

Mayor's Office of Housing and San Francisco Redevelopment Agency Underwriting Guidelines

The following guidelines are intended to assist applicants for capital financing to prepare financing requests to the Mayor's Office of Housing (MOH) or the San Francisco Redevelopment Agency (SFRA). These guidelines will also be used by MOH or SFRA staff for purposes of evaluating funding requests and presenting them to the Citywide Affordable Housing Loan Committee for consideration. The Loan Committee maintains the right to set final terms and conditions for commitment of funds based on the actual circumstances of each project. These guidelines are subject to change without notice.

I. GENERAL FINANCING TERMS

A. Term

1. Deferred Loan or Grant Term: 40-75 years, depending on borrower's request and source of funds
2. Regulatory Agreement Term: 55 years minimum, 75 years for HOME regardless of repayment unless tax credit project, then 55 years for HOME
3. Amortized Loan Term¹: Match to Section 8 contract term (e.g. 5 years for typical Shelter Plus Care contract, 10 years for SFHA Section 8 contract)

B. Interest Rate

1. Deferred Loan Interest Rate
 - Minimum: 0% simple interest
 - Standard Rate: 3% simple interest
 - Maximum: 30-year Treasury + 1%, compounded
(To be determined based on borrower's ability to repay.)
2. Amortized Loan Interest Rate
 - Interest Rate: Like-term Treasury plus one percent, rate set one week prior to Citywide Loan Committee review
 - Conversion: If rent/operating-subsidy terminated, then City amortized loan converts to 3% interest, repayable from residual receipts with principal and interest due at term
3. Predevelopment Loan Interest Rate
 - Minimum: 0% simple interest
 - Standard Rate: 3% simple interest
 - Maximum: May be set at a rate appropriate to accommodate tax credit loss requirements for the project.
(To be determined based on borrower's request and ability to repay.)

C. Repayment

1. Default Loan Repayment: From residual receipts with principal and interest due at term.
(See separate Residual Receipts Policy.)

¹ For developments with project based rent subsidies that can support scheduled debt payments. If rent-subsidy is terminated amortized loan converts to deferred loan.

II. RESIDENTIAL DEVELOPMENT PROFORMA ASSUMPTIONS

A. Debt Service Coverage Ratio (DSC)

1. Minimum: 1.10:1 except when CalHFA has approved a 1.05:1 DSC.
2. Maximum: 1.15:1.
3. Calculation Method: DSC should be calculated after accounting for reserve deposits. In the case of subordinate amortized loans, DSC should be calculated using cash flow remaining after debt service on 1st mortgage. 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 debt service, if any) in interest-bearing account with provision that annual deposits must also be made if the balance drops below the original amount. [Note: HOME and CDBG funds cannot be used for capitalized operating reserves.]
2. Operating Reserve Deposits: None unless balance drops below 25% of prior year's operating expenses (including debt service, if any). Any such required payments would be made from cash flow that remains after all other required payments are made (e.g. debt service, other reserve payments, etc.). The rate of replenishment would be 1/12th of 3% of the prior year's operating expenses (including debt service payments).
3. Capitalized Replacement Reserves
 - (New Construction): None
 - (Acquisition Rehab): \$1,000 per unit, including existing reserve, if any, at time of acquisition.
4. Replacement Reserve Deposits
 - (New Construction): Lesser of 0.6% of unit construction cost, defined as all hard construction costs excluding cost of site work and podium foundations but including construction contingency, or the following amounts (expressed as per unit per year). After the first 10-years of operation, the sponsor may request adjustments to the above amounts every five (5) years based on a 20-year capital needs assessment (CNA).

Units	Family	SROs	Senior
<5	600	550	500
<20	500	450	400
<50	450	400	350
<100	400	350	300
100+	350	300	250

Replacement Reserve Deposits (continued)

- (Acquisition Rehab): The higher of the amount needed according to an approved 20-year CNA or the amounts listed in the table above as permitted by the available cash

flow. May be updated every three (3) years based on a revised CNA acceptable to City/Agency.

5. Rent Reserve Deposits

- (Shelter Plus Care): Borrower may request funding of a Rent Subsidy Reserve that would cover a 12-month transition to 40% AMI Underlying Rents.
- Section 8 Reserve: None allowed for contracts for 10 years or more, except if required by DHCD/MHP and tax credit investor.

C. Fees

1. Developer Fee: see separate Developer Fee Policy.
2. Partnership Management Fee: \$17,500/year, 3% annual growth.
3. Asset Management Fee: see separate Asset Management Fee Policy.
4. Construction Management Fee: A maximum of \$2,000/month up to \$20,000 to provide for periodic plan review, cost estimate analysis, permit expediting, bid analysis and value engineering during design development and construction document preparation plus up to \$3,500 per month for the scheduled duration of construction. The fee may be increased if the form of GC contract is stipulated sum being awarded through an open and competitive process and a CM is used for more extensive design consultation.

D. Contingencies

1. Bid Contingency (All Projects): 5% Bid Contingency to be removed at the earlier of construction contract signing or 30 days prior to construction start.
2. Construction Contingency
 - Purpose: Contingency for unforeseen conditions, minor errors and omissions and voluntary owner upgrades. Any contingency remaining after completion of construction must be returned to the City.
 - New Construction: 5% of construction contract.
 - Rehabilitation: 15% of construction contract.
 - Limits on Voluntary Owner Upgrades: Voluntary owner upgrades are limited to an aggregate amount that does not exceed the amount returned to the City, if any.
3. Soft Cost Contingency: 10% of soft costs, excluding developer and administrative fees, construction loan interest, and reserves for projects costing \$5 million or more. May be increase for smaller projects.

E. Furnishings

1. Unit Furnishings: Not a permitted use of MOH/SFRA funds unless housing is designed to serve extremely low income or homeless households. Assume \$2,000 per unit for SROs and group homes, \$1,500 for family units, and \$1,000 per unit for all others.
2. Common Area Furnishings: For new construction, assume budget equal to \$1,000 per unit. For rehab, must be based on actual need but not to exceed above amount.

III. RESIDENTIAL OPERATING PROFORMA ASSUMPTIONS

A. Vacancy Allowance:

- Use TCAC underwriting standards except for projects with rent subsidy contracts of five (5) or more years.

B. Increases in Gross Income

- 2.5% annually, or as modified by TCAC.

C. Increases in Operating Expenses

- 3.5% annually, or as modified by TCAC.

IV. OTHER UNDERWRITING GUIDELINES

A. **Architect and Engineering Fees:** Basic Services for architect contracts is defined in MOH and SFRA's Guidelines for Architect and Engineering Basic Services attached hereto. Architect contracts should be full-service and include all consultants except for those excluded in MOH/SFRA's guidelines and design/build consultants and use standard AIA forms (or approved equivalent). Owner addenda are encouraged, including requiring the architect to design to a specified construction budget. Contracts should be signed as early in the process as possible and no later than the completion of schematic design. Additional services will be allowed if there are significant changes in the A/E scope. Fees for Architecture/Engineering services should follow the schedule set forth in the Guidelines for Architect and Engineering Basic Services' **Exhibit A**.

B. General Contractor Fees/Price

1. Selection of contractor by RFP: When the developer selects the contractor through negotiated bid process, the RFP should require competitive cost proposals that specify Overhead, Profit and General Conditions percentages and identify all schedule of values line items that are excluded from these categories. The RFP should also specify the contractor's fee for pre-construction services. The fee is a criterion, but not the sole criterion for selection. Selection process and selection results must be approved by City/Agency with respect to MBE/WBE participation, wage requirements and proposed contract price.
2. Overhead, Profit and General Conditions Price: For New Construction, these costs may not exceed 14% of the Contract Price (or as modified by TCAC); for Rehabilitation, developer should compare these costs to comparable other recent developments.
3. Contractor's Contingency: Should be considered part of the general contractor's fee and included in the "Overhead, Profit and General Conditions Price". Not permitted if OH&P and General Conditions exceed 14%.
4. Subcontractor's Prices: When determining final Contract Price and identifying dollar amounts of Contractor's fees, scheduled values should reflect when appropriate, actual subcontractor prices without any general contractor's markup. City/Agency reserve the right to review all bids.

C. Project Management Capacity: Developer's project manager must have experience with at least one comparable, successfully completed project or be assisted by a consultant or other staff person with greater experience and adequate time to commit. When using a consultant, the consultant's resume should demonstrate that the consultant has successfully completed managing all aspects of at least two (2) comparable development projects in the recent past.

D. Construction Management: Developer 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.

V. COMMERCIAL PROFORMA ASSUMPTIONS

A. Vacancy Allowance

- Assume 40% for first year. Assume 7% annual loss after first year for stronger retail areas, 10-20% for weaker areas. When leases are in place, these assumptions may be revised.

B. Debt Service Coverage

- Minimum 1.20:1 unless master lease. Maximum 1.40:1. Goal is to maximize commercial (non-City/Agency) debt borrowed against commercial income.

C. Income/Expense Growth Rates

- Assume similar to residential.

D. Commercial Reserve Deposits

- Should be funded in addition to residential reserves if significant amount of commercial space is leased to third party.
1. Tenant Improvements Reserve: Under Negotiation (see attached)
 2. Replacement Reserve
 - Initial Deposit funded at 0.6% of shell replacement cost. Annual Deposits are not applicable.
 3. Operating Reserve
 - None recommended for NNN leases. Some may be required for full service leases.

Mayor's Office of Housing and San Francisco Redevelopment Agency Guidelines for Architect and Engineering Basic Services

[These Guidelines are in effect for projects starting design on or after April 1, 2006.]

Basic Services– All Projects

In addition to the Architect's Basic Services defined in AIA B181, Standard Form of Agreement Between Architect and Owner for Housing Services, Basic Services for affordable housing projects financed by the Mayor's Office of Housing (MOH) or the San Francisco Redevelopment Agency (SFRA) shall include the following:

- Pre-application meetings and interface with other relevant City Agencies – up to 2 pre-application meetings with each agency such as the Dept. of Building Inspection, Dept. of Parking and Traffic, City Planning and the Mayor's Office on Disability (MOD).
- Redesign and contract document revisions that are related to "reasonable and foreseeable" code interpretations by a field inspector. What is "reasonable and foreseeable" may be defined by a third party if necessary.
- Limited FF&E layouts for accessible units and common areas to ensure that accessible areas can be furnished in a manner acceptable to MOD.
- Up to 3 community meetings and/or public hearings including preparation time, but not including unlimited graphic-model materials.
- Ongoing review of contractor-prepared as-built drawings at least monthly throughout the course of construction or at time intervals appropriate to the project.
- Written Post-Occupancy Building and Social Evaluations including 9-Month and 12-Month, walk-throughs with Owner, Contractor, and sub-consultants as needed to identify issues. These would also serve as warranty walk-throughs.
- Pre-Construction meeting minutes and review of contractor-prepared meeting minutes during construction.
- Redesign costs associated with architect-driven change orders only.
- Post-bidding value engineering revisions corresponding to up to 5% of the pre-bid construction budget.

Basic Services – Rehabilitation Projects Only

In addition to the Basic Services for All Projects listed above, Basic Services for rehabilitation projects shall also include:

- Confirmation/verification of as-built documentation of existing conditions provided by owner.
- Path-of-travel analysis, including the nearest transit stop.
- Recommendations for exploratory demolition and/or systems testing to be done by owner during schematic design phase to verify assumptions.
- Observation time as required during construction to address uncovered existing conditions.
- Planning, phasing and coordination during an occupied rehabilitation project (with appropriate additional compensation for such services).

Basic Services Exclusions

The following are to be considered outside the scope of Basic Services for affordable housing projects financed by MOH/SFRA:

- Cost Estimating.
- Post-bidding value engineering revisions made necessary by delays beyond the control of the Architect or by inflation deemed by both parties to be standard in the industry at the time.
- Landscape, Acoustical and Civil Engineering, and other specialty Consultants.
- Dealing with existing non-accessible conditions not easily made 100% accessible.
- Compliance with the Green Communities Initiative.

Fees for Basic Services

The attached fee schedule (Exhibit A) shall serve as the basis for establishing Architect/Engineering fees for projects financed by MOH/SFRA.

As a general rule, fees for Basic Services for rehabilitation projects may exceed those listed for new construction of similarly sized projects according to the following scale:

Construction contracts less than \$2M:	An additional 3%
Construction contracts \$2M to \$10M:	An additional 2.5%
Construction contracts over \$10M:	An additional 2%

Fees for Basic Services related to the rehabilitation of buildings that will remain wholly or partially occupied during construction may exceed the limits identified for Rehabilitation projects depending on the circumstances.