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Department of Housing

AFFORDABLE RENTAL ACQUISITION AND PRESERVATION PROGRAM (ARAPP)

NOTICE OF FUNDING AVAILABILITY (NOFA)

This NOFA is available online, at:
<https://housing.smcgov.org/rfp-affordable-rental-acquisition-and-preservation-program>

NOFA Package:

- **NOFA Overview & Funding Requirements**

***** Applications will be reviewed on an ongoing basis until funds are committed *****

Requests for funding must be initiated through a discussion of project eligibility with the DOH Housing and Community Development team as described in this NOFA.

October 2016

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Please note: As described in this NOFA you MUST contact the Department of Housing and Community Development and meet requisite terms to be considered for funding.

SAN MATEO COUNTY -- DEPARTMENT OF HOUSING

AFFORDABLE RENTAL ACQUISITION AND PRESERVATION PROGRAM (ARAPP)

NOTICE OF FUNDING AVAILABILITY (NOFA)

I. INTRODUCTION AND BACKGROUND

The County of San Mateo Department of Housing (DOH or the Department) is made-up of two units, the Housing Authority of the County of San Mateo (HACSM) and the Housing and Community Development Division (HCD). HACSM is a Moving to Work agency, providing Section 8 rental assistance to some of the lowest income households in the County. HCD manages grant and loan programs funded through the U.S. Department of Housing and Urban Development's Community Development Block Grant (CDBG) and HOME Investment Partnership Programs, as well as County General Funds and HACSM Moving to Work Housing Assistance Payments (HAP) reserves. Together, HACSM and HCD provide millions of dollars annually for housing assistance, housing development, and public services across the County.

DOH and the County's Board of Supervisors recognize the negative effects for low- and moderate-income households of apartment sales which result in rent increases and displacement. The growing need for affordable housing in San Mateo County requires a multi-pronged approach which includes both the construction of new affordable housing and the preservation of existing affordable housing.

In March 2015, after successful execution of two Affordable Housing Fund (AHF) NOFAs allocating over \$17.6 million of former-Redevelopment Agency "Boomerang" funds and HACSM Moving to Work HAP reserves for the development of eight affordable housing projects and creation or renovation of four shelters, the Board took steps toward allocating an additional \$11.5 million in Measure A funds, proceeds of a half-cent sales tax approved by County voters in November 2012 to maintain the quality of life for all County residents by providing essential services and maintaining and/or replacing critical facilities. The following month, the Board, acting as the Governing Board of HACSM, approved an additional \$2 million of HACSM Moving to Work HAP reserves for affordable housing initiatives.

Five million four hundred thousand dollars (\$5.4 million) of these combined Measure A and HAP reserves funds were awarded to six affordable housing projects under the Department's Affordable Housing Fund 3.0 NOFA which included a Multifamily Preservation Demonstration award category intended to provide capital for the acquisition and minor rehabilitation of at least one midsize, multi-family rental development with below market rents. Under the program, rent restrictions were to be added to the acquired

building(s), securing below market rents for lower income households for years to come. Through a competitive process, the Department of Housing selected MidPen Housing and awarded \$1,000,000 to the organization to pilot the program. The County subsequently added \$420,000 to the original award. The \$1.42 million loan supported the purchase and rehabilitation of a 9-unit property in Pacifica, California that met the parameters of the pilot.

In February 2016, the Board adopted a resolution approving a \$2.5 million loan to the Human Investment Project to support the acquisition and renovation of a 16-unit apartment building in the City of San Mateo. This acquisition was also consistent with the goal of preserving “naturally-occurring” non-rent-restricted multifamily affordable housing in San Mateo County rented to tenants at below-market rates.

Since that time, the Board has been made aware of additional multifamily rental properties advertised for sale in the County that are currently rented to tenants at below-market rates. Due to the high cost of this type of acquisition, and the need to react quickly to compete with private speculators willing to evict low-income tenants to increase rental income, the Board wishes to formalize and fund an affordable rental housing acquisition and rehabilitation preservation program for the systematic consideration of these proposals. This loan program will be administered by the Department of Housing and will operate under the umbrella of the County Affordable Housing Fund.

At the Board’s direction, the Department of Housing seeks to provide a nimble acquisition loan platform that will allow mission-driven developers and operators of affordable housing to acquire and preserve affordability of existing “naturally-occurring” affordable multifamily rental housing, 20+ units in size, requiring little, moderate, or substantial rehab work. At its discretion, DOH will consider proposals for properties with fewer than 20 units. In addition to new construction, the preservation of existing, affordable, multifamily rental housing is a necessary strategy to address the gap between the supply and demand for affordable housing in San Mateo County.

II. PURPOSE AND STRATEGIC PRIORITIES

A. Purpose

The Department of Housing has been authorized by the Board of Supervisors to launch the San Mateo County Affordable Rental Acquisition and Preservation Program (ARAPP), a special sub-fund within the Affordable Housing Fund (AHF), to provide loans totaling up to \$10 million in Measure A funds to acquire and preserve the affordability of existing buildings lacking rent restrictions, currently rented at below-market rates in the County. Under ARAPP, the Department seeks to:

- Provide fast-moving, flexible acquisition funding to nonprofit and mission-driven for profit developers and owners to acquire and preserve existing, “naturally-occurring” affordable multifamily housing;

- Apply rent restrictions to preserve these properties as affordable housing for low- and moderate-income households for a minimum of 30 years;
- Improve the quality and condition of the affordable housing by addressing deferred maintenance and obsolete systems;
- Protect existing tenants from displacement and potential homelessness;
- Rent vacant Units to new low income households;
- Leverage other public and private funding sources including private debt, other public subsidies, and owner equity;
- Work with Borrowers to structure financing scenarios which eventually reduce the County's contribution to the greatest extent possible; and
- Note lessons learned, solicit and record feedback from Borrowers, and incorporate improvements in any subsequent funding rounds for the acquisition and rehabilitation of existing rental housing.

B. Strategic Priorities

The Department of Housing anticipates receiving more applications for ARAPP funding than can be committed through this NOFA and has identified the following strategic priorities for the program reflecting current County and Department priorities. In addition to meeting minimum (threshold) requirements, applications will be evaluated on the extent to which they further the following ARAPP strategic priorities:

- Preserving rental housing known to be at imminent risk of rent increases likely to result in the eviction of Existing Tenants;
- Preserving rental housing that currently serves clients of County services, children, elderly, or disabled tenants;
- Targeting Units as they become vacant to households referred by the Department, the County Human Services Agency, or another County agency, who are clients of County service agencies, homeless or at-risk of homelessness;
- Targeting Units as they become vacant to extremely low-income households;
- Requesting the smallest amount of short- and long-term County assistance, considered on a per-Unit basis, including ARAPP and Section 8 project-based rental assistance subsidies;
- Demonstrating strong partnership, cooperation, participation and financial support of the local municipality for the proposed acquisition;
- Planning for the earliest possible reduction of rents paid by any Existing Tenants who are currently paying more than 30% of their income toward rent;
- Positioning for, and presenting a feasible plan for take-out financing in the near future that will reduce the County's ARAPP Loan;
- Providing 2-bedroom and 3-bedroom Units;
- Limiting tenant relocation caused by renovation work, income limitations of various financing programs, and other considerations;
- Preserving the greatest number of Units;
- Preserving Units in close proximity to public transportation and other necessary community services and amenities;

- Providing the most robust and appropriate supportive service plan for current and future tenants;
- Requiring the lowest total development costs (calculated on per Unit basis), including acquisition, renovation, and other associated costs.

III. DEFINITIONS

Affordable Housing Fund (AHF): The County's Affordable Housing Fund, created in 2013. The AHF may contain funds from a variety of sources including County Measure A, the Housing Authority of the County of San Mateo, and former redevelopment agency funds that have been reallocated to the County.

AMI: The Area Median Income for San Mateo County.

Applicant: An entity or team of entities submitting an application for this ARAPP NOFA as described in Section V.B(3).

ARAPP: The subject of this NOFA; the Affordable Rental Acquisition and Preservation Program approved by the County Board of Supervisors on June 28, 2016 and funded with \$10 million in Measure A Funds to be administered by the Department of Housing to finance the acquisition and preserve the affordability of multifamily apartment buildings rented to tenants at below-market rates in San Mateo County.

ARAPP Contract (or Contract or ARAPP Loan Contract): Also known as the ARAPP Loan Agreement or Loan Agreement, defined below.

ARAPP Deed of Trust (or Deed of Trust, or DOT): The Deed of Trust executed by Borrower in connection with an ARAPP Loan for the benefit of the County of San Mateo, as lender.

ARAPP Loan: A loan made by the County of San Mateo to a Borrower under this ARAPP NOFA.

ARAPP Loan Agreement (or Loan Agreement): The contractual agreement executed by Borrower and the County to loan ARAPP funds to Borrower for the purposes outlined in this NOFA, subject to the requirements of the ARAPP NOFA, Loan Agreement and Restrictive Covenant.

ARAPP Note (or Note): The promissory note delineating the terms and repayment requirements of an ARAPP Loan executed by Borrower.

ARAPP-Restricted Unit: A residential Unit that is subject to rent and occupancy restrictions as a result of the financial assistance provided by DOH under the ARAPP, as specified in this NOFA, the ARAPP Loan Agreement, and ARAPP Restrictive Covenant. The number of ARAPP-Restricted Units in a Project shall be calculated as described in Section IX.A.

In no event shall DOH designate more than 49% of the Units in a Project as ARAPP-Restricted Units.

ARAPP Restrictive Covenant (or Restrictive Covenant): The recorded obligation executed by Borrower delineating the occupancy and use requirements for a Project acknowledged by Borrower in connection with receipt of the special terms of an ARAPP Loan.

Borrower: An Applicant or DOH-approved related entity of Applicant that receives ARAPP Loan funds to acquire a Project subject to the conditions of the ARAPP described in this NOFA.

Development Agreement: A binding agreement between each of the multiple members of an Applicant team which describes the roles, responsibilities and compensation accruing to each member of the team.

DOH (or the Department): The County of San Mateo Department of Housing. DOH is comprised of two units, the Housing Authority of the County of San Mateo (HACSM) and the Housing and Community Development Division (HCD).

ELI Tenants: Extremely Low Income Tenants, earning up to 30% of the AMI for San Mateo County.

HACSM: The Housing Authority of the County of San Mateo, one of two units of the County of San Mateo Department of Housing.

HCD: The Housing and Community Development Division of the County of San Mateo Department of Housing.

Homeless Tenant: For purposes of this NOFA, an individual or household (one or more persons residing together) who meets one of the following criteria immediately prior to occupancy in a Project:

- An individual or family with a primary nighttime residence that is a public or private place not designed for, or ordinarily used as a regular sleeping accommodation for human beings, including a car, park, abandoned building, bus or train station, airport, or camping ground; or
- An individual or family living in a supervised publicly or privately operated shelter designated to provide temporary living arrangements, including congregate shelters, transitional housing, and hotels and motels paid for by charitable organizations or by federal, state or local government programs; or
- An individual exiting an institution where he or she resided for 90 days or less and who resided in an emergency shelter or place not meant for human habitation immediately before entering that institution; or
- An individual or family who is fleeing, or is attempting to flee, domestic violence, dating violence, sexual assault, stalking, or other dangerous or life-threatening conditions that relate to violence against the individual or a family member, including a child, that has either taken place within the individual's or family's primary nighttime residence or has

made the individual or family afraid to return to their primary nighttime residence; and has no other residence, and lacks the resources or support networks, e.g. family friends, and faith-based or other social networks, to obtain other permanent housing; or

- An individual or family who is homeless or at-risk of homelessness, is receiving services from one or more County agencies including, but not limited to the Human Services Agency (HSA), the County Health System including the Division of Behavioral Health and Recovery Services (BHRS), DOH and HACSM, and who is referred by the HSA Office of Homelessness or HACSM.
- In the case of veterans, DOH will accept the definition of homelessness used by the U.S. Department of Veterans' Affairs programs (for VA-funded programs) or definition of homelessness used by the State of California (for State-funded programs).

Initial Application Stage: Time of initial outreach by an Applicant to DOH staff and submission of the Initial Submission Materials described in Section IV.A(2)(a) for DOH review.

Letter of Interest (or LOI): A letter provided by DOH to an Applicant to demonstrate the Department's preliminary support for a proposal based upon limited information for purposes of the Applicant's negotiations with a seller. The "soft" commitment expressed in a Letter of Interest will be subject to ultimate approval of the Board of Supervisors, funding availability and any outstanding materials DOH has yet to receive or review at the time of execution of a LOI.

Owner: Applicant, Borrower or a DOH-approved related entity of Applicant or Borrower that holds equitable and beneficial interest in the Project. If equitable and beneficial interest in the Project is held by two separate, related entities, the two related entities may together constitute the Owner.

Project: A multifamily residential property acquired using funding from this NOFA.

Residual Receipts: Project income remaining after payment of all Project operating costs, fulfillment of reserve requirements and debt service obligations.

Unit (or Rental Unit): A residential rental dwelling unit which:

- meets applicable local, state and federal occupancy standards; and
- is leased to tenants through execution of a minimum 12-month lease; and
- in addition to residential dwelling units containing a fully-outfitted kitchen space and a separate bathroom, for purposes of this NOFA, may include a single room occupancy unit.

IV. APPLICATION SUBMISSION AND REVIEW PROCESS

A. Application Submission

1. Timeline. Applications for this NOFA will be reviewed on a rolling, “over-the-counter” basis until the \$10 million ARAPP budget is committed. At that time, the ARAPP web portal will be updated to note that no additional applications will be accepted.
2. Application Process and Materials. Applications must be initiated through a discussion of Project eligibility with the DOH Housing and Community Development team. Please email ARAPP@smchousing.org to schedule an initial conversation. If preliminary discussions indicate a reasonable opportunity for property acquisition using ARAPP funds, Applicants will need to submit materials as described below.
 - a) Initial Submission Materials. These materials must be provided to DOH staff at or near the time of preliminary eligibility discussions.
 - Project proposal narrative
 - Building data (Units, square footages, price, etc.)
 - Rent roll
 - Draft Project proforma (sources/uses, development budget, income/expenses, 30-year operations, etc.)
 - Developer/Borrower experience and financials
 - Memorandum of understanding or other preliminary document describing the roles and responsibilities of Applicant team members, if applicable (See Section V.B(3))
 - Initial plan for pay-down of ARAPP Loan (if required by DOH)
 - Initial plan for building repairs
 - Initial plan for supportive services
 - b) Additional Submission Materials. These materials must be submitted to DOH staff as soon as possible in the application consideration process.
 - Commitments from other acquisition lenders
 - Detailed plan for pay-down of ARAPP Loan (narrative, budget, soft commitments as applicable, if required by DOH)
 - Current physical needs assessment (PNA)
 - Plan to immediately address any life safety issues
 - Plan for additional rehabilitation and curing of deferred maintenance
 - Current appraisal (maximum six months old)
 - Phase I environmental assessment (Phase I)
 - Documentation of Project operating/cash flow performance
 - Detailed supportive service plan and budget

- Development Agreement or other executed binding document describing the roles and responsibilities of the different members of an Applicant team made up of multiple entities, if applicable (See Section V.B(3)).
- Other materials as requested by the Department

Applications that do not include all required information or adequately address information gaps, may, at DOH's sole discretion, be deemed ineligible for funding.

3. Application Becomes DOH Property. All materials submitted in response to this NOFA, or in response to staff requests to an Applicant for clarification or additional information related to the Applicant's application, shall become property of DOH.
4. Questions and Response Process. Submit all questions relating to this NOFA by emailing ARAPP@smchousing.org. Senders will receive responses via email and the questions and answers will also be posted periodically on the DOH website's ARAPP portal.

B. Application Review Process

1. Applications for this NOFA will be reviewed on a rolling, "over-the-counter" basis until the \$10 million ARAPP budget is committed. At that time, the ARAPP web portal will be updated to note that no additional applications will be accepted.
2. DOH staff will review proposals versus the Threshold Requirements and ARAPP Strategic Priorities described in Section VI.
3. Proposals that meet all ARAPP Threshold Requirements of Section VI.A and adequately address the ARAPP Strategic Priorities of Section VI.B will be forwarded to the ARAPP Loan Committee, made up of DOH leadership from HCD and HACSM teams, for review and recommendation to the Board of Supervisors.
4. Final approval of Projects that will receive ARAPP funding, and funding amounts, will be made by the Board of Supervisors. The ARAPP Loan Committee recommendations, together with a summary of DOH staff comments, will be submitted to the Board of Supervisors for approval. The Board is the final decision-maker for determining ARAPP awards.
5. Selection of one or more Projects to receive ARAPP funding, and the funding amount for each Project, will be memorialized in the form of a Loan Agreement between the Borrower and DOH, authorized by a resolution of the County Board of Supervisors.
6. Upon acceptance and approval by DOH staff of the Initial Submission Materials listed in Section IV.A(2)(a), the Department may, at its sole discretion, upon request from the Applicant, provide a short-form, "soft" Letter of Interest noting the Department's interest in providing funding for the Project, subject to availability of ARAPP funds and approval of the Board of Supervisors, and upon approval of any outstanding submission

materials or completion of due diligence activities not limited to those described by the Department in such letter. The Letter of Interest is provided to demonstrate the Department's preliminary support for a proposal based upon limited information for purposes of the Applicant's negotiations with the seller.

7. The Department of Housing anticipates receiving more applications for ARAPP funding than can be funded through this NOFA. Under this likely scenario, applications which meet the ARAPP Threshold Requirements will be prioritized for funding based upon on how effectively they address the ARAPP Strategic Priorities listed in Section VI.B.

V. FUNDING AVAILABILITY AND ELIGIBLE APPLICANTS

A. Funding Availability Overview

ARAPP will allow nonprofit and mission-driven for-profit developers and operators of affordable housing to acquire and preserve existing multifamily buildings containing apartments rented at below-market rates to protect existing tenants from displacement and generate additional housing opportunities for low income households in the long term.

B. Eligible Applicants

Eligible Applicants include:

1. Non-profit organizations, tax-credit limited partnerships or limited liability corporations, mission-aligned for-profit affordable housing developers, or teams including at least one of these entities, as described in Section V.B(3) below.
2. Applicants must have affordable housing experience in the nine-county Bay Area (San Mateo, San Francisco, Marin, Sonoma, Napa, Solano, Contra Costa, Alameda, and Santa Clara), including a successful track record of developing or acquiring, as well as owning and managing for at least two years, a minimum of two stand-alone affordable housing projects with at least 50% of the Units, with the exception of the manager(s) Unit(s), targeted to households with incomes at or below 80% of the Area Median Income. Ownership by an affiliated limited partnership for tax credit purposes will qualify as ownership of the project.
3. Teams of multiple entities which together meet the requirements of Sections V.B(1) and (2) may apply, but must do the following:
 - (a) Together form an entity qualified to apply under V.B(1) and (2) to serve as the Applicant or choose a lead Applicant qualified to apply under V.B(1) and (2); and

- (b) During the Initial Application Stage, identify all co-Applicant entities and their respective qualifications, and provide a memorandum of understanding (MOU) or draft Development Agreement describing the responsibilities of each co-Applicant; and
- (c) Prior to the ARAPP Loan closing, provide an executed Development Agreement codifying the roles, responsibilities and compensation of each member of the Applicant team.

VI. THRESHOLD REQUIREMENTS AND ARAPP STRATEGIC PRIORITIES

A. ARAPP Threshold Requirements

To be considered for funding under ARAPP, the proposal must meet each of the following requirements. These requirements will be reflected in the Borrower’s ARAPP Loan Contract and Restrictive Covenant.

1. As-Is Property Requirements. The property to be acquired must comply with the following requirements.
 - (a) Unit Count. The property must contain an existing multifamily rental apartment building or complex of buildings with a minimum of 20 Units. The Department may consider proposals with fewer Units on a case-by-case basis.
 - (b) Current Rents. All Units must be presently vacant or rented at or below the current 100% of median income level maximum rents published annually by the California Tax Credit Allocation Committee (CTCAC). As of March 28, 2016 the rates were those shown in Table 1, below. DOH may consider limited exceptions on a case-by-case basis.

Table 1. Maximum Rents Upon Acquisition

Apartment Size	Studio	1BR	2BR	3BR	4BR	5BR
Maximum Rent (at 100% Median Income Level)	\$2,152	\$2,306	\$2,766	\$3,198	\$3,566	\$3,936

2. Post-Acquisition Requirements. The Applicant must commit to meeting the following requirements upon acquisition of the property and on an ongoing basis. These requirements will be reflected in the Borrower’s ARAPP Loan Contract and Restrictive Covenant.
 - (a) Existing Tenants. Upon acquisition and from that point forward, the Applicant (or Owner) will continue to honor the leases of all Existing Tenants. Subject to the provisions of any local rent control ordinances and the rules and regulations of any

rent subsidies utilized by Existing Tenants, the leases of Existing Tenants may be adjusted annually, corresponding to, at most, the percentage difference between the current and previous year's 60% AMI Low Income Housing Tax Credit rent for a Unit of corresponding size, as set by CTCAC.

In the case of Existing Tenants who upon acquisition pay more than 30% of income toward rent, to the greatest extent possible, Applicants must work with DOH to structure refinancing scenarios or other means which will allow the Owner to reduce the Existing Tenants' share of rent payments at the earliest possible time, with a goal of setting such tenant share of rent payments at approximately 30% of income or the amount required under any applicable rental subsidy program.

Nothing herein shall be construed to prevent the Owner from collecting total rent payments that equate to more than 30% of the income of an Existing Tenant or future tenant for a Unit where a tenant-based or project-based rental subsidy is applied and authorized to pay the rent requested by Owner up to the amount approved by the agency issuing such rental subsidies.

- (b) Vacant Units. Upon acquisition and from that point forward, all Units (except for an onsite manager's Unit) must be rented upon vacancy to households earning, at most, 80% of AMI, and must be rented at rates affordable to such households.

For Units where tenant-based or project-based rental subsidies are applied, the tenant portion of rent payments for a Unit will be restricted to the amount required by any tenant-based or project-based rental subsidy program applicable to a Unit. The total rent for a Unit may be set at the sum of the tenant's portion of rent and the rental subsidy payment, up to the maximum amount permitted by the rental subsidy program.

- (c) Homeless Tenants and ELI Tenants. Upon acquisition and from that point forward, for every three vacancies, the Owner must rent the first to a Homeless Tenant and the second and third vacancies to ELI Tenants until a minimum of 5% of Units, but no less than two Units at the property are rented to Homeless Tenants and a minimum of 10% of Units, but no less than four Units are rented to ELI Tenants. Please see Section IX.D for a description of the County's process for referring Homeless Tenants with rental assistance to properties supported with ARAPP funding.
- (d) Repairs. The Applicant must provide, and DOH must approve prior to acquisition, a plan and budget to address any life-safety issues. In addition, DOH must approve a plan and budget submitted by the Applicant to address deferred maintenance and repair needs.
- (e) Supportive Services. The Applicant must provide, and DOH must approve a plan and budget for supportive services sufficient to serve the Project's current and long-term tenant profiles. The Department typically recommends a minimum of \$500/Unit

to pay for service coordination for projects that meet the homeless and ELI requirements of ARAPP.

3. ARAPP Underwriting Requirements. Proposed budgets must demonstrate compliance with the following underwriting guidelines.
 - (a) Leverage. Proposals must efficiently leverage other public and private financing opportunities including but not limited to private debt, other public subsidies, and owner equity in order to limit the ARAPP Loan request to the greatest extent possible. Debt service coverage will be set at a maximum of 1.15 across all hard debt.
 - (b) ARAPP Loan Reduction. In cases where DOH determines that the County's ARAPP Loan commitment is greater than typical new construction DOH loan subsidies, Applicant must provide and carry out a DOH-approved plan to reduce the County's ARAPP Loan through refinancing at the earliest possible date. Typical events for such loan reduction include subsequent construction closing, permanent conversion, and LIHTC syndication event.
 - (c) Terms. Minimum 30-year affordability and loan terms, with 3% simple interest repaid through 50% subsidy lenders' share of Residual Receipts. Projects utilizing Low Income Housing Tax Credits will be subject to 55-year affordability restrictions and loan terms upon or before syndication closing.
 - (d) Additional Requirements. Proposals must comply with all underwriting requirements found in Section VIII: ARAPP Loan Terms.

B. ARAPP Strategic Priorities.

The Department anticipates receiving more applications for ARAPP funding than can be committed through this \$10 million NOFA. Under this likely scenario, DOH will evaluate all proposals on the degree to which they address the ARAPP Strategic Priorities listed below and will prioritize proposals for funding based upon this evaluation. The Department may also, at its sole discretion, reject any proposal that does not sufficiently further at least several of these priorities.

1. Preserving rental housing known to be at imminent risk of rent increases likely to result in the eviction of Existing Tenants;
2. Preserving rental housing that currently serves clients of County services, children, elderly, or disabled tenants;
3. Targeting Units as they become vacant to households referred by the Department, the County Human Services Agency, or another County agency, who are clients of County service agencies, homeless or at risk of homelessness;

4. Targeting Units as they become vacant to extremely low-income households;
5. Requesting the smallest amount of short- and long-term County assistance, considered on a per-Unit basis, including ARAPP and Section 8 project-based rental assistance subsidies;
6. Demonstrating strong partnership, cooperation, participation and financial support of the local municipality for the proposed acquisition and renovation;
7. Planning for the earliest possible reduction of rents paid by Existing Tenants who are currently paying more than 30% of their income toward rent;
8. Positioning for, and presenting a feasible plan for take-out financing in the near future that will reduce the County's ARAPP Loan, where applicable;
9. Preserving affordability of 2-bedroom and 3-bedroom Units;
10. Limiting tenant relocation caused by renovation work, income limitations of various financing programs, and other considerations;
11. Preserving the greatest number of Units;
12. Preserving Units in close proximity to public transportation and other necessary community services and amenities;
13. Providing the most robust and appropriate supportive service plan for current and future tenants;
14. Requiring the lowest total development costs (calculated on per Unit basis), including acquisition, renovation, and other associated costs.

C. Funding Commitments

DOH reserves the right to make an award in an amount less than requested by an Applicant. Note that while DOH considers per-Unit development costs and County per-Unit funding commitments to be significant metrics, DOH also gives strong consideration to other aspects of the applications and budgets, including the ARAPP Strategic Priorities as set forth in Section VI.B.

VII. ELIGIBLE USES OF ARAPP LOAN FUNDS

A. Predevelopment Costs

Eligible predevelopment costs may include due diligence and other pre-development work necessary to determine Project feasibility and assemble a full ARAPP funding application including a physical needs assessment, current appraisal, Phase I environmental assessment, and other due diligence activities.

DOH funds are not available to pay for Applicant's overhead and general costs of operation or property search costs.

Eligible costs initially paid with Applicant's own or borrowed funds may be reimbursed with DOH loan proceeds.

B. Site Acquisition Costs

The Applicant may request funds to apply toward site acquisition costs such as appraisals, purchase agreement deposits, option payments, other site control costs, the acquisition price of the site, repayment of loan(s) that originally financed the purchase of the site (i.e. take-out financing) and other acquisition costs, such as Applicant's share of closing costs. DOH funds will not fund acquisition costs for the land and improvements in excess of the current appraised value of the property.

C. Rehabilitation Costs

1. Preparation of a final scope of work and cost break-down prepared by a qualified contractor. The scope and cost break-down may not represent an increase of more than 10% from the preliminary scope of work and cost break-down.
2. Hard construction costs for scope of work items.
3. Soft costs directly related to the repair and rehabilitation work including but not limited to architectural drawings, engineering fees, design-development plans, local permits, legal fees, consultant and professional fees, and insurance, etc.
4. Temporary relocation of existing residential tenants, to the extent such relocation is necessary because of the rehabilitation work and not funded by other funding sources.

VIII. ARAPP LOAN TERMS

A. ARAPP Loan Amount

DOH will provide low-interest loans to eligible Projects for the acquisition of existing multifamily rental apartments, predevelopment activities, and light to substantial rehab work. The maximum loan amount will not exceed \$250,000 per Unit. Please note that the Department would expect loans approaching this maximum amount to be reduced through refinancing at a later date as described in Section VI.A(3)(b).

B. Interest Rate and Repayment

The interest rate and loan repayment terms for all ARAPP Loans shall be subject to Department of Housing loan policies. Typically, affordable rental housing loans are structured as non-recourse, 3% simple interest loans repaid through Residual-Receipts. For more detailed information on Department of Housing loan policies, please contact DOH staff as described in this NOFA.

C. Term

The initial term of ARAPP Loans shall be up to 2 years. However if satisfactory progress is being made toward the milestones listed in the Loan Agreement, the term of the loan may be extended for up to 3 one-year periods with Department approval. Upon successful completion of acquisition, predevelopment activities, rehabilitation and restructuring of the acquisition and construction financing, the remaining balance of the ARAPP Loan will be reduced and converted to a long-term permanent loan with a term of 30 to 55 years as agreed.

D. Loan Fee

A loan fee of 1% of the ARAPP Loan amount will be charged to the Borrower and will be deducted from ARAPP Loan proceeds.

E. Summary of Loan Terms

USE OF FUNDS	Acquisition of existing multifamily rental apartments, predevelopment and light to substantial rehab work
MAXIMUM LOAN AMOUNT	\$250,000 per Unit
TERM	<u>Acquisition</u> : 2 years with option for up to 3 one-year extensions as approved by DOH <u>Construction</u> : Matching requirements of primary construction lender <u>Permanent</u> : 30-55 years

INTEREST RATE	3% simple
FEES	1% of ARAPP Loan amount
COLLATERAL	Real estate (Deed of Trust)
DEBT SERVICE COVERAGE RATIO	1.15 across all hard debt
REPAYMENT REQUIREMENTS	Subsidy lenders' share of Residual Receipts
RENT RESTRICTIONS	<p><u>Upon acquisition:</u> All Units must be rented at or below the current 100% of median income level maximum rents published annually by the California Tax Credit Allocation Committee (CTCAC).</p> <p><u>Following acquisition:</u> Borrowers must rent vacancies to tenants earning a maximum of 80% AMI at rates affordable to such households, and position properties to pay down the County's ARAPP acquisition subsidy with LIHTC and other sources at subsequent construction or permanent closing. Also see the ARAPP homeless requirement below.</p>
ELI / HOMELESS REQUIREMENT	Upon construction (or permanent, if no interim construction closing) closing, Borrower will restrict 10% of Units for Extremely Low Income Tenants earning up to 30% AMI, and an additional 5% of Units for homeless client referrals from the County Housing Authority, and rent vacant Units to such tenants until the requirements are met.
SUPPORTIVE SERVICES	Applicants must provide supportive services sufficient to serve the Project's current and long-term tenant profiles. The Department typically recommends a minimum of \$500/Unit to pay for service coordination for projects with the homeless and ELI profiles required under ARAPP.

F. Proceeds from ARAPP Loans

Proceeds from the repayment of ARAPP Loans shall be deposited in DOH accounts. DOH retains the discretion, subject to Board of Supervisors approval, to use such proceeds to assist with the provision of affordable housing in the future.

G. Loan Closing and Disbursement of Funds

1. DOH and Borrower will close escrow on the ARAPP Loan Agreement and the ARAPP Loan in the same escrow and in that order.
2. Upon receipt of satisfactory documentation from the Applicant, DOH will disburse ARAPP Loan proceeds either to escrow to pay site acquisition costs, or to the Applicant to reimburse the Applicant for site acquisition, predevelopment, and/or construction costs. In special cases warranting such action, and at DOH's discretion, DOH may, upon written instructions from Borrower, pay Borrower's vendors directly upon submission of invoices for completed work in excess of \$5,000 for predevelopment and/or construction costs.
3. For construction costs, DOH will disburse ARAPP Loan proceeds for construction progress payments that the Borrower's appointed representative has approved as an accurate statement of work completed.

H. ARAPP Restrictive Covenant

1. Concurrent with executing the ARAPP Loan Agreement and recording the ARAPP Deed of Trust, DOH will record an ARAPP Restrictive Covenant with the developer. The Restrictive Covenant will memorialize the affordability restrictions and other requirements of the ARAPP Loan. For Projects likely to secure tax credits, the Restrictive Covenant will remain in force for fifty-five (55) years from Project completion.
2. Where the DOH Director determines, after consultation with County Counsel, that one or more federal, state and/or local financing programs available to a Project will achieve results that are equivalent to, or more effective than, the affordability or other public purposes of ARAPP, and that such financing programs are otherwise compatible with the DOH and applicable County and Department policies and objectives, DOH's Director is authorized to modify the ARAPP terms, policies and/or the Restrictive Covenant, to the degree necessary for the Project to utilize those financing sources.

IX. OTHER SPECIAL TERMS AND CONDITIONS

A. Determination of ARAPP-Restricted Units

1. As defined in Section III., an ARAPP-Restricted Unit is a residential Unit that is subject to rent and occupancy restrictions as a result of the financial assistance provided by DOH, as specified in this NOFA, the ARAPP Loan Agreement, and Restrictive Covenant.
2. The number of ARAPP-Restricted Units shall be the greater of [(a) + (b) + (c)] or (d), as described below. The number of Units restricted by (a), (b) and (c) below shall not be

permitted to overlap: i.e., a Unit restricted in order to meet the requirements of Section VI.A(2)(c) for 30% AMI (ELI) tenants may not also be designated to meet the requirements for Homeless Tenants of the same Section. However, any Units restricted to meet the requirements of (d) below may also be Units restricted by (a), (b) or (c).

3. ARAPP-Restricted Units Calculation

- (a) Units subject to Section VI.A(2)(c) requiring the greater of 10% or 4 Units be rented to ELI Tenants earning at or below 30% AMI;
 - (b) Units subject to Section VI.A(2)(c) requiring the greater of 5% or 2 Units be set aside for Homeless Tenants;
 - (c) Additional Units targeted to Homeless Tenants and ELI Tenants committed in an Application to more effectively meet the ARAPP Strategic Priorities of Sections VI.B(3) and (4). In order to fairly determine the number of ARAPP-Restricted Units regulated by this Section, DOH will discuss with the Applicant whether the Applicant would like any additional Units targeted to Homeless or ELI Tenants to be given consideration under the ARAPP Strategic Priorities. Any Units given consideration under the ARAPP Strategic Priorities will be included in the ARAPP-Restricted Units calculation.
 - (d) The number of Units derived by dividing the ARAPP Loan amount by the maximum ARAPP Loan per Unit of \$250,000.
4. Notwithstanding the calculations described above in Sections IX.A(2) and (3) to determine the number of ARAPP-Restricted Units in a Project, in no event shall DOH designate more than 49% of the Units in a Project as ARAPP-Restricted Units.

B. Increases to Tenant Income

After initial qualification and upon recertification of household income, a household occupying an ARAPP-Restricted Unit may have its rent increased as a result of increases in household income, consistent with Project rules, rent restrictions and other requirements.

C. Physical Distribution of the Rental Units

1. The ARAPP-Restricted Units must be distributed by Unit size, amenity mix, and income affordability throughout the entire Project.
2. ARAPP-Restricted Units in the development will be floating Units. Upon recertification of household income, if a household no longer qualifies to occupy their ARAPP-Restricted Unit at the initially targeted affordability level for that Unit, then the next available comparable Unit shall become designated to target households at the same initially targeted affordability level as the recertified household's Unit. The objective is

to ensure the development maintains the intended affordability mix of the ARAPP-Restricted Units, as described in Section VI, over time.

D. Recruitment, Referral and Occupancy of Units Targeted to Homeless Tenants

1. Background: HACSM maintains on-going wait lists for all of its subsidized housing programs, and through its partnership with the Center on Homelessness, is actively involved with Homeless Outreach Teams, Emergency Shelters and Core Service Agencies as they connect with, and provide services to homeless individuals and families. Through the San Mateo County Continuum of Care (COC), HACSM handles all referrals to the subsidized housing programs and coordination with supportive service providers for each household. HACSM has contracts with each of the following supportive service agencies and organizations: County Behavioral Health and Recovery Services (BHRS), County Department of Alcohol and Other Drug Services (AOD), Mental Health Association (MHA), Life Moves (formerly InnVision Shelter Network), and Samaritan House.
2. Both during initial rent-up of vacancies and when Units occupied by Homeless Tenants subsequently become available, HACSM will promptly provide a list of names of homeless households who are currently receiving supportive services from one of the supportive services providers to the Owner. All of these households will have been pre-determined to be eligible for rental assistance programs administered by HACSM and will be referred to the Project with a tenant-based rental-assistance voucher.
3. The Owner will then have the opportunity to meet the referred households and determine whether or not they meet the Owner's eligibility criteria, for example criminal background and/or other occupancy standards, as they would with any pre-application process, with the following caveat: The Owner should keep in mind that these Units are targeted to homeless individuals and families under a housing first model and therefore, they may have additional issues with their current credit score, no or extremely limited rental history, prior evictions, etc., but they will now be connected with supportive services to help with transitioning to and maintaining stable housing. The Owner may need to be willing to modify their pre-screening standards for these Units, recognizing that these individuals and/or families will have supportive services already established and supporting them.
4. Once the Owner has met with all of the referred households, the Owner will return the list to HACSM, along with the households who were approved/denied for occupancy at their property.

E. Rent Limit Compliance for Rental Units

The Department will periodically monitor the development to ensure that the ARAPP-Restricted Units are in compliance with the affordability requirements of the ARAPP, and that procedures used to calculate the maximum tenant-paid rent for ARAPP-Restricted Units are consistent with the Project's policies and requirements.

F. CEQA Compliance

Projects with ARAPP funding must comply with State CEQA requirements.

G. Accessibility Requirements

Projects with ARAPP funding must meet applicable accessibility standards which may include, but are not limited to Section 504 of the Rehabilitation Act of 1973, the Americans with Disabilities Act, and the Architectural Barriers Act. Applicants should make reasonable efforts to provide 5% of renovated Units as accessible under Section 504 and 2% for persons with hearing and/or vision impairments.

X. SECTION 8 PROJECT-BASED VOUCHERS

A. Commitments

DOH and HACSM will not commit Section 8 Project-Based Vouchers (“PBV’s”) as part of this NOFA. Since ARAPP funds will be committed on a rolling basis, Applicants may indicate the use of uncommitted PBV’s as part of the Project underwriting for DOH consideration. However, Applicants must do so with the understanding that HACSM has made no commitment for PBV’s and cannot be expected to commit PBV’s to the Applicant’s Project in the future. Applicants who submit a financial proforma indicating the use of PBV’s must also submit a “no-PBV” proforma as part of the required attachments.

B. Project-Based Voucher NOFA

Notwithstanding Section X.A above, HACSM expects to release a competitive NOFA for Section 8 Project-Based Vouchers before the end of calendar year 2016, the guidelines of which may vary from those of the ARAPP program in certain instances. When released, a copy of the HACSM Section 8 Project-Based Voucher RFP will be available on the DOH website at housing.smcgov.org.

XI. COMPLIANCE MONITORING

A. Desk Monitoring

The Department will undertake periodic monitoring of Projects that receive ARAPP funding to confirm ongoing program compliance. Such monitoring may consist of reviewing documents and records related to tenant income and rents, including those portions paid directly by tenants and by any rental assistance programs. DOH may also review occupancy of targeted Units and information relevant to the financial condition of the Project to ensure ARAPP-Restricted Units are in compliance with the affordability

requirements of the program, and to ensure the Project's long-term viability. The submitted documentation must be sufficiently detailed for DOH to confirm whether the Project is in compliance with ARAPP requirements.

The annual compliance report submitted by Borrower to DOH must include a tenant roster listing household size, income, and rent for each tenant in an ARAPP-Restricted Unit. DOH shall review reports for compliance with the ARAPP program requirements, shall require the developer to correct violations of any requirements, and may request additional documentation from the Borrower, as the situation dictates.

B. Residual Receipt Documentation

Following acquisition of the Project, on an annual basis, Owner shall submit to DOH audited financial reports for the Project detailing income and expenses for the preceding year, including a determination of the Residual Receipts, if any, generated by the Project in that year. If Residual Receipts are generated, the financial report must include or be accompanied by an accounting of the distribution of such Residual Receipts among the Owner, DOH, and any other designated recipients.

C. Field Monitoring

DOH may conduct periodic site visits to Projects that receive ARAPP funding. During such visits, DOH representatives may interview the resident manager, review a sample of the on-site tenant files, inspect a sample of Units of various sizes and affordability, and tour common areas and grounds.

D. Construction and Interim Monitoring

The County reserves the right to undertake periodic monitoring, including site visits of the Project during rehabilitation to ensure ARAPP program compliance. Borrower shall be given adequate notice of any monitoring.

Borrower shall submit quarterly construction progress reports from the close of acquisition financing until the completion of the rehabilitation work. The County shall supply the reporting form for such quarterly progress reports.

Borrower shall submit annual refinancing progress reports from the close of acquisition financing until the financing for the Project is restructured, if applicable and as agreed. The County shall supply the reporting form for such annual progress reports.