introductory paragraph include a new reference to "Exhibit A: 2022 Small Sites Program Project Scoring Rubric.", a new underwriting tool developed to ensure clear, transparent project eligibility criteria. Projects must now achieve a minimum Baseline Score of 70 points to be eligible for preliminary streamlined underwriting by the MOHCD Preservation Team, allowing for more efficient project determination while supporting a project sponsor's ability to remain within COPA (Community Opportunity to Purchase Act) and Purchase Agreement timelines.

I. Project Eligibility/Selection

- The first paragraph now references the application response timeline: *"Applications for SSP funding will be reviewed in the order received and responded to within five (5) business days"*, in an effort to standardize the application submittal and response process.
- *Section A.*, *Building Type*, expands the typology of preservation projects by updating the eligible building size from 5-25 units to 5-40 units, maximizing the city's impact across a larger number of residential units.

- Projects with less than 5 units will require further review and Director approval due to limited capacity, referring those at risk of displacement in smaller sites to MOHCD's Eviction Prevention and Anti-Displacement Programs division.
- *Section B., Eligible Borrowers*, Public comment included the request to exclude for-profit borrowers from the program. Revised guidelines now clarify a Sponsor must be a non-profit entity to be eligible for SSP funding however, may elect to JV partner with a for-profit entity during the predevelopment, acquisition, and rehabilitation of a project.
- *Sponsor Threshold Qualifications* described in Attachment B of the revised guidelines now provide minimum Sponsor eligibility criteria.

II. General Financing Terms

- *Section A., Maximum City Subsidy,* The table below compares previous City Subsidy limits with the new reformed limits:

Previous max per unit funding City Subsidy per Unit Count	Previous Guidelines Based on Unit Count	Updated per unit fundingSubsidy pe	Updated Guidelines Based on Unit Type
$300k-$375k	Per ADU studio unit	$550,000	Per ADU studio unit (+$50,000 per bedroom)
$300k-$375k*	Per 3BD unit	$500,000	Per 3BD unit
$300k-$375k*	Per 2BD unit	$450,000	Per 2BD unit
$300k-$375k*	Per 1BD unit	$400,000	Per 1BD unit
$300k-$375k*	Per Studio unit 3-9 units	$350,000	Per Studio unit
$175,000	Per Group Housing Bedroom or SRO unit	$275,000	Per Group Housing Bedroom or SRO unit
$300k-$375k	Per Commercial Unit	Subject to Net Operating Income	Per Commercial Unit

*Buildings with households at risk of displacement were eligible for up to $400k per unit.

- The reformed guidelines prioritize sites housing vulnerable, at-risk populations, along with long-time San Francisco residents. The per-unit subsidy is now based on the number of bedrooms rather than number of units in effort to protect the highest number of San Francisco residents with each acquisition. Households in buildings that do not meet the minimum Project Score and or exceed Program funding eligibility requirements will now be referred to MOHCD's Eviction Prevention and Anti-Displacement Programs division.
- Additional reform requests included the exclusion of seismic, soft-story, fire, and life-safety project rehabilitation costs from the per-unit subsidy limits due to their high costs excluding certain projects from program eligibility. Rather than excluding high-cost expenses from a project's total development costs, projects will now be eligible for higher per-unit funding, subject to qualifying project score as determined by the Project

Scoring Rubric, which will ensure transparent, equitable policy and per-unit funding across all prospective sites.

- *Section C.2.*, <u>*Restricted Term*</u>, Updated guidelines have revised the Declaration of Restrictions terms: “The longer of the life of the project or 99 years, surviving expiration of the loan term, default, foreclosure, and/or loan repayment. If necessary to obtain additional funding, MOHCD may approve an amendment or subordination of the Declaration of Restrictions in its sole discretion.”
- *Section D.*, <u>*Interest Rate*</u>, interest rate policy now states: “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”,* which now clarifies to sponsors the need for timely reporting to qualify for interest forgiveness.
- *Section F.*, <u>*Tenant Intake Requirements*</u>, and *Section G.*, <u>*Ongoing Program Requirements*,</u> Public comment requested program alignment with the San Francisco Rent Ordinance due to guideline standards posing a challenge in gaining tenant support requesting the exclusion of program requirements listed in *Section (F.) (1.)* through *Section (F.) (4.) (c.)*. MOHCD will continue its ongoing program evaluation but is not able to provide program exemptions at this time.

IV. Residential Development Proforma Assumptions

- *Section A.*, <u>*Debt Service Coverage Ratio*,</u> Minimum DSCR increased from 1.1:1 to 1.15:1
- *Section C.*, <u>*Developer Fee*,</u> Increased Acquisition Developer Fee for ALL sites from $80k to $105k. Construction Developer Fee remains the same at $10,000 per unit. High Impact Developer Fee, awards project sponsors an additional $25,000 for projects with a minimum final project score of 90 or above that can complete their predevelopment period on time and within the project budget.
- <u>*Supplemental Fee for CBO Collaboration:*</u> MOHCD has introduced additional program funding towards CBO collaboration, funding partner CBOs up to $1,500 per unit, per year during a project’s predevelopment stage. The supplemental CBO Fee is intended to cover additional costs associated with tenant engagement throughout a project’s predevelopment period.

V. Operating Proforma Assumptions

- *Section A.*, <u>*Vacancy Allowance*,</u> Increased Vacancy allowance for both residential units from 5% to 10% and for commercial units from 10% to 20% subject to stability of commercial tenant and market conditions.

The increase in fees along with program revisions designed to increase a project’s cash flow will help further support project sponsors, and their staffing requirements, while further stabilizing a project’s ongoing cost of operations.

In Summary

While all reform requests were taken into consideration, it is important to note that several comments received were outside of the Draft SSP Underwriting Guideline Reform's stated scope. Those comments included concerns related to DAHLIA, Marketing and Leasing policy, Operating Subsidies, and other revision requests not captured in this response to public comment document. MOHCD will continue to work with Project Sponsors and Community Stakeholders in future discussions once the program has had an opportunity to review a minimum of 100 units acquired and rehabilitated under reformed program guidelines.

MOHCD would like to thank all Project Sponsors and Community Stakeholders for their valuable input during this reform process. These changes will advance MOHCD's long-term affordable housing preservation goals, strengthen the connection of the Small Sites Program to other MOHCD and City partner programs, and address the call for improved transparency and flexibility raised by housing partners and stakeholders.

Sincerely,

Eric D. Shaw
Director