



**Expenditure of Low and Moderate Income Housing Asset Fund (LMIHAF)
Transaction Guidelines**

Rental		For-Sale
with Low Income Housing Tax Credits	without Low Income Housing Tax Credits	

I. DEVELOPMENT COSTS			
A. Acquisition Costs	Purchase price of property not to exceed independent appraised value, subject to review and approval by City		
B. Labor Costs	If LMIHAF is the only source of public funds, do not assume payment of prevailing wages, unless otherwise required by Labor Code Section 1720		
C. Commercial Components	Development costs attributed to commercial components of mixed-use projects should be funded by equity or other non-LMIHAF source		
D. Development Costs	Requires evaluation of development costs by City's third-party consultant for reasonableness		
E. Financing Costs	<u>9% LIHTC</u> : 1%-3% of loan amount <u>4% LIHTC</u> : 4%-8% of loan amount	1%-3% of loan amount	N/A
F. Project Contingency	<u>New Construction</u> Direct costs: 5% - 10% of direct costs Indirect costs: 3% - 5% of indirect costs	<u>Rehabilitation</u> Direct Costs: 10% - 15% of direct costs Indirect costs: 3% - 5% of indirect costs	



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II. DEVELOPER FEE AND DEVELOPER PROFIT			
A. Developer Fee	<p>9% LIHTC: lesser of 15% of eligible basis or \$1.4 million*. On a case-by-case basis, fees in excess of \$1.4 million (up to \$2.0 million) shall be deferred or contributed to the Project as equity.</p> <p>4% LIHTC: 15% of eligible basis. All fees in excess of \$2.5 million, plus \$10,000 per affordable unit in excess of 100, must be deferred or contributed as equity to the Project</p> <p>* Maximum fee permitted by California TCAC that can be included in eligible basis</p>	3%-5% of direct costs	(see developer profit)
B. Developer Fee Deferral	<p>Minimum of 20% of Developer Fee First draw on cash flow Subject to repayment with interest (per Applicable Federal Rate) within 13 years from date in service</p>	None	None
C. Target Developer Profit	None	Return on Investment (ROI) @ 1%-3% over industry standard cap rates	10%-15% of total development costs excluding land



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II. DEVELOPER FEE AND DEVELOPER PROFIT (CONT'D.)			
D. Minimum Cash Equity	N/A	10% of total costs	10% of total costs
E. Target Leveraged IRR (on Developer Equity)	N/A	12% - 15%	N/A
F. Target Developer Return on Commercial Component	None	Return on Investment (ROI) @ 1%-3% over industry standard cap rates	Return on Investment (ROI) @ 1%-3% over industry standard cap rates

III. CASH FLOW PROJECTION		
A. Rent Increases	2.5% annually (adjusted to industry standard annually)	N/A
B. Vacancy Rates	Not less than vacancy rate identified in appraisal; or Residential @ Year 1: 5-10%; Year 2+ @ 5.0%; or Special needs and SRO proposals @ Year 1: 10-15%; Year 2+: 10%; or Commercial: varied by location	Commercial: varied by location
C. Property Tax Increases	2% annually (except for tax-exempt organizations)	N/A



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III. CASH FLOW PROJECTION (CONT'D.)		
D. Operating Expenses (per unit/per year)	<p><u>Minimum - TCAC Standard*</u> Non-Elevator: \$4,800 (SRO); \$4,600 (Family); \$4,100 (Senior) Elevator: \$5,000 (SRO); \$4,800 (Family); \$4,300 (Senior)</p> <p><u>Maximum - Industry Standard</u> Recent San Diego County comparable experience: \$4,400 - \$5,800 Includes <u>Maximum Management Fee</u>: \$40-\$60/unit/month (depends upon nature of fee and size of project)</p> <p>*2015 TCAC Regulations are subject to change. Excludes taxes, replacement reserves, services, and monitoring fees.</p>	N/A
E. Operating Expense Increases	3.5% annually (excluding taxes and replacement reserves)	N/A

IV. ANNUAL RESERVES, SERVICES, AND FEES		
A. Replacement Reserves	<p><u>Minimum:</u> Rehabilitation at \$300/unit/year New Construction and Senior Housing at \$250/unit/year May vary by lender/investor requirements</p>	N/A
B. Operating Reserves	Evaluated on a case-by-case basis / Primary lender may determine	N/A
C. SDHC Monitoring Fee	\$150/unit/year for each monitored unit (Subject to annual increase based on CPI)	Determined on a project-by-project basis



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IV. ANNUAL RESERVES, SERVICES, AND FEES (CONT'D.)			
D. Service Amenities Annual Budget	Evaluated on a case-by-case basis		N/A
E. Limited Partner Asset Management Fee	Paid during years 1-15 from project cash flow after debt service prior to payment of deferred developer fee or distribution of residual receipts. Recommended range at Year 1: \$5,000 - \$10,000 (depends upon size and complexity of project).	N/A	N/A
F. General Partner Asset Management Fee	Paid during years 1-55 from project cash flow after debt service and payment of deferred developer fee before distribution of residual receipts. Recommended range at Year 1: \$10,000 - \$25,000.	N/A	N/A



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V. SUPPORTABLE DEBT (PERMANENT LOAN)			
A. Debt Service Coverage Ratio	<u>Minimum:</u> 4% LIHTC: 1.15 - 1.25 9% LIHTC: 1.15 - 1.25	<u>Minimum:</u> 1.15 <u>Maximum:</u> Industry standard	N/A
B. Loan Term	30-55 years (shorter loan terms may apply subject to constraints imposed by State and Federal financing sources)		N/A
C. Interest Rate	4% LIHTC: 100-300 basis points below conventional industry lending rates 9% LIHTC: Conventional industry lending rates	Conventional industry lending rates	N/A
D. Other Outside Funding Sources	Requirements to pursue other funding sources evaluated on a case-by-case basis. The feasibility/certainty of the financing plan will also be considered.		

VI. CITY LOAN TERMS		
A. Method of City Assistance	Land Acquisition / Construction Loan / Permanent Loan / Public Improvements / Others As Negotiated	Land Acquisition / Construction Loan / Public Improvements / Homebuyer Assistance
B. Interest Rate	3.0% simple interest when Project has ability to repay City Loan or less if proposed use/operation has no income source for repayment, e.g., homeless/special needs developments	Terms defined on a case-by case basis



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VI. CITY LOAN TERMS (CONT'D.)		
C. Disbursement of Funds	To be determined on a case-by-case basis. Consider timing of developer fee disbursement as well as total contribution to the project. Preferred structure: funds for property acquisition will be disbursed at closing, prior to construction. After land acquisition, a pro rata disbursement with construction lender, 10% withheld until Certificate of Occupancy, and an additional 10% withheld until permanent loan closing.	
D. Term of Loan	55 years	Case-by-case base
E. Repayment of Loan	<p>Determined on a project-by-project basis. Preferred structure:</p> <p>Years 1-30: City/Developer 50/50 split of residual receipts. Years 31-55: City/Developer 80/20 split of residual receipts. Balance due at Year 56.</p> <p>City portion of residual receipts may be shared with other public agencies in proportion to the respective loan amounts committed by each public agency.</p>	<p>Determined on a project-by-project basis. Usual recommendation for land acquisition, public improvements and construction loans: Loan repaid upon sale of each unit. Homebuyer Assistance Loans: No repayment as long as restrictions remain in effect. Repayment required if homeowner in default of affordability covenant. City right to cure in case of default depends upon financing position.</p>
F. Participation of Other Public Entities	When another local, public source (such as the San Diego Housing Commission) provides a subsidy to the project along with the City, the City would expect residual receipts, cost savings, additional proceeds, and foreclosure proceeds to be shared based on a pro rata share of funds disbursed. Allowances may be given to specific transaction structure, timing and use of respective parties' funds, and requirements associated with other public funding sources.	



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VI. CITY LOAN TERMS (CONT'D.)		
G. Refinance Proceeds	City/Developer 50/50 split of net refinancing proceeds during years 1-30, and 80/20 split during years 31-55. (Net refinancing proceeds = proceeds after repayment of outstanding debt, refinancing costs, any funds reinvested in project, and takeout of other third-party funding sources, subject to City approval.)	N/A
H. Draw Request	Provided on a monthly basis or as needed	
I. Performance Bonds	Performance bonds may be required	
J. Reporting	Developer to provide City with copies of construction inspection reports and agree to annual monitoring of affordability restrictions/covenants. Developer must also provide City with annual financial statements.	
K. Tax Credit Applications	Multiple tax credit applications will be considered and negotiated on a case-by-case basis	N/A



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VII. AFFORDABLE HOUSING PROVISIONS		
A. Term of Restrictions	Deed restriction for not less than 55 years; or Project reverts to City at end of a ground lease not less than 55 years. It is expected that City deed restrictions will be senior to all other financing instruments.	Unit shall remain restricted for a period of not less than 45 years from the date of initial escrow closing.
B. Tenant Eligibility Requirements	Occupants must remain income eligible per the terms of the recorded restrictions and the CRL	Residence must remain owner-occupied for the term of the City Restriction. No primary residence owned in past three years and no other real estate owned.
C. Land Disposition (in cases where the City owns land)	Fee conveyance or ground lease, to be determined on a case-by-case basis	
D. Eligible Households	Households at or below 120% AMI - determined on a case-by-case basis. Very low- and low-income figures based on HUD figures for San Diego County. Moderate-income figures based on figures from State of California Department of Housing and Community Development (HCD) for San Diego County. City funds only to be used for households up to 80% AMI.	
E. Calculation of Rents/Sales Prices	Rent/Sales Prices to be set in conformance with California Redevelopment Law "extremely low", "very low", "low" and "moderate" income categories and will be determined annually based upon the Area Median Income for the San Diego Region as published by HUD and/or HCD. See Health & Safety Code Section 50093 for definitions.	



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VII. AFFORDABLE HOUSING PROVISIONS (CONT'D.)

<p>F. Coordination with Section-8 Vouchers (tenant-based and project-based)</p>	<p>Tenant-based Section 8: Total rent paid to the owner (by the tenant or from any other source) is limited to the City's restricted rent. This avoids over-subsidizing for the units. Project-based Section 8: As long as the tenant is paying no more than the City's restricted rent, and the City has underwritten the project based upon total rent to be received by the owner (from all sources), the total rent collected by the owner (from all sources) may exceed the City's restricted rent - up to the maximum allowed by project-based Section 8 regulations. Underwriting needs to reflect the term of the Project-based Section 8 commitment. (Other rental subsidy programs would be handled similarly.)</p>	<p>N/A</p>
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VIII. EVALUATION OF DEVELOPMENT TEAM

<p>A. Experience</p>	<p>Development experience in providing affordable housing for low- and moderate-income households of comparable size, scale, and complexity. This will include the physical and financial size and scope of comparable projects.</p>
<p>B. Funding Ability</p>	<p>Demonstrated ability to provide project funding (debt and equity), including current relationship with major lenders, various financial institutions and past funding experiences.</p>
<p>C. Community Support / Design</p>	<p>Demonstrated ability to determine community concerns and desires before design of a project and/or in project design and implementation.</p>
<p>D. Community Support / Use</p>	<p>Demonstrated ability to determine community concerns and desires regarding the proposed residential use of a project, specifically, how the development team has handled adverse community responses to proposed affordable housing projects.</p>



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E. Marketing Strategy	Effective strategy for marketing (selling or leasing) the proposed units, affirmative method to provide equal opportunity for housing units and educating potential applicants regarding the terms and conditions of the program.
F. Collaboration	Effective strategy for collaboration with local non-profit organizations for the provision of tenant support services, when appropriate.
VIII. EVALUATION OF DEVELOPMENT TEAM (CONT'D.)	
G. Number of Projects	To ensure the developer has the capacity to complete projects in the proposed project, the number of projects a developer has in San Diego and the status of those projects may be considered. (Performance may be required before multiple subsidies are granted).
H. Number of Subsidies	The number of times public subsidies have been provided to the same developer and the cumulative amount of those subsidies
I. Completion of Projects	Demonstrated ability to complete affordable housing projects on time and on budget
J. Qualifications	Qualifications of the development team and the key individuals proposed for involvement in the development, including the proposed property manager
K. Neighborhood Improvement	Demonstrated experience in neighborhood improvement and elimination of blight conditions through new construction and/or rehabilitation
L. Public Sector Experience	Experience in working with the public sector in public/private real estate development projects



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IX. EVALUATION OF DESIGN, PLANNING, AND URBAN FORM ELEMENTS	
A. General Design	Project maximizes allowable density, including the utilization of incentives/bonuses/etc., where feasible
	Project concept meets or exceeds all development requirements specified for the Site within the Community Plan and/or PDO
	Project incorporates Crime Prevention through Environmental Design (“CPTED”) principles
	Project demonstrates superior architectural, landscaping, and urban design
	Project embraces the uniqueness of the site/community through the incorporation of art, such as murals, and architectural features, color, texture, etc.
	Project incorporates Universal Design components into the project and complies with the City’s Universal Design Features - FY 2009 Update memorandum dated September 4, 2008.
B. Sustainable Design	Project incorporates sustainable development principles. For example, the use of eco-roofs on Type I, II, and III construction projects; LEED certification or equivalent, where feasible; drought tolerant landscaping; etc. Priority will be given to projects that exceed minimum standards required by law and/or financial assistance sources, such as TCAC.
C. Public Health and Well-Being of Residents	Project should strive to meet <u>at least one</u> of the following: Smoke-free multi-family housing policies, community gardens, transportation alternative programs and mechanisms (bike racks, charging station for electric vehicles, reserved car-sharing space), on-site child care, nutrition programs for tenants, reserved units for supportive housing and/or special needs/formerly homeless tenants; other public health and well-being goals.
D. Parking	In addition to providing the number of parking spaces required for the project by ordinance, special consideration should be given to security issues and safety elements for parking, including, but not limited to, pedestrian entrance and exits, lighting, open stairwells with clear visibility on each floor landing, and other design elements to ensure the tenant’s/public’s safety and well-being.



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IX. EVALUATION OF DESIGN, PLANNING, AND URBAN FORM ELEMENTS (CONT'D.)	
E. Residential	Residential amenities, including but not limited to, common outdoor open space, common indoor space, private outdoor space (balconies, patios, etc.) should be incorporated into project concepts
	Innovative project designs, construction types/methods that result in reduced construction costs and/or owner association fees (when applicable) are encouraged
F. Commercial	Commercial spaces should be flexibly-designed to accommodate larger or sub-dividable uses/tenants
	Commercial spaces should accommodate retailers and services that serve the essential needs of residents living in the project and surrounding neighborhoods
	Ground-floor uses should provide a link to social services where appropriate

X. EVALUATION OF PROJECT AND ITS FIT WITHIN THE COMMUNITY	
A. Priority - Notice	Case-by-case consideration should be given to the priority of each tax credit project in relation to timing and competitiveness of each 9% LIHTC round. At least six months advance notice for projects intending to submit tax credit applications is requested.
B. Monitoring	Developer agrees to enter into an Agreement with the City and the San Diego Housing Commission to monitor the long-term affordability restrictions of the project
C. Site Control	The extent to which the developer has site control or is seeking City assistance with property acquisition
D. Community Fit	Does the project “fit in” with the current community needs (snapshot), as well as those that may develop in the future (big picture)? Consider the extent to which the project meets the goals and objectives of the project area Redevelopment Plan, Community Plan, and most current 5-year Implementation Plan.



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X. EVALUATION OF PROJECT AND ITS FIT WITHIN THE COMMUNITY (CONT'D.)	
E. Project as Catalyst	Will the project serve as a catalyst for other development(s) in the project area?
F. Market for Proposed Non-Residential Use?	Are there specific tenants identified for the non-residential space or has market support been demonstrated? Is the proposed non-residential space underwritten appropriately?
G. Concentration of Housing	Is there a concentration of affordable housing in the surrounding community and/or a lack of other supporting development?
H. Comments from Other Disciplines	Have comments from the City Planning, Urban Form and Economic Development Divisions, and/or Development Services been received and considered?
I. Cost/Benefit Analysis	Consider the cost/impact of the project in relation to the benefit to the community.
J. Infrastructure Improvements	What is the extent to which the developer is making infrastructure and/or public facility improvements to benefit the development and/or surrounding community?
K. City Objectives	Does the project meet the broader goals and objectives of the City of San Diego, in their ability to finance and implement projects and the City's ability to comply with Senate Bill 341 (SB 341) and California Redevelopment Law?