

SALINAS LOCAL HOUSING TRUST FUND PROGRAM GUIDELINES AND STANDARDS

Background

The City of Salinas (“City”) is forming a housing trust for the purposes of funding and financing the planning and construction of affordable housing serving extremely-low, very-low, low-, and moderate-income (collectively, “Low- and Moderate-Income”) households and homeless housing (e.g., emergency shelters, permanent supportive housing, transitional housing) in the City. These “Guidelines” provide parameters for the creation and operation of the housing trust.

The Salinas Local Housing Trust (SLHT) will be governed by a Board of Directors consisting of the members of the Salinas City Council. The Board of Directors is responsible for overseeing the activities of the SLHT and administration of the SLHT Fund (SLHTF). The SLHTF provides an ongoing funding source for affordable housing and homeless housing projects located in the City of Salinas.

Applicability

The Guidelines apply to funds that are allocated to the SLHTF – Fund or Account No. _____ and may be amended from time to time. Additional restrictions may apply to certain sources of funds.

Funding Sources & Availability

The City will provide funding available through various funding sources listed below. The SLHT will continuously seek additional capital from public and private sources. Awards will be sized based on number of eligible projects and available funds.

- City of Salinas Housing Production Fund
- City of Salinas Measure E funds
- Permanent Local Housing Allocation funds
- Inclusionary Housing In-Lieu Fees
- Land owned by the City of Salinas
- Other sources (to be determined)

The City shall provide funding and support for the operations of the SLHT for a minimum of five years after the date of its first award of funds from the California Local Housing Trust Fund grant program.

Eligible Projects

Projects must be consistent with the SLHT’s purpose of supporting affordable housing. Eligible projects and activities include, but are not limited to, the following:

- Development of new affordable ownership and rental housing
- Housing acquisition and/or rehabilitation that creates new or extends existing affordability covenants

- First-time homebuyer assistance
- Property acquisition for the purpose of housing development
- Development of accessory dwelling units with affordability covenants
- Housing rights education
- Tenant assistance for temporary housing

Projects must be located in the City of Salinas and must be supported by the Board of Directors in order to be eligible for funding.

Types of Assistance

The SLHT will provide financing for the planning and construction of Low- and Moderate-Income housing developments (including multifamily rental, ownership, and predevelopment) in the form of low-interest, deferred loans. The SLHT will provide financing for homeless housing projects, education, and tenant assistance in the form of grants. Assistance for other Eligible Projects (including first-time homebuyer assistance) may be provided as loans or grants. The SLHT may also provide assistance directly to homeowners or tenants.

Eligible Applicants

Eligible applicants include non-profit and for-profit organizations, joint ventures, or partnerships that serve the loan purpose. Applicants for new development, acquisition, or rehabilitation projects must demonstrate sufficient prior experience and current capacity in housing development and management to successfully secure financing and entitlements, construct, complete, and operate the proposed project. Applicants for homebuyer assistance programs, education, tenant assistance, or similar activities must demonstrate sufficient prior experience with and current capacity for the Eligible Project(s) for which they are applying.

Eligible Costs

Eligible Costs for development, predevelopment, acquisition, and rehabilitation include all reasonable and necessary costs associated with:

- Property acquisition (applicants are required to submit a recent appraisal of the project site and any existing improvements as part of the application)
- Demolition
- On-site improvements
- Off-site utility connections
- Construction and rehabilitation
- Developing common areas and supportive service spaces serving the residents
- Soft costs associated with the development and financing of the project (including environmental review costs)
- Reasonable developer fees
- Operating reserve
- Capitalized replacement reserve

- Relocation costs (Borrowers must provide a relocation plan acceptable to the City demonstrating relocation compliance prior to construction start)

Applicants/borrowers must provide project budgets with sufficient itemized detail to evaluate whether the projected costs are sufficient and reasonable, and provide related documentation as needed. Prior to loan closing, the City will request and review documentation such as appraisals, cost estimates, contracts for professional services, and agreements covering reserves with regard to cost reasonableness. Proposed development costs must be sufficient to complete the project proposed and meet property standards, as applicable.

Eligible Costs for other types of Eligible Projects shall allocate no more than 10% of costs for program administration, outreach, and promotion. Applicants for homebuyer assistance programs, education, tenant assistance, or similar activities must demonstrate that at least 90% of program costs provide direct benefits to Low- and Moderate-Income households.

Minimum Affordability

The following minimum affordability requirements apply. The City may refuse to consider applications that cannot meet the following requirements:

1. 100% of SLHT assistance shall support households whose income does not exceed 150% of Area Median Income (AMI) or the creation or preservation of housing affordable to such households.
2. Due to the City's location in a "high-cost area," as defined by the Federal Housing Finance Agency and/or the Federal Department of Housing and Urban Development, these Guidelines define "moderate income" with a maximum of 150% of AMI.
3. SLHT may apply further restrictions based on the requirements of funding sources or programmatic considerations. Borrowers may provide units restricted at deeper levels of affordability than required by the SLHT.
4. Restricted rents will be set based on the rent limit for the applicable income level and unit size published by the California Tax Credit Allocation Committee (TCAC), regardless of whether the project includes tax credit financing.
5. Income and rent restrictions will apply for the full length of the loan term and regulatory agreement, surviving loan repayment.

Equal Housing Opportunity

All developments receiving SLHT funding from governmental revenue sources must comply with applicable Equal Housing Opportunity laws.

The remaining portion of the Guidelines applies to the SLHT's assistance for Projects involving predevelopment, development, and acquisition/rehabilitation of affordable housing. All

requirements apply to multifamily housing Projects. Some may not apply to ownership housing Projects.

Occupancy Requirements

The City's regulatory agreement or another document will establish occupancy requirements that restrict occupancy of subsidized units to households that meet income and other eligibility criteria.

Annual Recertification of Tenant Income and City Monitoring

For multifamily rental housing, borrowers are required to re-examine tenant incomes annually to ensure that tenants continue to meet the income requirements of this and other applicable funding programs. Rent schedules and utility allowances, including any increases, are subject to restrictions in the loan documents. Borrowers will be required to report on compliance with income and rent restrictions on an annual basis, and to make records available for on-site monitoring.

The loan documents will address how over-income tenants will be handled, consistent with the project's funding sources. An annual compliance monitoring fee will be negotiated during underwriting.

City Loan Terms and Affordability Period

When the SLHT provides assistance in the form of a loan, the loan will be typically structured as a residual receipts loan, except as otherwise approved by the SLHT.

The SLHT can fund three types of loans: predevelopment (short term), acquisition / construction (long term with short term requirements), and development loans (long term). Any requests for forgiveness of these loans will be reviewed and decided by the SLHT Board of Directors upon a recommendation from the staff.

Development loans will be for a term of fifty-five (55) years from the date of Certificate of Occupancy, except as approved by the SLHT. At the time a development proposal is submitted, the applicant must demonstrate that it has, and will maintain until the land is acquired, site control of the property for which funding is being requested. Examples of site control include fee ownership, an option to purchase or enter into a long-term lease dependent only on factors within the applicant's control, and a long-term lease.

Affordability requirements will be recorded with a Regulatory Agreement executed at closing. Except as approved by the SLHT Board of Directors, all projects shall be required to maintain the project's affordability for the term of the restrictive covenant, regardless of whether the loan is fully repaid.

Interest Rate

3% simple interest unless otherwise determined during underwriting.

Origination Fee

An origination fee of 1% may be assessed.

Debt Coverage Ratio

Generally, between 1.10:1 and 1.20:1 for the first year of stabilized operations, unless a senior lender has a higher requirement.

Cash Flow

Borrowers will submit a proforma with their applications showing at least 35 years of cash flow and positive cash flow for at least a 15-year period.

Operating Expenses

Total Operating Expenses shall not be less than those specifically listed in California Code of Regulations, Title 4, Section 10327 as minimum Operating Expenses. An operating reserve shall be funded in an amount equal to three months of estimated operating expenses and debt service under stabilized occupancy. Projects utilizing tax credits must satisfy the operating cost minimums published by CTCAC for the Central Coast Region and the applicable project type and year. In the event that the equity investor and the permanent lender are in place and provide evidence that they have agreed to lesser operating expenses, the SLHT Board of Directors may agree to such lesser operating expenses.

HCD Funded Projects

If HCD funding is utilized in combination with SLHT funding, such as with Local Housing Trust Fund (LHTF) program, the SLHT and Borrower will comply with all HCD regulations and requirements.

Repayment and Monitoring

The loan will be typically structured as a residual receipts loan except as otherwise approved by the SLHT. The loan for the project will be repaid from the Net Operating Income (NOI), if any. Borrowers will be required to submit rent rolls and operating expenses within one hundred and twenty (120) days after the close of each calendar year.

Due Diligence

Borrowers will be asked to provide due diligence with their applications which may include but is not limited to the following:

- Preliminary Title Report
- Appraisal
- Phase I Environmental Report
- Preliminary development estimate and narrative
- Proposed sources and uses

Disbursement of Funds

Loan funds will be made available at the closing of the predevelopment, the construction, and/or the permanent loans.

Program Documents

Loans will be provided in the form of a Promissory Note, secured by a deed of trust. Regulatory Agreements will be recorded to secure affordability covenants. Borrower and SLHT will enter into a development agreement for construction loans.

Subordination

The City will not subordinate its affordability covenants (typically the regulatory agreement) to the deeds of trust securing other lenders' financing, with the exception of State, Federal, and County funding sources (subject to City approval and to the ratio of debt to total development cost). The City Manager may review exceptions. The affordability covenants control, among other things, the maximum income of tenants of project units, and the maximum rents allowed for project units. The City deed of trust may be subordinated to other financing on a case-by-case basis.

Exceptions to Underwriting Guidelines

The SLHT may, at its sole discretion, approve a loan that does not conform with the above underwriting guidelines if approving the loan will provide significant benefits to the local community or SLHT. Each loan request is evaluated on its own merits. The SLHT has the authority to approve a loan with one or more waivers and/or exceptions to these guidelines. For development underwriting considerations not covered by these Guidelines (including, but not limited to, replacement reserves, capitalized operating reserves, projected vacancy rates, construction contingency, other lender requirements, and leasehold security requirements), the SLHT will follow the California Uniform Multifamily Regulations.

For additional information, please contact the Housing Trust Fund at:

_____ (Name), _____ (Title)

City of Salinas Local Housing Trust

_____ (email address)