City of Phoenix
HOUSING DEPARTMENT

Affordable Housing Loan Program and Underwriting Guidelines
2007

This document is also available on line at:
ftp://phoenix.gov/pub/HOUSING/hlpug_05.pdf

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INTRODUCTION

Program Overview

The City of Phoenix Housing Department administers a variety of programs designed to foster housing choice and affordability for lower income residents while advancing important neighborhood revitalization and community development goals. The Department also serves as the City's Housing Authority and provides staff support to the Industrial Development Authority of Phoenix and the Phoenix Residential Initiatives Development Effort (PRIDE), a 501(c)(3) created by the City of Phoenix.

Critical to the success of these programs is a shared understanding among the Department's stakeholders about the program goals, funding availability, and procedures used to evaluate and allocate the use of City resources. Key stakeholders include:

- Mayor and City Council
- The Department and its funding sources
- Other City, county, state, and federal agencies involved with affordable housing development
- Non-profit and for-profit real estate developers, owners, and social service organizations
- Private sector lending institutions
- Local neighborhood, community, and advocacy groups

The purpose of the *Affordable Housing Loan Program and Underwriting Guidelines* is to describe the Department's housing policy objectives, the range of programs available to advance these objectives, and the manner in which transactions will be evaluated and selected for funding. The overall goal of these guidelines is to ensure prudent underwriting and achieve compliance with applicable Federal, State, and City laws, ordinances, regulations, and policy objectives.

Important policy objectives include:

- Preserve and create quality affordable housing
- Leverage other available private, City, and federal funds in conjunction with Department gap financing
- Ensure that resources promote affordable housing opportunities throughout all areas of the community
- Assist geographically-based neighborhood revitalization efforts
- Further "smart growth" goals of the City including environmentally sensitive development and transit-oriented development
- Assure that each development will be professionally managed
- Minimize City risks by encouraging high performing projects that ensure future Department subsidies are used for additional projects rather than prior City-assisted projects

The City of Phoenix Housing Department provides financing for a range of housing programs utilizing funds from different sources including Federal HOME and CDBG funds, Federally authorized tax-exempt private activity bonds, and locally issued City of Phoenix Taxable General Obligation Bonds. Each funding source is subject to specific regulatory restrictions.

Types of Development Financial Assistance

Affordable Multifamily Rental:
Acquisition, rehabilitation, and construction of multifamily rental housing.

Special Needs Housing:

Acquisition, rehabilitation, and construction of supportive housing for special needs populations such as victims of domestic violence, persons recovering from substance abuse and developmentally disabled persons.

Homeownership:

New construction of affordable single-family homes.
Homeownership assistance for low-income first-time homebuyers.

Funding for Department programs changes annually, and is established as part of the annual City budget process.

Program Funding Allocation for FY 2007-08

<table>
<tr><th>Program</th><th>Fund Type</th><th>Amount</th></tr>
<tr><td>Gap Loans – Affordable Rental Housing Component</td><td>HOME
CDBG
General Obligation Bonds</td><td rowspan="3">$9.1 million</td></tr>
<tr><td>Gap Loans –
Special Needs Housing Component</td><td>HOME
CDBG
General Obligation Bonds
HOPWA</td></tr>
<tr><td>Homeownership</td><td>HOME
CDBG</td></tr>
<tr><td>Community Priority Projects</td><td></td><td>At least 50%</td></tr>
</table>

Note: These balances change frequently based on funding awards, program license and cancelled projects.

Policy Background

The City has adopted policy guidelines for program development. Two key documents that embody the objectives and goals of the City are the General Plan and the Consolidated Plan. The City's General Plan can be viewed at http://phoenix.gov/PLANNING/gpindex.html and the two most related elements to the Housing Department are summarized below.

GENERAL PLAN: HOUSING ELEMENT GOALS – SUMMARY

Goal 1 Housing Development: All housing should be developed and constructed in a quality manner.

All housing, including affordable housing, should be designed and developed in a quality manner to ensure the health and safety of individuals and the long-term viability of neighborhoods. Quality housing development means: i) utilizing durable construction materials that promote the health and safety of the residents, ii) constructing housing in accordance with building codes and the zoning ordinance to ensure a safe structure for the occupants, and iii) designing housing and subdivisions that are attractive, safe, functional, and energy efficient.

Goal 2 Housing Choice: A diverse choice of housing should be provided in all Urban Villages of the City to meet the needs of all households.

A mix of housing choices needs to be provided in each Urban Village to allow people to live near where they work, as well as to support each village's economic viability. Housing choice also provides greater economic and educational opportunities for lower-income households. Housing choice involves a mix of quality housing types, sizes, and prices for owners and renters.

Goal 3 Special Needs Housing: The City should encourage development of housing units suitable to residents with special needs such as, but not limited to, the disabled, elderly, and homeless persons.

Persons with special needs often have a difficult time finding suitable housing. Special needs populations are primarily those persons needing some level of supportive housing and services that enable the person/household to live as independently as possible.

Goal 4 Fair Housing: Members of the community should not be denied or limited in their choice of housing because of unlawful discrimination.

The City of Phoenix Fair Housing Ordinance prohibits housing discrimination on the basis of race, color, religion, sex, national origin, familial status, and disability. The City of Phoenix Equal Opportunity Department enforces this ordinance.

Goal 5 Housing Conditions: All housing in the community should be maintained in a decent, safe, and sanitary condition for its useful life.

Goal 6 Housing Development and Community Character: Housing development of all types and prices in each Urban Village should enhance the character of the Urban Village and facilitate orderly neighborhood and community development.

GENERAL PLAN: CONSERVATION, REHABILITATION & REDEVELOPMENT ELEMENT GOALS – SUMMARY

Goal 1 Historic, Cultural and Character Preservation: Our rich heritage should be preserved and protected.

Historic and cultural preservation, along with conservation of unique neighborhoods and development patterns, contribute to community pride, investment and redevelopment. Older and obsolete buildings that contribute to neighborhood character can often be rehabilitated or adapted to new uses.

Goal 2 Property Preservation: Preservation, maintenance, and improvement of property conditions should be promoted to ensure Phoenix neighborhoods are attractive and desirable places to live.

Good property conditions make for more livable, attractive and identifiable neighborhoods, which are better able to support private reinvestment. The City's Neighborhood Services Department administers a variety of programs including Target Area Redevelopment, Historic Preservation, Neighborhood Fight Back, and Rental Renaissance that can be readily coordinated with the affordable housing development programs.

Goal 3 Comprehensive Neighborhood Revitalization: Comprehensive and sustainable economic and community development should be implemented.

The Neighborhood Initiative Areas program provides a concentrated and comprehensive focus of resources to address social, economic and physical needs and revitalize targeted neighborhoods. Components include code enforcement, blight abatement, housing rehabilitation and development, neighborhood economic development, Graffiti Busters, neighborhood capacity building and training, and coordination with programs of various city departments and private agencies.

Goal 4 Adaptive Reuse of Obsolete Development: Reuse of vacant structures and substantial rehabilitation of obsolete buildings should be encouraged.

While much of this program focus is the rehabilitation of commercial properties, it provides an opportunity for the adaptive reuse of obsolete nonresidential structures and their conversion to housing.

Goal 5 Elimination of Deterioration and Blight: Prevention or elimination of deterioration and blight conditions should be promoted to encourage new development and reinvestment.

To aid local redevelopment efforts, the federal government established the Community Development Block Grant program which requires an emphasis on low- and moderate-income neighborhoods. The City Council has adopted 15 redevelopment plans which aid efforts to revitalize Target Areas. Programs include the acquisition of vacant, underutilized and blighted parcels for appropriate redevelopment, infrastructure upgrades, and public transit improvements.

Goal 6 Leverage Public Resources: Business and community-based efforts to stabilize and enhance neighborhoods should be promoted.

Public resources should be strategically used as a catalyst to improve confidence and encourage others to participate in conservation, rehabilitation, and redevelopment efforts. Community partnerships with city departments are encouraged to access city programs and solve neighborhood problems. A key policy is to provide assistance to non-profit and community development corporations whose missions are consistent with neighborhood revitalization.

The Housing Department addresses the five following Housing Priority Areas that are listed below. For further details on the Housing Priority Areas and to view the Consolidated Plan in its entirety please visit the Neighborhood Services Department website at **http://phoenix.gov/GRANTNSD/conplan.html**.

Housing Priority Areas:

1. Provide homeownership opportunities to first-time homebuyers, particularly for low- and moderate-income families with children.

2. Provide quality affordable rental housing opportunities for low- and moderate-income households primarily through the acquisition and rehabilitation of existing properties.

3. Provide assisted rental housing opportunities (rental subsidies) to low-income families, elderly, homeless persons and other persons with special needs.

4. Promote supportive services and facilities for frail elderly, disabled persons, low-income families (renters), or other persons with special needs.

5. Promote and participate in a regional Continuum of Care system that will effectively transition persons who are homeless to appropriate permanent housing settings.

CHAPTER 1: Affordable Multifamily Rental Housing—Gap Loan Program

In recognition of the potential that varying market conditions and opportunities will impact Phoenix communities in different ways, the Department assists projects that meet a variety of Housing Production Strategies. Projects meeting general goals may be further restricted for occupancy by a range of lower income residents, seniors, or a specifically identified special needs population.

1.1 Citywide Affordability Projects

1.1.1 Citywide Acquisition of Existing Rental Properties

A. Program Purpose: This strategy targets the acquisition of existing, good-quality, apartment complexes throughout the City and the imposition of affordability restrictions.

B. Eligibility: Extensive rehabilitation (i.e., major system upgrades) is not required. However, projects should be of above-average quality and provide design and amenities appropriate for continuing marketability.

C. Financial Guidelines: Qualifying properties should demonstrate that the total development cost (purchase price, closing costs, necessary rehabilitation, and allowable developer fee) per assisted unit and Department financial participation per assisted unit are lower in comparison than it would be for a New Construction or Acquisition / Rehabilitation project, as stated next.

1.1.2 New Construction – Affordable Rental Housing

A. Program Purpose: This strategy targets the construction of new, strategically located, affordable rental developments. The program seeks to add construction of new affordable units in areas where affordability is needed and not already saturated with new rental units, so not to negatively impact existing market dynamics.

B. Eligibility: Qualifying properties may be located throughout the City to meet the Citywide affordability objective, so long as local market conditions do not evidence an elevated level of vacancy.

C. Financial Guidelines: Projects should demonstrate that the City funding requested does not exceed the amount of subsidy that would be necessary to acquire an existing comparable property. Exceptions to this guideline may be warranted in cases where no comparable properties exist.

1.1.3 Acquisition/Rehabilitation or Rehabilitation

A. Program Purpose: This strategy targets stand-alone rehabilitation, or rehabilitation in conjunction with a purchase, of properties that require significant levels of repair in order to eliminate blight or contribute to neighborhood redevelopment objectives.

B. Eligibility: The development proposal must include any renovation necessary to correct existing physical deficiencies, equip the property to compete effectively in the local market area, and assure that property operating costs and capital improvement needs are predictable and at a reasonable level throughout the term of the City's loan.

C. Financial Guidelines: Qualifying projects should be feasible with a total development cost that compares favorably with the cost of New Construction or Acquisition alternatives stated above.

The Department seeks to promote the creation and retention of affordable rental housing units and projects for low-income individuals and families throughout the City and encourages mixed income development. Affordability will be obtained through the following objectives:

A. Affordability restrictions will extend for the entire term of loan. When the City provides a loan that is repayable only from a portion of residual cash flow rather than a loan payable on a fixed schedule the length of affordability will be 40 years.

B. The aim is to provide affordability Citywide and assure long-term affordability in neighborhoods throughout the City by:

   1. providing assistance for units in areas that have proportionately fewer affordable housing choices,

   2. assisting only properties that are, or upon rehabilitation will be, high quality, attractive and competitive properties and will be maintained in a way that increases or sustains neighborhood stability.

C. Affordable units receiving City assistance should have rent levels at least 10% below market level rents in the same property or comparable properties. The rents may not exceed the Phoenix required rents found in Attachment J of this chapter.

D. The measure of this program and of City investment is the number of high-quality units that the City can restrict at current rents for residents below 50% of median income.

E. The Citywide affordability program should encourage the most efficient use of City funds (e.g., lowest City cost per unit while achieving affordability goals) to obtain long-term affordability for tenants below 50% of median income in higher quality, well-maintained buildings.

The Department also seeks to create and retain affordable housing opportunities through the development of Community Priority Projects.

1.2 Community Priority Projects

A. Program Purpose: This strategy targets the development or rehabilitation of properties that address specific community development objectives, including blight elimination, neighborhood revitalization, targeted infill “smart growth” projects, transit oriented development, etc. Projects may be either new construction or acquisition with rehabilitation, may be mixed-use, and will most often provide mixed-income housing that serves a variety of income levels.

B. Eligibility: Qualifying properties must comply with Community Priority Project objectives which will be established periodically by the City.

C. Financial Guidelines: The applicant must demonstrate that the project is financially viable and complies with City goals. Competing proposals for the same site or objective will be compared based on the overall benefit provided to the City, City funding required, strength of the development team, etc.

The following objectives will assist in the development and retention of affordable housing units:

A. The City will adopt a set of specific priority projects in this category.

B. In contrast to the objective of Citywide Affordability, the City will also assist in acquisition-substantial rehabilitation of a blighted property, an historic property, or new construction on a vacant site where such rehabilitation or construction is essential to the plan for a City-designated comprehensive development effort.

C. Projects may be solicited for specific neighborhoods, priority areas, or sites. Success for these projects is measured by whether the project significantly enhances neighborhood revitalization and encourages spin-off reinvestment efforts nearby, or furthers City goals for transit-oriented or "smart" growth.

D. While mixed-income projects are encouraged, City funds are limited to units set aside for residents at or below 60% of area median income.

E. The required affordability period will be based on the specific objectives established for each Community Priority Project.

F. Key qualifying criteria will include:

Certification by a collaborating City department that the project proposal will contribute to a comprehensive development effort for the area or site.

Input by community groups and neighborhood organizations during the project planning process.

1.3 Availability of Funds

The Department provides a variety of funds (including HOME and General Obligation Bonds) for this program, in amounts established annually by the City for each fiscal year. Decisions regarding which type of funding to utilize for a specific loan will be made by the Department and may impose different regulatory requirements on fund recipients as described below.

HOME funds require more extensive environmental review to comply with Federal National Environmental Policy Act (NEPA) requirements, require compliance with HUD's Housing Quality Standards as well as Phoenix Housing Quality & Rehabilitation Standards, and impose Davis-Bacon Act wage requirements if 12 or more units are assisted. Further, HOME regulations require the City of Phoenix to repay the funds to HUD if HOME affordability restrictions are eliminated during the minimum HUD compliance period. Thus, the Department may elect to avoid providing HOME funds to projects where the Department's affordability restrictions must be subordinated to a senior mortgage lender, such as the FHA program.

1.4 Loan Terms

A. <u>Loan Limits:</u>

- Loans are limited to $2,000,000 per project citywide except the department may consider up to $3,000,000 only in High Priority Villages to support the City's dispersion goals or selected Community Priority Projects.
- HOME program loans are further limited in accordance with Federal regulations based on unit mix and project size (including per unit limits).
- Current program loan limits are summarized in <u>Attachment K</u> of this chapter and are subject to change per HOME rules.

- Applicants may receive no more than three program loans each year, however, existing loan performance, risk, and organization's financial capacity will all be taken into consideration before a decision to award a loan is made.
- Applicants for loans greater than $400,000 must demonstrate that they have structured projects to maximize other available financing sources (e.g., conventional mortgage debt, other public subsidies, tax credits, etc.) thereby limiting Department funding to the lowest feasible amount.
- Applicants must demonstrate an expectation that any City loan can be repaid within its scheduled term utilizing assumptions consistent with the Department's underwriting criteria described below and found in Attachment A of this chapter.

B. Term:

- Permanent loan maturity will coincide with the term of senior debt, to a maximum of 40 years (a period of time will be allowed for acquisition and construction activities prior to start of permanent loan phase)
- Specific loan terms will be determined based on project requirements

C. Repayment:

- Payments may not be required during the acquisition and construction phase.
- Permanent phase loans may be divided into two components based on available cash flow, each with different repayment terms. Upon completion of construction (or other fixed date), loans shall begin to accrue interest and be subject to repayment under one or both of the following arrangements. Any accrued but unpaid interest and principal is due in full at loan maturity.

  - Funds are to be repaid based on a projected 1.15 minimum combined debt service coverage ratio (DSCR) amortized monthly or other agreed upon installment, over the approved term.

  - If full amortization is not feasible due to limited cash flow, funds shall be repaid from an agreed upon percentage split of residual cash flow on an annual or bi-annual basis. Applicants must provide quarterly financial statements to demonstrate the calculation and accrual of applicable residual receipts funds.

- Residual cash flow is defined as: the sum of all project revenue (including rents, other income, interest earned on reserve accounts, etc.) less project operating expenses and contributions to reserve accounts, less debt service payments on senior loans. The amount of reserve contributions shall be specifically approved by the Department in the final loan agreement or through the annual budget review and approval process, and will typically match reserve requirements imposed by state housing programs when those programs are utilized. Operating expenses shall be determined on a GAAP accounting basis, and shall not include any payments to parties affiliated with the borrower, to the extent that such payment exceeds the typical cost of procuring equivalent services from an unrelated third party. The department may update this definition from time to time.

D. Interest Rate:

- 0% during construction
- 2% upon conversion to permanent phase (all amortized)
- 4% upon conversion to permanent phase (paid from residual receipts)

E. Affordability Covenants: All projects are subject to affordability restrictions which limit resident incomes and rents paid based on levels of AMI established annually by the U.S. Department of Housing and Urban Development. At least 20% of the units receiving Department financial assistance must be reserved for households whose income does not exceed 50% AMI, and remaining assisted units must be reserved for households whose income does not exceed 60% AMI.

At the discretion of the Department, income limits applicable to loan programs may be limited to lower levels. The Department's current AMI levels and applicable rents, which are adjusted for family size and change annually, are shown in Attachment J of this chapter. Projects may provide varying levels of affordability based on demonstrated community need, the City's Housing Dispersion Policy, and the development financing structure utilized.

A minimum affordability period of 40 years is required whenever the City's loan is provided on a residual receipts basis.

F. Security: A Deed of Trust, UCC Financing Statement, Promissory Note, contract assignments, and Special Warranty Deed or Declaration of Affirmative Land Use Restrictions will be required for every loan and personal guarantees as required by the department.

G. Subordination to Senior Debt: The Department's loan and affordability covenants may be subordinated to another lender's mortgage lien if subordination is required as a condition of that lender's loan approval. Senior debt must be provided on a fully amortizing basis without a balloon payment for at least 18 years.

H. Loan-to-Value / Loan-to-Cost Limits: A loan-to-value limit is not applicable. However, the property purchase price must not exceed current fair market value, as substantiated by an independent appraisal acceptable to the City.

At least 10% of the total development cost must be funded by a source other than the City, such as private debt borrower, equity or other grant funds.

I. Debt Service Coverage Ratio (DSCR): Repayment terms for Department debt will be structured as described above under *Repayment* and will be based on a DSCR of 1.15.

J. Recourse: Acquisition, Construction, and Permanent Loans are provided on a non-recourse basis and are secured by collateral except as noted above. Loans may be cross-collateralized against properties included in the same financing transaction.

K. Allowable Use of Funds: All costs necessary for site acquisition, construction, energy conservation, landscaping, and/or rehabilitation attributable to the affordable units of the project are allowable. Costs associated with commercial space, childcare, or social service space in mixed-use projects may be included in the total development cost budget, but may not be paid with Department funds.

L. Funding Conditions – Predevelopment Phase: Funds will not be released for predevelopment loan purposes.

M. Funding Conditions – Acquisition Phase: Loans for site acquisition will not be funded unless all pre-conditions to the Construction Phase funding have also been achieved. Exceptions may be considered for HUD 811/202 program loans and Community Priority Projects in redevelopment areas where there is a policy related to land assembly. Acquisition loans must record in first lien position.

N. Funding Conditions – Construction Phase: Prior to, or concurrently with, Construction Phase funding, the borrower must provide evidence that all other necessary construction funding sources have been committed and closed, that binding commitments are in place for all sources of permanent "take out" financing, that building permits have been approved and are ready to issue, and that a bonded, fixed price general contract has been executed and is based on the final approved plans and specifications.

O. Transfer: Loans or loan commitments are not assignable or transferable without the prior written approval of the Department. Generally, Acquisition and Construction Phase loans are not transferable, but the Department will consider the transfer of Permanent Phase loans upon confirmation that the property is operating in accordance with all regulatory agreements, remains financially viable, and the capacity and creditworthiness of the proposed transferee is demonstrated. If the transfer is approved, the transferee must assume all loan obligations including, but not limited to, the affordability requirements.

P. Construction: Housing or site construction may begin only with the express written approval of the Department (a preconstruction conference must be held among the Department, developer, and contractor, and the Department must issue a Notice to Proceed).

Q. Fair Housing and Affirmative Marketing: The Developer will be obligated to comply with Department policies and all applicable federal, state, and local laws, codes and ordinances regarding nondiscrimination in the rental, sale, and occupancy of the units.

R. Prevailing Wage Policy: All applicants receiving acquisition or construction funding from HOME funds that assist 12 or more units or construction funding from CDBG funds that assist a project with 8 or more units must comply with Federal Davis-Bacon wage requirements.

1.5 Application Processing Flexibility and Predictability

In order to be responsive to opportunities while assuring predictability and efficiency in leveraging other resources, the City allows applicants to apply in two ways depending on the type of request.

A. Citywide Affordability Loans up to $400,000:

Applications for these loan types can be submitted by the 1st of any month during the year. On the 1st, staff assignments will be made on any applications received by that date. Each application form will include a standard checklist of items to be submitted by the applicant.

City review, recommendation, and City Council authorization, if approved, typically occurs within 90 calendar days. A closing schedule will also be part of the application, with closing of the loan expected within 90 calendar days of City Council approval unless otherwise extended to meet a State tax credit or other funding source deadline or environmental clearance.

B. Citywide Affordability Loans of > $400,000 and Community Priority Projects

Applications will be considered on a scheduled basis, and must be submitted no later than 60 calendar days prior to the deadline for the State Tax Credit rounds. In addition, one submission date will be set between each date tied to the State due dates. It is the developer's responsibility to monitor these deadlines and plan the City loan application submission date accordingly.

Loan approvals will be conditional upon receipt of tax credits or other agency financing in such amount that the City loan will not increase. The City will accept a copy of the State's Housing Fund application in lieu of the City form (if applicant has applied for low income housing tax credits only from the State, the applicant must utilize the City's application form and follow-up with a copy of the tax credit application when completed or submitted to the State).

The purpose of this approach is to enable thorough review of major loan requests prior to the time a commitment letter is needed from the City for other funding applications. This approach also allows the City to compare project costs, per unit loan requests, project readiness and other information among projects in order to select those that best achieve City objectives.

Assistance to Projects

The purpose of City loans is to assist qualifying projects, i.e., the City will only make loans that are part of a specific project transaction. The City will not make loans that are unsecured or lack sufficient collateral. Loan requests will be reviewed based on the merits and economics of the project and the full capability of the borrower and development team with successful past experience with similar type and scale of projects.

The City will not financially participate in the refinancing of a non-profit owned project where there is cash out to the non-profit agency. The City does not intend to participate in a transaction where a non-profit owner receives cash back in the refinancing or sale of a property for a profit or gain. This includes other transactions with similar results.

Avoiding and Dealing with Project Performance Problems

The City will not advance additional funds for projects it has previously assisted. Program funds are designed to create new or additional affordable units. Any additional funds or write-offs are the responsibility of the developer, investors, tax credit partners or the first mortgage lender. The City will not be subordinated to these additional investments.

The City, at its sole discretion, may consider the allocation of additional funding to non-profit developers experiencing extraordinary cost increases realized between the date of initial City Council funding approval and end of construction. However, the City will look for additional public benefit and/or greater return on its investment. The City will not retroactively consider such requests.

As one of several lenders, the City may consider forbearance agreements on the same or similar terms provided by senior lenders. Consideration of forbearance to a project with an existing City loan requires an application, new set aside units, and a new review of the project.

The City may consider funding requests for troubled projects it has not previously assisted on the same basis of evaluation as it considers new loan requests, whereby additional affordability will be required in exchange for the City loan. If a troubled project will continue to be owned by the current owner, it must demonstrate at least a 1.20 debt coverage based on actual rents and expenses and the terms of all debt after the proposed restructuring.

1.6 Threshold Application Requirements

Gap Loans: Gap Loans are designed to provide funds during the acquisition, construction and/or permanent financing phase of a development, in an amount equal to a project's feasibility gap. The feasibility gap is the amount of funding required to create a financially viable transaction after considering the impacts of affordability restrictions, location, and market conditions. The project should reflect full repayment of the loan through debt service and compliance with the affordability period.

Projects requesting Gap Loans shall comply with the following criteria:

A. Eligible Borrowers: For-profit and non-profit developers, acting individually or as participants in a limited partnership or limited liability company, are eligible applicants. Non-profit developers must provide evidence of IRS Section 501(c)(3) status.

B. Borrower Experience: Applicants must demonstrate their capacity to complete the project (i.e., adequate predevelopment funds, financial commitments from other participants, completion of similar types of projects, community support, extensive staff member experience, etc.) Credit checks will be required for applicants. Applicants having past experience with the Department or other City agencies should submit a list of prior projects with corresponding dates of completion and current loan status.

C. Eligible Projects: Proposed projects must provide required levels of affordability, demonstrate financial feasibility, and be consistent with the City of Phoenix Consolidated Plan and Housing Dispersion Policy (see Attachment G).

D. Application Form & Exhibits: The applicant must submit a complete application with all required attachments

E. Market Study: The Department will require an independent appraisal and may require a market study to verify adequate demand for the proposed development, proposed rent levels, operating expense and reserve levels, etc. A market study meeting the guidelines of the Arizona Department of Housing is appropriate for this purpose. For loan requests less than $400,000, the Department may consider competitive market comparison data provided by the applicant in lieu of a formal market study, but reserves the right to require independent reports at its sole discretion.

F. Relocation: It is the City's policy to avoid relocating households whenever possible. Acquisition of currently developed parcels that include occupied dwellings or businesses must include specific plans for relocation pursuant to the Uniform Relocation Act. The relocation plan must be approved by the Department, and must describe the credentials and experience of the party responsible for administering the relocation process. Relocation must be part of development cost. Projects will be evaluated for relocation impacts, including: i) how many households will be expected to move permanently from the complex and ii) what would be the cost of permanently relocating the residents.

G. Community Outreach Statement: Applicants must submit a statement which explains to what extent input from the community was included in the development of the proposal. Letters of support may also be submitted with the application.

1.7 Basic Requirements For All Applications

The following basic requirements apply to all the loan programs:

- *Feasibility Assessment:* Due to market location, prevailing economic conditions, low income rent targeting, or property operating costs, the typical affordable housing development is economically infeasible but for some degree of public financial assistance. The Department may provide assistance to projects in the amount minimally required to create financial feasibility.

- *Affordability Targets for Rental Housing:* A project should provide housing to mixture of incomes, with a minimum of 20% of the units set aside for households with incomes at or below 60% of Area Median Income ("AMI"). All units assisted by the City must offer rents at least 10% below comparable open market rates. At least 20% of the City-assisted units must serve households with incomes at or below 50% AMI, and all remaining City-assisted units must serve households with income at or below 60% AMI.

- *Leverage Objective:* Prior to submitting a funding application to the Department, the developer shall demonstrate efforts to effectively leverage the use of public and private funds for the proposed project by identifying other available programs and designing the project to qualify for relevant sources of assistance.

- *Loan Security:* Department financial participation shall be in the form of loans, and shall be secured by a recorded Deed of Trust and UCC Financing Statement and personal guarantees, as required by the department.

- *Continuing Affordability:* A Special Warranty Deed or Declaration of Affirmative Land Use Restrictive Covenants will be recorded to ensure compliance with applicable regulatory restrictions. The length of affordability will be determined independently of the amount or length of the City's loan, and may exceed the loan term. Generally, required affordability will range up to 40 years and will survive foreclosure.

- *Economic Viability and Dispersion Goals:* Development proposals shall appropriately consider prevailing market conditions such as vacancy levels, rent comparability, neighborhood impact, and the City's Dispersion Policy to ensure that projects are well located and contribute to neighborhood stability and vitality.

- *Environmental Assessment (EA) and Clearance:* All projects must undergo an environmental assessment before funds may be released. If federal funds are involved in the project through a City loan or other, no project acquisition (exempting reasonable down payment costs) or construction activities may take place after application submittal and prior to the completion of the environmental clearance process, regardless of the source of funds.

- *Consolidated Plan Consistency:* The programs and projects must serve a balance of families, senior citizens, and special needs populations. The specific weight given to each program and project will be consistent with the City of Phoenix Housing Element and Consolidated Plan.

- *Readiness:* Federal subsidies often require that funds committed be expended within a fixed time period. Therefore, projects submitted must demonstrate their readiness to begin implementation.

- *Equal Opportunity / Affirmative Action:* All suppliers, contractors and lessees wishing to enter into a business relationship with the City of Phoenix must comply with either Article IV or V of Chapter 18 of the City Code, as appropriate. Compliance is achieved by submission of the affirmative action reporting forms. Forms may be obtained at http://phoenix.gov/BUSINESS/affactio.html or from the Equal Opportunity Department, Affirmative Action Division, 251 W. Washington St., 7th Floor, Phoenix, AZ 85003-2107, Tel: (602) 262-6790. The Phoenix Housing Department encourages the use of Minority Business Enterprises (MBE), Women Business Enterprises (WBE) and disadvantaged firms in carrying out all of its loan programs. A directory of City certified MBE/WBE firms can be found at http://phoenix.gov/EOD/newcerts.html.

- *Development Standards:* After rehabilitation or development, all properties must meet the federal Housing Quality Standards and the Phoenix Rehabilitation Standards. The standards ensure long term viability of the property. The standards include minimum accessibility standards as well.

- *Waiver Requests:* Waivers are discouraged and will only be considered where waiving the technical guideline will better serve the objective from Chapters 1 & 2 that the project is designed to fulfill. The applicant must demonstrate that unique circumstances apply to the project.

1.8 Evaluation Criteria

Applications received pursuant to an RFP will be evaluated in accordance with the RFP criteria and Department project objectives.

Applications seeking funding through the Department's normal funding cycles will first be reviewed for compliance with Threshold Application Requirements. Thereafter, applications that meet program thresholds will be scored based on the extent to which they address Department funding priorities found in Attachment E of this chapter. Applications that achieve the minimum threshold score established by the Department will be considered for funding. In the event that insufficient funds are available to meet the requirements of all qualifying applications, the highest scoring applications that are ready to proceed will be funded first.

Citywide affordability applications received pursuant to an open application process must also comply with Threshold Application Requirements and achieve a minimum threshold score in order to be considered for funding. After staff has verified that an application is complete, open applications will be considered for funding in the order they were received and/or are ready to proceed.

Evaluation Criteria Applicable to All Applications:

- Applicant Capacity: Applicants must demonstrate that its organizational and staffing capacity is sufficient to complete the proposed project without undue reliance on Department staff. Prior experience of the organization, its staff members, and consultants in planning and completing projects of a similar type and size will be considered. The applicant should also demonstrate that it possesses sufficient working capital or donated funds and services to advance the project through the predevelopment phase.

- Project Need: Applicants must identify the housing need being fulfilled by the proposed project. Local neighborhood demographics, real estate market data (comparable supply and vacancy levels, rental rates, amenities, etc.), and a description of special programs being offered or resident populations being served will be considered. Projects achieving the most affordable rents for eligible households for the longest time period will generally be evaluated most favorably.

- Project Timeline: Applicants must submit a development timeline identifying major development activities, responsible staff, deadlines, funding application dates, etc. to demonstrate the viability of the proposed development and assist the Department in evaluating the capacity of the development team and likelihood that the project will succeed.

- Construction & Design: Applicants must include a proposed site plan identifying the location of residential units, commercial uses, and community facilities and amenities. An elevation rendering and floor plans of the proposed development must also be included, accompanied by a written narrative describing design considerations such as: unit mix, unit size, amenities provided, construction type, energy conservation and accessibility features, architectural style, site plan layout, security and access issues, parking plan, and relationship of the scale, setbacks, and proposed design to adjoining properties.

- Supportive Services Plan & Experience: Applicants must describe the target population and types of supportive services that may be appropriate for the population in order to enhance the community benefit of the project and living conditions for future residents. Examples of such services include, but are not limited to, tutoring, job training, childcare, transportation, counseling, healthcare coordination or access.

The experience of the applicant and proposed property management firm in providing similar services to this population, and specific efforts that the applicant will undertake to provide appropriate services must be described.

- Property Management & Management Plan: Applicants must describe the experience of the proposed property management firm in successfully managing properties of similar size and resident type. A management plan must be included that describes significant management policies including security, marketing programs, eviction process and any financial considerations (i.e., affordable rent levels, resident income, sources of project operating subsidy required) that have an impact on project operating policies. Applicants that propose to self-manage their properties must demonstrate a successful track record managing comparably sized and financed projects.

- Development Financing Plan: Applications should include the Department's *Standard Underwriting Assumptions* contained in Attachment A of this chapter. Applications must demonstrate that the applicant has performed sufficient financial due diligence to minimize the likelihood that the proposal must be renegotiated prior to closing the Department's loan.

- Community Outreach: The development of affordable housing can be controversial. The existence of some community opposition should be anticipated in each transaction and does not indicate an ill-conceived or poorly located project. Applicants should begin to develop a base of community involvement early in the predevelopment process. Applications must include a statement of community outreach activities conducted and describe any community input received regarding the proposed project.

- Funding Commitments: Applications should include evidence that other necessary funding commitments (e.g., conventional construction and permanent loans, other subsidies and loans, low income housing tax credits) have been obtained. If applications to other funding programs will be required in the future, information should be included to demonstrate that the proposed structure is expected to meet relevant program requirements and provides a high likelihood of success. The applicant must provide a copy of the application to be submitted to other funding sources, and must certify that consistent financial projections have been provided to each funder.

- Identified Risks: All development projects are subject to elevated levels of risk at the early stage of the predevelopment process. To assist both the applicant and Department in reasonably assessing and mitigating these risks, applications must identify any significant issues that could delay or prevent the proposed transaction (e.g., zoning actions required, environmental issues, site control issues, neighborhood or market conditions, unusual funding assumptions, etc.)

1.9 Processing Timeframe

- Applications for loans up to$400,000 may be submitted by the first day of any month.

- Loan requests of up to $400,000 may qualify for an expedited feasibility review process.

- Loan requests of greater than $400,000 are subject to a more extensive feasibility review process.

- Applications for projects that involve low income housing tax credits, tax-exempt bonds, or other public agency financing programs must be submitted at least 60 calendar days prior to the application deadline for the other funding programs. The Department will consider these applications on a quarterly basis. Loan requests will generally be reviewed within 60 calendar days of submission and disapproved or recommended to City Council for approval.

- Applications in response to a special RFP or NOFA must be submitted by the stated due date.

1.10 Overall Application Processing Procedure

Processes are described in the following phases:

- Pre-Application Review
- Application
- Evaluation
- Commitment
- Funding
- Performance
- Compliance & Monitoring

<u>Pre-Application Review Phase</u>

Prior to receipt of a loan application, Department staff is available to address questions from potential developers and provide pre-submittal consultations regarding specific project concepts. While such consultations do not commit the Department to fund a particular proposal, they provide valuable insight into the prospective benefits, funding availability, and issues associated with a potential development.

This process is mutually beneficial to the Department and developer and is encouraged. Early knowledge of the project enables staff to begin performing a variety of regulatory reviews (including archaeology, environmental impacts, flood, Sec. 404, etc.) and avoid undesirable delays at a later point in the development cycle. Developers are encouraged to notify the Department by submitting a written "Interest Letter" as early as possible in the development process – please refer to Attachment C regarding the Environmental Review process.

IMPORTANT NOTE: If after applying for City of Phoenix Housing Department funds, federal funds are required to make a project feasible, then the following items need to be completed prior to any activity or expenditure of funds from any source on the project:

- **Federal regulations require an environmental assessment must be completed and a Release of Funds obtained from HUD.**
- **City of Phoenix Council approval for commitment and expenditure of funds must also be obtained.**

<u>Application Phase</u>

Applications are submitted through an open application, site-specific RFP, or NOFA process depending upon the loan program. Department staff is available to address questions from potential developers regarding program objectives, specific application requirements, funding program regulations, and project proposals.

Applications must be submitted at least 60 calendar days prior to the date upon which an official Department action (including letters of support, conditional commitments, etc.) is required. This period provides adequate time for the Department to carefully review applications and provide consistent service to all applicants.

- *Communication:* The Department will send each applicant an acknowledgement that the application has been received within 7 days

<u>Evaluation Phase</u>

Upon receipt, each application is assigned to a Department staff member for review. Applications are first reviewed for completeness, then for compliance with all applicable threshold requirements, and finally for individual feasibility and scoring purposes. To achieve consistent review and comparison among competing proposals, the Department may assign the same sections of multiple applications to a single reviewer rather than assigning a single application to a single reviewer in its entirety.

- *Communication:* Applicants will be notified which staff member has been assigned to manage the application review and whether the application has passed the threshold review. At the discretion of Department management, applicants may be given specific time frames to respond to deficiencies in their proposals prior to being disqualified. Applicants who fail to respond within the prescribed period will be dropped from the review of applications.

During the process of application evaluation, Department staff will perform a range of underwriting tasks and will prepare a staff recommendation containing a written loan underwriting narrative with accompanying financial schedules.

- *Communication:* The staff member will discuss the staff review, concerns, and issues with the applicant as needed.

The staff recommendation will then be reviewed by a Department loan committee and management and approved, approved with conditions, or declined.

- *Communication:* Applicants will be notified of the loan committee decision within 3 calendar days following the decision date. A decision will be made within 60 calendar days after receipt of an application.

Final loan approvals will be issued as soon as possible thereafter, using one of the following methods:

1. Projects ready for immediate funding will be presented to Department management, and to City Council if applicable, for final approval.

2. Projects with longer lead times may be issued a support letter that can be used for purposes of requesting funding from other sources to complete the project financing requirements. The support letter will also serve as a conditional funding reservation for a specified period of time. The Department may decline to fund applications whose funding reservations have expired.

   Prior to expiration of the conditional reservation, and upon receipt of evidence from the applicant that other necessary funding has been obtained and the project is ready to proceed, Department staff will review the transaction to ensure that it remains consistent with the original application. Projects that have changed materially from the original application will be resubmitted to the Department loan committee for approval, and may be approved, approved with conditions, or declined. Projects consistent with their original applications and changed projects subsequently approved by loan committee will be presented to Department management, and to City Council if applicable, for final approval.

- *Communication:* Applicants will be notified of all City Council hearings in advance and final loan approval or conditional funding reservation within 3 calendar days following the management and/or City Council action.

Commitment Phase

Following final loan approval, the assigned housing staff member is responsible for preparing the formal loan commitment and incorporating any special conditions. The Department will also complete any necessary regulatory review and include any required mitigation measures in the commitment.

- *Communication:* Applicants will be provided a copy of the formal loan commitment within 20 calendar days after the date the management and/or City Council action.

Developers that are required to comply with prevailing wage regulations as a condition of their commitments should schedule a meeting with Department staff to ensure that the development team and contractor understand the implication of prevailing wage monitoring on the construction process and that appropriate provisions are included in construction contracts.

Funding Phase

In preparation for loan funding, the designated staff member will perform the following:

- Document Preparation: Completing the final loan documents (Loan Agreement, Promissory Note, Deed of Trust, UCC Financing Statement, Special Warranty Deed or Declaration of Affirmative Land Use Restrictions, as applicable) to include any special funding conditions and mitigation measures required by an environmental review.

- Verification of Closing Conditions: Review all pre-funding conditions of the Loan Commitment to ensure that the borrower has complied with conditions and provided necessary documentation.

Prior to signing of loan documents, applicants may request a meeting with Department staff to review the Department's escrow instructions, conditions for disbursement of any funds, recordation of documents, title insurance policy requirements, and post-closing reporting and compliance expectations.

- Scheduling the Closing: Department staff shall be responsible for scheduling the closing, collecting, and reviewing final loan documents.

- Loan Funding: Prior to disbursement of loan funds, the Department must receive the following:

  - Original or certified copies of executed loan documents
  - Proof of current property tax payments
  - Proof of insurance meeting City insurance requirements
  - Title insurance meeting Department standards
  - Proof of environmental clearance
  - Proof of compliance with prevailing wage requirements, if applicable

Development Phase

Borrowers must comply with various provisions of the loan agreements that begin during the development period. These provisions may include timely submission of construction progress reports, copies of draw requests, project and/or developer financing statements, prevailing wage compliance reports, etc.

A Department staff member will be assigned as the borrower's principal contact during the development process; this person will serve as the focal point for coordinating between the borrower and City departments responsible for the enforcement of Federal, State and Local regulations such as NEPA, MBE/WBE, prevailing wages, etc.

Compliance & Monitoring Phase

Upon project completion, a Department asset management staff member will be assigned to each project. This individual will serve as the borrower's primary contact during the operating phase of the development and is responsible for reviewing continuing compliance with regulatory agreements, each project's financial performance, and verification of timely payment of mortgage payments and any residual receipts payments.

Reporting

Borrowers, as stated in the loan agreements, will be required to periodically report to the Housing Department to ensure compliance. The required reports shall provide information on the beneficiaries (homebuyers, renters, special needs populations) of the Housing Department funding and the financial condition of the borrower/project.

Attachment A: Standard Underwriting Assumptions

- Rental Income:

  Minimum Affordability: Minimum affordability will be based on the ratio of City loan funds to total development cost. Of the income restricted units, at least 20% must be restricted to households below 50% of area median income. Developers are encouraged to provide lower income targeting where feasible.

  Affordable Rents: Each unit must have a designated income restriction level. The scheduled rent for each unit must not exceed 30% of the monthly household income at the applicable income restriction level, and must exclude the appropriate utility allowance. Refer to Attachment J of this chapter for current Phoenix income and rent limits.

  Affordability Benefit: To ensure market advantage for income restricted units, restricted unit rents must be at least 10% below the equivalent unrestricted rent for comparable units (considering size, amenities, location, etc.) as determined by the market study and appraisal.

  Mixed Use: For underwriting analysis in mixed use properties, the income from the residential portion of a project shall not be used to support any negative cash flow of a commercial portion. Conversely, the commercial income shall not support the residential portion.

- Vacancy & Collection Losses:

  Vacancy and collection loss allowances shall be at least 10% for all properties except SROs, which shall be at least 12% (allowances are subject to change according to market conditions). If higher economic vacancy rates are indicated by the market study, the Department may utilize the higher rate. In addition, proposed new construction projects must demonstrate that the prevailing economic vacancy rate in the subject market area is below 7%.

- Operating Expenses:

  Applicants must provide a detailed explanation of proposed operating expenses and the basis upon which each item was estimated (e.g., other similar projects operated by the applicant, market study, appraisal, third party management company estimate, etc.). Requests for loans of greater than $400,000 must include a third party management company estimate.

  Project budgets must utilize operating expenses equal to the greater of $3,500 per unit or the amount indicated by comparative data. This minimum threshold does not include property taxes, replacement reserves, landlord-paid tenant utilities for gas or electric service in master-metered buildings, or the costs of any service amenities provided. Such items must be specifically identified in the budget and estimated as additional expenses. Budgeted expenses should include sufficient detail to enable the Department to evaluate the appropriateness of line items, including proposed staff positions and payroll costs.

  At the Department's discretion, and to the extent that the permanent lender(s) and equity investor are in place and present evidence to the Department that they have agreed to lesser operating expenses, the operating expenses required by this subsection may be reduced by up to 10%.

- Replacement Reserves:

  New Construction: Replacement reserves for all new construction senior projects shall be $250 per unit per year, and $300 per unit per year for all other projects.

  Rehabilitation: All rehabilitation projects must obtain a physical needs assessment and reserve study prepared by a qualified third party property inspector. Replacement reserves must be based on the recommendations of the report, but may not be less than the New Construction reserve requirements stated above.

- Operating Reserves:

  An operating reserve equal to 6 months of operating expense, replacement reserve, and mandatory debt service payments shall be capitalized in the development cost budget. This reserve must remain with the project until such time as the demonstrated DSCR for a continuous 24 month period is at least 1.35. Thereafter, upon the owner's request and Department approval, the reserve may be distributed as surplus cash (and will potentially be subject to sharing with the Department if the project utilizes a residual cash flow loan.)

- Budget Trending Assumptions:

  Out-year calculations shall utilize a 2.5% increase in gross income and a 3.5% increase in operating expenses (including taxes and replacement reserves). Applicants may use more conservative trending assumptions (i.e., a wider spread between income and expense trending rates) if these are warranted for a particular project.

- Debt Service Assumptions:

  Variable interest rate permanent loans shall be considered at the permanent lender's underwriting rate upon submission of a letter from the lender indicating the rate used by it to underwrite the loan. If variable rate debt is utilized, the borrower must purchase and renew an interest rate cap during the life of the City loan to ensure that the project will never pay a rate higher than the assumed underwriting interest rate.

  Debt Service Coverage Ratios

  - All mandatory debt service (other than Department loans), regardless of lien position, must be included in the calculation of DSCR

  - To avoid over-subsidizing projects with an unnecessarily large Department loan, projected DSCR may not exceed 1.30 during any one of the first three years of project operation, unless approved by the Department due to unique circumstances (such as small project size, unreliable rental subsidies, etc.) If projected DSCR will exceed this limit, the borrower will be asked to obtain a larger first mortgage and reduce the Department assistance.

- Design Requirements:

  Mixed Income: Mixed income developments are encouraged, and 100% restricted developments are allowed only in accordance with the Low Income Housing Dispersion Policy.

  Affordable Units Within the Project: The affordable units must be scattered throughout the project and have the same proportional mix, sq. ft., and amenities as non-restricted units.

Minimum Unit Sizes for New Multifamily Construction: 1BR = 650 sq. ft., 2BR = 800 sq. ft., 3BR = 1050 sq. ft., 4BR = 1200 sq. ft. The dimensions of each bedroom must be at least 10' by 12'.

Minimum Unit Size for Single Family Construction shall comply with current City Infill Standards that can be viewed at http://phoenix.gov//BUSINESS/inflhwqu.html.

Quality: Project amenities and construction quality must be at least comparable to good quality market rate rental units in the surrounding areas, as determined by a market study.

Attachment B: Developer Fee Guidelines

Developer Fee Overview

In recognition of the time, effort, overhead costs, and risk associated with the development of an affordable housing project, a developer fee is commonly included in the total development cost budget. The amount of the fee which may be eligible for tax credits under the low income housing tax credit program is limited by Arizona Department of Housing (ADOH) regulations.

Developer fee includes payment for basic project planning and financing tasks the developer must perform, whether these activities are performed by the developer's staff or by third party consultants. Examples of such services include: entitlement processing, construction management, and financial structuring of tax credit projects.

Payment of developer fee is limited by the amount of cash available in the development budget. Frequently in multifamily development projects, financing sources are insufficient to pay 100% of the allowed developer fee. In this case, a portion of the fee may be deferred and is reflected by a deferred developer fee note. Such a note obligates the property owner (often a partnership or LLC) to pay a specified portion of the future project cash flow to the developer until the note is repaid. In tax credit projects, the tax credit investor typically requires this projected repayment period to be complete within 10-15 years, thereby limiting the amount of fee that can be deferred if anticipated cash flow is modest.

Allowable Developer Fees

The Department will allow the following developer fees to be included within the development cost budget; however, they may not be eligible costs for direct City reimbursement.

For projects subject to Arizona Department of Housing (ADOH) regulations due to the use of low income housing tax credits, ADOH regulations for developer fee shall prevail in lieu of these City requirements.

- New Construction:
  - Up to 5% of the acquisition cost
  - Up to 12% of the construction cost
  - Construction costs exclude capitalized reserves, permanent loan fees, and soft costs incurred for project start up (marketing, lease-up reserves, organizational expenses, audit costs, etc.)
  - Combined total fee may not exceed $1,000,000
  - Adjacent projects developed by the same sponsor that begin construction within 15 months of each other will be treated as one project for purposes of determining the allowable fee.

- Acquisition/Rehabilitation:
  - Up to 5% of the acquisition cost
  - Up to 12% of the rehabilitation cost
  - Rehabilitation costs exclude capitalized reserves, permanent loan fees, and soft costs incurred for project start up (marketing, lease-up reserves, organizational expenses, audit costs, etc.)
  - Combined total fee may not exceed $1,000,000

- Rehabilitation Only:

  No developer fee is allowed

Distribution of Developer Fees

Developer fees that are not deferred may be distributed as follows, subject to the approval of other project lenders, tax credit equity investor, etc.:

1/3 at the close of all construction loans
1/3 in progress payments during construction
1/3 after six months of sustained occupancy and receipt of all tenant certifications

Use of Developer Fee for Cost Overruns

The final portion of the developer fee will be held as a contingency until the completion of the project. If necessary, it will be used to cover project cost overruns.

Attachment C: Environmental Reviews

Projects that are entirely or partially funded by Federal funds require a review under the National Environmental Policy Act of 1969 (NEPA) which we generally refer to as the "environmental." This review is extensive and different than the Phase I environmental assessment completed as part of a developer's due diligence.

The following chart indicates the various types of clearance that may occur for a project. Acquisition with rehabilitation projects will frequently, though not always, be cleared as Categorically Excluded and converted to Exempt (24 CFR 58.34 – 58.35). Most, if not all, new construction and demolition projects will require the more extensive Environmental Assessment (24 CFR 58.36) to be cleared.

Timing

It is difficult to determine the timeline for completion of an Environmental Clearance Request (ECR) because it is affected by the findings of the review (24 CFR Part 58 and 40 CFR Parts 1500 through 1508) in up to 52 subject areas. An ECR completed with no impacts (or "FONSI" Finding of No Significant Impact) to the environment can be completed in about four to six months. Projects with some impacts, but that are mitigated will be subject to the Federal advertising (24 CFR 58.43) and public comment periods (24 CFR 58.45) which range from 30 to 45 days.

Factors which cause more time to be added to a project schedule include: exceptional circumstances (24 CFR 58.46), archaeological testing and excavation, historic preservation approvals for design (including the State Historic Preservation Office), biological surveys (e.g. the potential for burrowing owls), or Sec. 404 (Waterways of the U.S.) permitting. Asbestos removal requiring a Maricopa County permit and certain flood zone projects also require a public notification and comment period.

Get Started Early

The Housing Department encourages developers to submit a Letter of as early as possible. The Letter of Interest may be submitted in advance of a formal funding application.

By notifying the Housing Department early about upcoming development plans, developers can assist staff to initiate environmental reviews for the most time consuming subjects. Within 90 days, the developer will be notified of any known environmental concerns. Unfortunately, we cannot guarantee that new issues will not arise with a final application submittal and a formal environmental review. A full environmental review will not be initiated until a completed application is received.

Don't Spend Project Funds

If after applying for City of Phoenix Housing Department funds, federal funds are required to make a project feasible, then the following items need to be completed prior to any activity or expenditure of funds from any source on the project:

- Federal regulations require an environmental assessment must be completed and a Release of Funds obtained from HUD.
- City of Phoenix Council approval for commitment and expenditure of funds must also be obtained.

<u>Attachment D</u>: Competitive Scoring Criteria for Citywide Affordability Loans

1. The project meets one of the Department's Housing Production Strategies.
   ___ Acquisition – 5 points
   ___ New Construction – 2 points
   ___ Acquisition / Rehabilitation – 8 points
   ___ Financial Restructuring – 0 points

2. The project contributes to a recognized neighborhood revitalization plan as defined in the Consolidated Plan.
   ___ Yes [Neighborhood: __________________] – 5 points
   ___ No – 0 points

3. The proposed development provides good quality design, construction materials, and amenities.

   ___ Project has more than 15% usable open space – 5 points
   ___ Project has 10-15% usable open space – 3 points

   Amenities include: (1 point each)
   ___ Pool and/or outdoor recreation area
   ___ Clubhouse
   ___ Free covered parking (minimum 1 space per unit)
   ___ Free extra storage
   ___ All 2BR and larger units have at least 2 bathrooms

   ___ New construction, or rehabilitation will exceed $15,000 per unit – 10 points
   ___ Rehabilitation will exceed $10,000 per unit – 5 points

4. The project will result in a mixed income population.
   ___ Every 10% increment of market rate units (to a maximum of 60% market rate) – 2 points

5. The project will serve non-elderly residents.
   ___ Every 10% increment of 2+BR units – 2 points

6. The project serves special needs residents.
   ___ Every 10% increment of units restricted to special needs residents – 3 points

7. The project provides accessible units for residents with disabilities.
   ___ Every 5% increment of units that are accessible to persons with disabilities – 3 points

8. The project owner will provide (directly or through a 5+ year contract) the following supportive services. 5 points awarded for each service, not to exceed a total of 15 points.
   - ___ Case Manager
   - ___ After school tutoring
   - ___ Family counseling
   - ___ Healthcare services
   - ___ Job training
   - ___ Other: ______________________

9. The project is located within ¼ mile of a public school, park or recreational facility, full service grocery store, public transportation, hospital, or senior center.
   - ___ Public school – 3 points
   - ___ Park, recreation center, library, senior center – 3 points
   - ___ Grocery store – 5 points
   - ___ Public transportation – 5 points
   - ___ Hospital – 2 points

10. The proposal furthers the Citywide scattering of low-income households in non-impacted census tracts.
    - ___ Located in a High Priority urban village – 5 points
    - ___ Located in a Medium – High Priority urban village – 3 points
    - ___ Located in a Medium – Low Priority urban village – 1 point
    - ___ Located in a Low Priority urban village – 0 points

    Urban Village: _____________________________

11. The extent to which equity investment represents more than 5% of the total development budget.
    - ___ Equity exceeds 40% of total development cost – 10 points
    - ___ Equity is 25%- 40% of total development cost – 7 points
    - ___ Equity is 16% - 24% of total development cost – 4 points
    - ___ Equity is 5% - 15% of total development cost – 2 point
    - ___ Equity is less than 5% of total development cost – 0 points

12. Department funds are well leveraged by other funding sources.
    - ___ Loan is less than 50% of total development cost – 5 points
    - ___ Loan is 51% - 75% of total development cost – 3 points
    - ___ Loan is more than 75% of total development cost – 0 points

13. Proposed rents are lower than maximum allowable program rents.
    - ___ Rents more than 15% below maximum – 10 points
    - ___ Rents are 11% - 15% below maximum – 8 points
    - ___ Rents are 6%- 10% below maximum – 4 points
    - ___ Rents are within 5% of maximum – 0 points

14. The project will be subject to extended affordability restrictions.
    ___ Restriction period is at least 55 years – 10 points
    ___ Restriction period exceeds 45 years – 8 points
    ___ Restriction period exceeds 30 years – 3 points
    ___ Restrictions are less than 30 years – 0 points

15. The proposal includes energy efficiency improvements.
    ___ Double-paned, Low-E windows – 2 points
    ___ HVAC with SEER Rating greater than 10 – 5 points
    ___ All unit appliances are "Energy Star" rated – 5 points
    ___ Services of a qualified energy efficiency consultant are utilized during the project design phase and recommendations have been incorporated into the project design – 8 points
    ___ Landscape designs utilize xeriscape principles to conserve water usage – 5 points

16. The project will contribute to the upgrading and/or improved appearance and stability of the surrounding neighborhood.
    ___ Yes – 5 points
    ___ No – 0 points

17. The project provides larger than average units.
    ___ Larger than average unit size – 5 points
    ___ Average unit size – 2 points
    ___ Below average unit size – 0 points

    Average unit sizes: 0BR = 425 sf
    1BR = 675 sf
    2BR = 875 sf
    3BR = 1175 sf

18. The development will include participation by minority or women-owned enterprises or a community based non-profit organization.
    ___ Yes – 5 points
    ___ No – 0 points

19. The applicant is a CHDO and the proposed activity counts toward the 15% set-aside for use by CHDOs.
    ___ Yes – 10 points
    ___ No – 0 points

20. The development has received all other necessary funding commitments and can begin construction within 4 months of Department approval.
    ___ Yes – 10 points
    ___ No – 0 points

<u>Attachment E</u>: Affordable Housing Dispersion Policy

- Phoenix Urban Villages (see map in 2005-2006 Annual Action Plan)

  High Priority Urban Villages
  - Ahwatukee Foothills
  - Deer Valley
  - Paradise Valley
  - North Mountain
  - Desert View
  - North Gateway

  Medium High Priority Urban Villages
  - Camelback East
  - Encanto

  Medium Low Priority
  - Alhambra
  - Maryvale
  - Estrella

  Low Priority
  - Central City
  - South Mountain
  - Laveen

- Affordable Housing Dispersion Policy Narrative

City of Phoenix
HOUSING DEPARTMENT

AFFORDABLE HOUSING DISPERSION POLICY

The city of Phoenix strives to disperse the location of affordable housing throughout the community. Affordable housing is usually defined as housing that costs no more than 30% of a family's annual income. For this discussion, the City of Phoenix Housing Dispersion Policy addresses families at or below 80% of Area Median Income.

Dispersing affordable housing throughout the city of Phoenix relieves possible impacts such concentrations could have on neighborhoods. Concentrations of low income households, especially families, into specific neighborhoods or developments, may burden an already impacted neighborhood. Impacted neighborhoods are those census tracts where over one-half of the households earn below 80% of Area Median Income. Scattering affordable housing throughout the community increases social, cultural and economic opportunity and choice for all residents in Phoenix and avoids creating conditions that could economically depress a neighborhood.

The City considers two factors when determining whether a property aids in the dispersal of affordable housing units:

- Is the property located outside of an impacted area, and
- Is the property located within a high priority area of the city.

The priority of an area is based upon the amount of existing affordable housing in relation to the overall housing. A high priority area of the city has a lower ratio of affordable housing to overall housing, while low priority areas have a higher ratio of affordable housing to total housing. Low priority areas are considered the most impacted.

The Phoenix City Council has formulated the following policies regarding the dispersion of affordable housing citywide and within developments.

Citywide Dispersion of Proposed Affordable Rental Housing

- ***Family Housing***: New construction of rental housing in census tracts that have a high concentration of lower income households (impacted areas) would be discouraged. Acquisition/rehabilitation of family rental units would be acceptable throughout Phoenix, provided that doing so does not conflict with other City policies discussed below.

- ***Senior Citizen Housing***: New construction and acquisition and/or rehabilitation of units for lower income senior citizens would be acceptable throughout Phoenix.

- ***Special Needs Populations***: New construction and acquisition and/or rehabilitation of rental units for special populations (i.e., disabled, frail elderly, seriously mentally ill, etc.) would be acceptable throughout Phoenix, subject to a case-by-case review.

Priority rankings are used to distribute future family affordable rental housing into various areas of the city. These priority rankings or guidelines are followed in an effort to expand housing opportunity and choice in all parts of the City and to avoid high concentrations of affordable rental housing in certain areas. The Urban Village priority rankings were developed by taking an inventory of family assisted housing located within each Urban Village and then estimating the number of dwelling units that each Urban Village would have in the future. The rankings were based on the ratio of family assisted units to total units.

Affordable Rental Housing Within Developments

- ***Family Housing***: It is the City's policy to limit lower income rental housing units WITHIN larger multifamily projects. In general, the greater the percentage of lower income households in the area (census blocks or tracts) the less the percentage of rental units in the development that should be <u>designated</u> for lower income families.

  New Construction

  - In general, the City will not support any new multifamily development where: i) in high priority Urban Villages, greater than 60% of the units will be designated for families earning less than 60% AMI, or ii) in all other Urban Villages, greater than 40% of the units will be designated for families earning less than 60% AMI. The city will consider a 100% affordable unit complex within high priority areas contingent upon certain criteria, such criteria to include, but not be limited to, affordable housing experience, quality design, above average amenities, and community support. Although exceptions up to 100% are intended to be limited to high priority areas, they may be afforded to projects being considered in other areas of the City upon concurrence by the Phoenix City Council.

  - Proposals for the new construction of housing for families earning less than 60% of area median income consisting of up to 25 units may be acceptable. These proposals will also be evaluated on a case-by-case basis to determine the impact on the area.

Acquisition/Rehabilitation

- o The City generally discourages the acquisition and/or rehabilitation of large multifamily complexes where more than 40% of the units would be designated for families earning less than 60% AMI. Proposals involving the acquisition of large apartment complexes will be evaluated on a case-by-case basis to determine if designating greater than 40% of the units for households with incomes below 60% AMI impacts the area.

- ***Senior Citizen Housing*****:** Developments for senior citizens may designate up to 100% of the units for lower income households.

- ***Special Needs Populations***: Complexes serving special needs populations may designate up to 100% of the units for lower income households, subject to a case-by-case review. The number of units in the complex and the strength and experience of the developer/manager and program will be important factors in determining the acceptance of the proposal.

Attachment F: Affordable Housing Loan Program Funding Application

Available at ftp://phoenix.gov/pub/HOUSING/fundap05.pdf

<u>Attachment G</u>: Development Budget Templates

Available at http://phoenix.gov/HOUSING/u_dpw.pdf

Attachment H: Rent, Affordability & Occupancy Limits

HUD 2007 Income Limits for Phoenix-Mesa Metropolitan Statistical Area								
Family Size	1	2	3	4	5	6	7	8
50% AMI	$21,050	$24,050	$27,050	$30,050	$32,450	$34,850	$37,250	$39,650
60% AMI	$25,250	$28,850	$32,450	$36,050	$38,950	$41,800	$44,700	$47,600

City of Phoenix Maximum Occupancy Standards and Maximum Rent Including Utilities				
Unit Size	Maximum Occupancy (note 1)		50% AMI Gross Rent (note 2)	60% AMI Gross Rent (note 2)
Studio	1		$483	$513
1	2		$552	$588
2	4		$646	$696
3	6		$687	$762
4	8		$751	$855

Note 1: The City of Phoenix maximum occupancy standards allow two persons per sleeping room. Occupancy exceptions will be considered if a family has special circumstances that are justified in writing. Exceptions will not exceed HUD's Housing Quality Standards (HQS) which allow two persons per living/sleeping room.

Note 2: The City of Phoenix maximum rents are generally lower than HUD or State of Arizona maximum rents. The City of Phoenix rents are established by evaluating the City of Phoenix (only) fair market rents. Maximum rents are the lower of HUD fair market rents for the metropolitan statistical area or the City of Phoenix fair market rents adjusted for income and family size.

Note 3: These above limits apply to all programs administered by the Housing Department, regardless of funding source.

Attachment I: Summary of Multifamily Rental Loan Program

	Gap – Rental Housing
Funding Sources	HOME, GO Bonds
Eligible Borrowers	For-Profit & Non-Profit 501c3
Loan Size / Quantity	Generally, up to $2,000,000 per loan Up to $3,000,000 in High Priority Urban Villages (outside of an impacted area) and to selected Community Priority Projects. Max 3 loans per year per applicant
Term	Acquisition & Construction: to 24 months Permanent: to 40 years
Interest Rate	0% Acquisition / Construction 2% Permanent – Amortizing Loans 4% Permanent – Residual Receipts
Maximum Loan to Value Ratio	Not Applicable; however, at least 10% of the development cost must be funded by non-City sources and property purchase price may not exceed appraised fair market value
Minimum Debt Service Coverage Ratio	1.15 combined on all must-pay debt
Repayment	Deferred until Permanent phase Must pay on amount up 1.15DCR Repayment from agreed upon % of residual receipts on loan amount less than 1.15
Security	Construction & Permanent loans are secured by a promissory note, deed of trust, and Declaration of Affirmative Land Use or Special Warranty Deed

	Gap – Rental Housing
Leveraging	Loans $400,000 or greater must utilize other available financing programs to minimize City participation
Affordability Requirement	At least 20% of assisted units are below 50% AMI and all remaining assisted units below 60% AMI Affordability covenant is 40 years if Department loan is $400,000 or greater; smaller loans have minimum 30 year affordability if fully amortizing
Allowable Uses	Site acquisition, construction, soft costs, etc. associated with affordable units within conventional multifamily developments
Selection Method	Open Application, NOFA, RFP
Application Deadlines	Applications must be submitted by NOFA/RFP deadlines Applications up to $400,000 due on 1st day of each month Applications of greater than $400,000 due quarterly; transactions utilizing tax credits, tax-exempt bonds, or other financing programs must be submitted at least 60 calendar days prior to relevant application deadlines
Staff Review Processing Timeline	Loans up to $400,000 = 45 calendar days Loans of $400,000 or greater = 60 calendar days

CHAPTER 2: Special Needs Housing—Gap Loan Program

2.1 Availability of Funds

The Department provides a variety of funds for this program, in amounts established annually by the City for each fiscal year. Decisions regarding which type of funding to utilize for a specific loan will be made by the Department and are accompanied by different regulatory requirements as described below.

For purposes of this loan program, Special Needs Housing is defined as: Properties that are (i) uniquely designed and/or financed to meet the housing and service needs of a target special needs population, and (ii) provide supportive services for residents. It does not refer to traditional rental properties that serve special needs residents in a mixed residency environment (such properties are eligible for funding through the Affordable Rental Housing Component.) Examples of Special Needs Housing include homeless and transitional shelters, housing for disabled persons, HUD 811 or 202 properties, etc. Additional information regarding City of Phoenix assistance for homeless persons is available through the City's Human Services Department, which may be contacted at www.phoenix.gov/humanservices.

Special Needs Housing

A. Program Goal: This strategy targets the development of properties that serve residents with special needs by providing housing that is specifically linked to supportive services. Projects may be either new construction, acquisition with rehabilitation, or rehabilitation.

B. Eligibility: Qualifying properties:

- must be located within the City
- must be developed by non-profit organizations
- must be specifically designed to serve the needs of a special needs population. (Examples include homeless and transitional shelters and housing for the disabled. Housing for the elderly is not considered in this category unless extensive services will accompany the housing.)
- must provide or link appropriate supportive services to residents

C. Financial Guidelines: The applicant must demonstrate that there is sufficient capital and annual funding for both the construction of the project and ongoing operations. As rental revenue from operations is often minimal due to the very low income of residents, these properties rely heavily on operating subsidies from sources other than the Department to remain viable. *The Department does not provide operating funds.* An analysis of the availability and reliability of the operating revenue, and any unique operating or supportive service costs, is a key component of the Department's financial feasibility analysis. Department loans for special needs housing will typically be repaid from residual receipts without mandatory debt service due to limited cash flows. Unpaid interest and principal will be forgiven at the scheduled maturity date contingent on continuing compliance with contract requirements.

1. The City makes assistance available for Special Needs Housing, where household incomes are at or below 60% of area median income or residents meet the definition of homelessness and supportive services are provided.

2. Because many such projects cannot afford debt service, the City loan will often be a deferred payment loan which is only payable in the event of sale or termination of use of the property as special needs housing.

3. If City assistance is more than $400,000, City funds should be leveraged by other funding.

4. An affordability period of 30 years will be required on all assisted units

2.2 Loan Terms

A. Loan Limits:

- Loans are limited to $1,500,000 per project
- Only properties that meet the Department's definition of Special Needs Housing may be assisted under this program.
- Applicants may receive no more than one program loan each year.
- Current program loan limits are summarized in Attachment K of this chapter and are subject to change per HOME rules.

B. Term:

- Permanent Phase loans at 40 years (a period of time may be allowed for acquisition and construction activities prior to start of permanent loan phase).

C. Repayment:

- Payments are not required during the Acquisition or Construction Phase
- The loan shall convert to Permanent Phase financing upon issuance of a Certificate of Completion
- Repayment terms of the loan will be determined upon review of the sources available to the developer for operations and services.
- If there are sources available for debt service, the loan terms will be negotiated as a residual cash flow or hard payment note.
- If developer clearly demonstrates the unavailability of revenue sources for debt service, the loan will be awarded on a forgivable basis. There would be no forgiveness until the loan has matured.

D. Interest Rate:

- 0%

E. Affordability Covenants: All projects are subject to affordability restrictions which limit resident incomes and rents paid based on levels of AMI established annually by the U.S. Dept. of Housing and Urban Development. All units in the project, and all units receiving Department financial assistance, must be reserved for households whose income does not exceed 60% AMI or are homeless.

AMI levels and applicable rents, which are adjusted for family size and change annually, are shown on Attachment J of this chapter. Affordability periods will extend for will extend for 30 years or more.

F. Security: A Deed of Trust, UCC Financing Statement, Promissory Note, Special Warranty Deed, or Declaration of Affirmative Land Use Restrictions will be required for every loan.

G. Subordination to Senior Debt: The Department's loan and affordability covenants may be subordinated to another lender's mortgage lien only if subordination is required as a condition of that lender's loan approval. Senior debt must be provided on a fully amortizing basis without a balloon payment.

H. Loan-to-Value / Loan-to-Cost Limits: A loan-to-value limit is not applicable. However, property purchase prices must not exceed current fair market value, as substantiated by an independent appraisal acceptable to the City. At least 10% of the total development cost must be funded by non-Department sources.

I. Debt Service Coverage Ratio: The combined DSCR on all must-pay debt shall be at least 1.15. For projects that do not utilize hard debt, this requirement does not apply, but financial projections must demonstrate the likelihood of a reliable positive cash flow.

J. Recourse: Loans are provided on a non-recourse basis and are secured by the collateral. Loans may be cross-collateralized against properties included in the same financing transaction.

K. Allowable Use of Funds: All costs necessary for site acquisition, construction, energy conservation, and/or rehabilitation attributable to the housing. Ancillary supportive services space such as counseling rooms may be considered. Costs associated with commercial space in mixed-use projects may be included in the total development cost budget, but may not be paid with Department funds.

L. Funding Conditions – Acquisition Phase: Loans for site acquisition will not be funded unless all pre-conditions to Construction Phase funding have been achieved. Exceptions may be made for HUD 811 / 202 projects.

M. Funding Conditions – Construction Phase: Prior to, or concurrently with, Construction Phase loan funding, the borrower must provide evidence that all other necessary construction funding sources have been committed and closed, that binding commitments are in place for all sources of permanent "take out" financing, that building permits have been approved and are ready to issue, and that a bonded, fixed price general contract has been executed and is based on the final approved plans and specifications.

N. Operating Subsidies: Most special needs projects rely heavily on operating subsidies for their financial viability, as rents are often restricted to very low income residents and do not provide sufficient revenue to fully offset operating costs and prudent reserve funding. The Department will evaluate the expected reliability of any proposed subsidy sources to verify that the project financing structure is likely to be successful over the long term.

O. Transfer: Loans or loan commitments are not assignable or transferable without the prior written approval of the Department. Construction Phase loans are not transferable, but the Department will consider the transfer of Permanent Phase loans upon confirmation that the property is operating in accordance with all regulatory agreements, remains financially viable, and the capacity and creditworthiness of the proposed transferee is demonstrated.

P. Construction: Housing or site construction may begin only with the express written approval of the Department (a preconstruction conference must be held among the Department, developer, and contractor, and the Department must issue a Notice to Proceed).

Q. Fair Housing and Affirmative Marketing: The Developer will be obligated to comply with Department policies regarding nondiscrimination in the rental, sale, and occupancy of the units.

R. Prevailing Wage Policy: All applicants receiving acquisition or construction funding from HOME funds that assist 12 or more units or construction funding from CDBG funds that assist a project with 8 or more units must comply with Federal Davis-Bacon wage requirements.

2.3 Application Processing Flexibility and Predictability

In order to be responsive to opportunities while assuring predictability and efficiency in leveraging other resources, the City allows established the following process for Special Needs and Senior Housing applicants:

Applications for these loan types can be submitted by the 1st of any month during the year. On the 1st, staff assignments will be made on any applications received by that date. Each application form will include a standard checklist of items to be submitted by the applicant.

City review, recommendation, and City Council authorization, if approved, typically occurs within 90 calendar days. A closing schedule will also be part of the application, with closing of the loan expected within 90 calendar days of City Council approval unless otherwise extended to meet a State tax credit or other funding source deadline or environmental clearance.

<u>Assistance to Projects</u>

The purpose of City loans is to assist qualifying projects, i.e., the City will only make loans that are part of a specific project transaction. The City will not make loans that are unsecured or lack sufficient collateral. Loan requests will be reviewed based on the merits and economics of the project and the full capability of the borrower and development team with successful past experience with similar type and scale of projects.

The City will not financially participate in the refinancing of a non-profit owned project where there is cash out to the non-profit agency. The City does not intend to participate in a transaction where an owner receives cash back in the refinancing or sale of a property for a profit or gain. This includes other transactions with similar results.

<u>Avoiding and Dealing with Project Performance Problems</u>

The City will not advance additional funds for projects it has previously assisted. Program funds are designed to create new or additional affordable units. Any additional funds or write-offs are the responsibility of the developer, investors, tax credit partners or the first mortgage lender. The City will not be subordinated to these additional investments.

The City, at its sole discretion, may consider the allocation of additional funding to non-profit developers experiencing extraordinary cost increases realized between the date of initial City Council funding approval and end of construction. However, the City will look for additional public benefit and/or greater return on its investment. The City will not retroactively consider such requests.

As one of several lenders, the City may consider forbearance agreements on the same or similar terms provided by senior lenders. Consideration of forbearance to a project with an existing City loan requires an application, new set aside units, and a new review of the project.

The City may consider funding requests for troubled projects it has not previously assisted on the same basis of evaluation as it considers new loan requests, whereby additional affordability will be required in exchange for the City loan. If a troubled project will continue to be owned by the current owner, it must demonstrate at least a 1.20 debt coverage based on actual rents and expenses and the terms of all debt after the proposed restructuring.

2.4 Threshold Application Requirements

Gap Loans: Gap Loans are designed to provide funds during the acquisition, construction and/or permanent financing phase of a development, in an amount equal to a project's feasibility gap. The feasibility gap is the amount of funding required to create a financially viable transaction after considering the impacts of affordability restrictions, location, and market conditions. The project should reflect full repayment of the loan through debt service and compliance with the affordability period.

Projects requesting Gap Loans for Special Needs Housing shall comply with the following criteria, unless specifically waived by the Department:

A. Eligible Borrowers: Non-profit developers are the only eligible applicants. Developers will typically apply in their corporate capacity, although applications from limited partnerships or limited liability companies will be allowed if low income housing tax credits are utilized. Applicants must provide evidence of IRS 501(c)(3) status.

B. Borrower Experience: Applicants must demonstrate their capacity to complete the project (i.e., financial commitments from other participants, completion of similar types of projects, community support, extensive staff member experience, etc.) Credit checks will be required for applicants.

   Applicants having past experience with the Department or other City agencies must submit a list of prior projects with corresponding dates of completion and current loan status.

C. Eligible Projects: Proposed projects must provide required levels of affordability, demonstrate financial feasibility, and be consistent with the City of Phoenix Consolidated Plan and Housing Dispersion Policy (see Attachment G).

D. Application Form & Exhibits: The applicant must submit a complete application with all required attachments.

E. Market Study: The Department will require an appraisal to substantiate acquisition costs, and may require a market study to verify adequate demand for the proposed development, need for supportive housing, proposed rent levels, operating expense and reserve levels, etc. The Department will consider supporting data and reports provided by the applicant, but reserves the right to obtain independent reports at its sole discretion.

F. Relocation: It is the City's policy to avoid displacement of households whenever possible. Acquisition of currently developed parcels that include occupied dwellings or businesses must include specific plans for relocation pursuant to the Uniform Relocation Act. The relocation plan must be approved by the Department, and must describe the credentials and experience of the party responsible for administering the relocation process. Projects will be evaluated for relocation impacts, including: i) how many households will be expected to move permanently from the complex and ii) what would be the cost of permanently relocating the residents.

G. Community Outreach Statement: Applicants must submit a statement which explains to what extent input from the community was included in the development of the proposal. Letters of support may also be submitted with the application.

2.5 Basic Requirements For All Applications

The following basic requirements apply to all the loan programs:

- *Feasibility Assessment:* Due to market location, prevailing economic conditions, low income rent targeting, or property operating costs, the typical affordable housing development is economically infeasible but for some degree of public financial assistance. The Department may provide assistance to projects in the amount minimally required to create financial feasibility.

- *Affordability Targets for Rental Housing:* All units assisted by the City must offer rents at least 10% below comparable open market rates. At least 20% of the City-assisted units must serve households with incomes at or below 50% AMI, and all remaining City-assisted units must serve households with income at or below 60% AMI.

- *Leverage Objective:* Prior to submitting a funding application to the Department, the developer shall demonstrate efforts to effectively leverage the use of public and private funds for the proposed project by identifying other available programs and designing the project to qualify for relevant sources of assistance.

- *Loan Security:* Department financial participation shall be in the form of loans, and shall be secured by a recorded Deed of Trust and UCC Financing Statement and personal guarantees, as required by the department.

- *Continuing Affordability:* A Special Warranty Deed or Declaration of Affirmative Land Use Restrictive Covenants will be recorded to ensure compliance with applicable regulatory restrictions. The length of affordability will be determined independently of the amount or length of the City's loan, and may exceed the loan term. Generally, required affordability will range up to 40 years and will survive foreclosure.

- *Economic Viability and Dispersion Goals:* Development proposals shall appropriately consider prevailing market conditions such as vacancy levels, rent comparability, neighborhood impact, and the City's Dispersion Policy to ensure that projects are well located and contribute to neighborhood stability and vitality.

- *Environmental Assessment (EA) and Clearance:* All projects must undergo an environmental assessment before funds may be released. If federal funds are involved in the project through a City loan or other, no project acquisition (exempting reasonable down payment costs) or construction activities may take place after application submittal and prior to the completion of the environmental clearance process, regardless of the source of funds.

- *Consolidated Plan Consistency:* The programs and projects must serve a balance of families, senior citizens, and special needs populations. The specific weight given to each program and project will be consistent with the City of Phoenix Housing Element and Consolidated Plan.

- *Readiness:* Federal subsidies often require that funds committed be expended within a fixed time period. Therefore, projects submitted must demonstrate their readiness to begin implementation.

- *Equal Opportunity / Affirmative Action:* All suppliers, contractors and lessees wishing to enter into a business relationship with the City of Phoenix must comply with either Article IV or V of Chapter 18 of the City Code, as appropriate. Compliance is achieved by submission of the affirmative action reporting forms. Forms may be obtained at http://phoenix.gov/BUSINESS/affactio.html or from the Equal Opportunity Department, Affirmative Action Division, 251 W. Washington St., 7th Floor, Phoenix, AZ 85003-2107, Tel: (602) 262-6790. The Phoenix Housing Department encourages the use of Minority Business Enterprises (MBE), Women Business Enterprises (WBE) and disadvantaged firms in carrying out all of its loan programs. A directory of City certified MBE/WBE firms can be found at http://phoenix.gov/EOD/newcerts.html.

- *Development Standards:* After rehabilitation or development, all properties must meet the federal Housing Quality Standards and the Phoenix Rehabilitation Standards. The standards ensure long term viability of the property. The standards include minimum accessibility standards as well.

- *Waiver Requests:* Waivers are discouraged and will only be considered where waiving the technical guideline will better serve the objective from Chapters 1 & 2 that the project is designed to fulfill. The applicant must demonstrate that unique circumstances apply to the project.

2.6 Evaluation Criteria

Applications received pursuant to an RFP will be evaluated in accordance with the RFP criteria and Department project objectives.

Evaluation Criteria Applicable to All Applications:

- Applicant Capacity: Applications must demonstrate that organizational and staff capacity is sufficient to complete the proposed project without undue reliance on Department staff. Prior experience of the organization, its staff members, and consultants in planning and completing projects of a similar type and size will be considered. The applicant should also demonstrate that it possesses sufficient working capital to advance the project through the predevelopment phase.

- Project Need: Applicants must identify the special housing need being fulfilled by the proposed project. Proximity to relevant services and transportation and a description of special programs being offered will be considered.

- Project Timeline: Applicants must submit a development timeline identifying major development activities, responsible staff, deadlines, funding application dates, etc. to demonstrate the viability of the proposed development and assist the Department in evaluating the capacity of the development team and likelihood that the project will succeed.

- Construction & Design: The applicant must include a proposed site plan identifying the location of residential units, commercial uses, and community facilities and amenities. A rendering and floor plans of the proposed development should also be included, accompanied by a written narrative describing design considerations such as: unit mix, unit size, amenities provided, construction type, energy conservation and accessibility features, architectural style, site plan layout, security and access issues, parking plan, and relationship of the scale, setbacks, and proposed design to adjoining properties.

- Management & Management Plan: The applicant must provide a management plan detailing the special needs of the target population, experience of the applicant and/or proposed property management firm in providing services to this population, and describing the specific financial considerations (i.e., affordable rent levels, sources of resident income, sources of project operating subsidy required) that have an impact on project operating policies. If a third party management firm is utilized, the plan must demonstrate that the management firm has experience in successfully managing properties of similar size that serve a similar population.

- Development Financing Plan: Applications should include the Department's *Standard Underwriting Assumptions* contained in Attachment A at the end of the chapter. Applications must demonstrate that the

Applicant has performed sufficient financial due diligence to minimize the likelihood that the proposal must be renegotiated prior to closing the Department's loan.

- Community Outreach: The development of affordable housing can be controversial. The existence of some community opposition should be anticipated in each transaction and does not indicate an ill-conceived or poorly located project. Applicants should begin to develop a base of community involvement early in the predevelopment process. Applications must include a statement of community outreach activities conducted and describe any community input received regarding the proposed project.

- Funding Commitments: Applications should include evidence that other necessary funding commitments (e.g., conventional construction and permanent loans, other subsidies and loans, low income housing tax credits) have been obtained or applied for. If applications to other funding programs will be required in the future, information should be included to demonstrate that the proposed structure is expected to meet relevant program requirements and provides a high likelihood of success. The applicant must provide a copy of the application to be submitted to other funding sources, and must certify that consistent financial projections have been provided to each funder.

- Identified Risks: All development projects are subject to elevated levels of risk at the early stage of the predevelopment process. To assist both the applicant and Department in reasonably assessing and mitigating these risks, applications must identify any significant issues that could delay or prevent the proposed transaction (e.g., zoning actions required, environmental issues, site control issues, neighborhood or market conditions, unusual funding assumptions, etc.)

2.7 Processing Timeframe

Applications for loans can be submitted at any time if they do not require financing from other public agencies.

- Loan requests of up to $400,000 do not require leveraging with other funding programs or tax credits, and are subject to an expedited review process.

- Loan requests of greater than $400,000 must demonstrate that all available leveraging programs have been utilized in the project financing plan. These requests are also subjected to a more extensive feasibility review.

Applications in response to an RFP or NOFA must be submitted by the stated due date. Applications under the open application process may be submitted at any time.

Applications for projects that involve low income housing tax credits or tax-exempt bond financing must be submitted at least 60 days prior to the application deadline for the other funding programs. Loan requests will generally be reviewed within 60 days of submission, and disapproved or recommended to City Council for approval.

2.8 Overall Application Processing Procedure

Processes are described in the following phases:

- Pre-Application Review
- Application
- Evaluation
- Commitment
- Funding

- Performance
- Compliance & Monitoring

Pre-Application Review Phase

Prior to receipt of a loan application, Department staff is available to address questions from potential developers and provide pre-submittal consultations regarding specific project concepts. While such consultations do not commit the Department to fund a particular proposal, they provide valuable insight into the prospective benefits, funding availability, and issues associated with a potential development.

This process is mutually beneficial to the Department and developer and is encouraged. Early knowledge of the project enables staff to begin performing a variety of regulatory reviews (including archaeology, environmental impacts, flood, Sec. 404, etc.) and avoid undesirable delays at a later point in the development cycle. Developers are encouraged to notify the Department by submitting a written "Interest Letter" as early as possible in the development process – please refer to Appendix D regarding the Environmental Review process.

IMPORTANT NOTE: In accordance with Federal regulations, required environmental assessments must be completed and a release of funds obtained from HUD prior to any activities or expenditure of funds from any source on the project.

Application Phase

Applications are submitted through an open application, site-specific RFP, or NOFA process depending upon loan program. Department staff is available to address questions from potential developers regarding program objectives, specific application requirements, funding program regulations, and project proposals.

Applications must be submitted at least 60 calendar days prior to the date upon which an official Department action (including letters of support, conditional commitments, etc.) is required. This period provides adequate time for the Department to carefully review applications and provide consistent service to all applicants.

- *Communication:* The Department will send each applicant an acknowledgement that the application has been received within 7 days

Evaluation Phase

Upon receipt, each application is assigned to a Department staff member for review. Applications are first reviewed for completeness, then for compliance with all applicable threshold requirements, and finally for individual feasibility and scoring purposes. To achieve consistent review and comparison among competing proposals, the Department may assign the same sections of multiple applications to a single reviewer rather than assigning a single application to a single reviewer in its entirety.

- *Communication:* Applicants will be notified which staff member has been assigned to manage the application review and whether the application has passed the threshold review. At the discretion of Department management, applicants may be given specific time frames to respond to deficiencies in their proposals prior to being disqualified. Applicants who fail to respond within the prescribed period will be dropped from the review of applications.

During the process of application evaluation, Department staff will perform a range of underwriting tasks and will prepare a staff recommendation containing a written loan underwriting narrative with accompanying financial schedules.

- *Communication:* The staff member will discuss the staff review, concerns, and issues with the applicant as needed.

The staff recommendation will then be reviewed by a Department loan committee and management and approved, approved with conditions, or declined.

- *Communication:* Applicants will be notified of the loan committee decision within 3 calendar days following the decision date. A decision will be made within 60 calendar days after receipt of an application.

Final loan approvals will be issued as soon as possible thereafter, using one of the following methods:

1. Projects ready for immediate funding will be presented to Department management, and to City Council if applicable, for final approval.

2. Projects with longer lead times may be issued a support letter that can be used for purposes of requesting funding from other sources to complete the project financing requirements. The support letter will also serve as a conditional funding reservation for a specified period of time. The Department may decline to fund applications whose funding reservations have expired.

   Prior to expiration of the conditional reservation, and upon receipt of evidence from the applicant that other necessary funding has been obtained and the project is ready to proceed, Department staff will review the transaction to ensure that it remains consistent with the original application. Projects that have changed materially from the original application will be resubmitted to the Department loan committee for approval, and may be approved, approved with conditions, or declined. Projects consistent with their original applications and changed projects subsequently approved by loan committee will be presented to Department management, and to City Council if applicable, for final approval.

- *Communication:* Applicants will be notified of all City Council hearings in advance and final loan approval or conditional funding reservation within 3 calendar days following the management and/or City Council action.

<u>Commitment Phase</u>

Following final loan approval, the assigned housing staff member is responsible for preparing the formal loan commitment and incorporating any special conditions. The Department will also complete any necessary regulatory review and include any required mitigation measures in the commitment.

- *Communication:* Applicants will be provided a copy of the formal loan commitment within 20 calendar days after the date the management and/or City Council action.

Developers that are required to comply with prevailing wage regulations as a condition of their commitments should schedule a meeting with Department staff to ensure that the development team and contractor understand the implication of prevailing wage monitoring on the construction process and that appropriate provisions are included in construction contracts.

<u>Funding Phase</u>

In preparation for loan funding, the designated staff member will perform the following:

- Document Preparation: Completing the final loan documents (Loan Agreement, Promissory Note, Deed of Trust, UCC Financing Statement, Special Warranty Deed or Declaration of Affirmative Land Use Restrictions, as applicable) to include any special funding conditions and mitigation measures required by an environmental review.

- Verification of Closing Conditions: Review all pre-funding conditions of the Loan Commitment to ensure that the borrower has complied with conditions and provided necessary documentation.

Prior to signing of loan documents, applicants may request a meeting with Department staff to review the Department's escrow instructions, conditions for disbursement of any funds, recordation of documents, title insurance policy requirements, and post-closing reporting and compliance expectations.

- Scheduling the Closing: Department staff shall be responsible for scheduling the closing, collecting, and reviewing final loan documents.

- Loan Funding: Prior to disbursement of loan funds, the Department must receive the following:

  - Original or certified copies of executed loan documents
  - Proof of current property tax payments
  - Proof of insurance meeting City insurance requirements
  - Title insurance meeting Department standards
  - Proof of environmental clearance
  - Proof of compliance with prevailing wage requirements, if applicable

Development Phase

Borrowers must comply with various provisions of the loan agreements that begin during the development period. These provisions may include timely submission of construction progress reports, copies of draw requests, project and/or developer financing statements, prevailing wage compliance reports, etc.

A Department staff member will be assigned as the borrower's principal contact during the development process; this person will serve as the focal point for coordinating between the borrower and City departments responsible for the enforcement of Federal, State and Local regulations such as NEPA, MBE/WBE, prevailing wages, etc.

Compliance & Monitoring Phase

Upon project completion, a Department asset management staff member will be assigned to each project. This individual will serve as the borrower's primary contact during the operating phase of the development and is responsible for reviewing continuing compliance with regulatory agreements, each project's financial performance, and verification of timely payment of mortgage payments and any residual receipts payments.

Reporting

Borrowers, as stated in the loan agreements, will be required to periodically report to the Housing Department to ensure compliance. The required reports shall provide information on the beneficiaries (homebuyers, renters, special needs populations) of the Housing Department funding and the financial condition of the borrower/project.

Attachment A: Standard Underwriting Assumptions

- Rental Income:

  Minimum Affordability: Minimum affordability will be based on the ratio of City loan funds to total development cost. Of the income restricted units, at least 20% must be restricted to households below 50% of area median income. Developers are encouraged to provide lower income targeting where feasible.

  Affordable Rents: Each unit must have a designated income restriction level. The scheduled rent for each unit must not exceed 30% of the monthly household income at the applicable income restriction level, and must exclude the appropriate utility allowance. Refer to Attachment J of this chapter for current Phoenix income and rent limits.

  Affordability Benefit: To ensure market advantage for income restricted units, restricted unit rents must be at least 10% below the equivalent unrestricted rent for comparable units (considering size, amenities, location, etc.) as determined by the market study and appraisal.

  Mixed Use: For underwriting analysis in mixed use properties, the income from the residential portion of a project shall not be used to support any negative cash flow of a commercial portion. Conversely, the commercial income shall not support the residential portion.

- Vacancy & Collection Losses:

  Vacancy and collection loss allowances shall be at least 10% for all properties except SROs, which shall be at least 12%. If higher economic vacancy rates are indicated by the market study, the Department may utilize the higher rate. In addition, proposed new construction projects must demonstrate that the prevailing economic vacancy rate in the subject market area is below 7%.

- Operating Expenses:

  Applicants must provide a detailed explanation of proposed operating expenses and the basis upon which each item was estimated (e.g., other similar projects operated by the applicant, market study, appraisal, third party management company estimate, etc.). Requests for loans of greater than $400,000 must include a third party management company estimate.

  Project budgets must utilize operating expenses equal to the greater of $3,500 per unit or the amount indicated by comparative data. This minimum threshold does not include property taxes, replacement reserves, landlord-paid tenant utilities for gas or electric service in master-metered buildings, or the costs of any service amenities provided. Such items must be specifically identified in the budget and estimated as additional expenses. Budgeted expenses should include sufficient detail to enable the Department to evaluate the appropriateness of line items, including proposed staff positions and payroll costs.

At the Department's discretion, and to the extent that the permanent lender(s) and equity investor are in place and present evidence to the Department that they have agreed to lesser operating expenses, the operating expenses required by this subsection may be reduced by up to 10%.

- Replacement Reserves:

  New Construction: Replacement reserves for all new construction senior projects shall be $250 per unit per year, and $300 per unit per year for all other projects.

  Rehabilitation: All rehabilitation projects must obtain a physical needs assessment and reserve study prepared by a qualified third party property inspector. Replacement reserves must be based on the recommendations of the report, but may not be less than the New Construction reserve requirements stated above.

- Operating Reserves:

  An operating reserve equal to 6 months of operating expense, replacement reserve, and mandatory debt service payments shall be capitalized in the development cost budget. This reserve must remain with the project until such time as the demonstrated DSCR for a continuous 24 month period is at least 1.35. Thereafter, upon the owner's request and Department approval, the reserve may be distributed as surplus cash (and will potentially be subject to sharing with the Department if the project utilizes a residual cash flow loan.)

- Budget Trending Assumptions:

  Out-year calculations shall utilize a 2.5% increase in gross income and a 3.5% increase in operating expenses (including taxes and replacement reserves). Applicants may use more conservative trending assumptions (i.e., a wider spread between income and expense trending rates) if these are warranted for a particular project.

- Debt Service Assumptions:

  Variable interest rate permanent loans shall be considered at the permanent lender's underwriting rate upon submission of a letter from the lender indicating the rate used by it to underwrite the loan. If variable rate debt is utilized, the borrower must purchase and renew an interest rate cap during the life of the City loan to ensure that the project will never pay a rate higher than the assumed underwriting interest rate.

<u>Debt Service Coverage Ratios</u>

- All mandatory debt service (other than Department loans), regardless of lien position, must be included in the calculation of DSCR

- To avoid over-subsidizing projects with an unnecessarily large Department loan, projected DSCR may not exceed 1.30 during any one of the first three years of project operation, unless approved by the Department due to unique circumstances (such as small project size, unreliable rental subsidies, etc.) If projected DSCR will exceed this limit, the borrower will be asked to obtain a larger first mortgage and reduce the Department assistance.

- Design Requirements:

  Mixed Income: Mixed income developments are encouraged, and 100% restricted developments are allowed only in accordance with the Low Income Housing Dispersion Policy.

  Affordable Units Within the Project: The affordable units must be scattered throughout the project and have the same proportional mix, sq. ft., and amenities as non-restricted units.

  Minimum Unit Sizes for New Multifamily Construction: 1BR = 650 sq. ft., 2BR = 800 sq. ft., 3BR = 1050 sq. ft., 4BR = 1200 sq. ft. The dimensions of each bedroom must be at least 10' by 12'.

  Minimum Unit Size for Single Family Construction shall comply with current City Infill Standards that can be viewed at http://phoenix.gov//BUSINESS/inflhwqu.html.

  Quality: Project amenities and construction quality must be at least comparable to good quality market rate rental units in the surrounding areas, as determined by a market study.

Attachment B: Developer Fee Guidelines

Developer Fee Overview

In recognition of the time, effort, overhead costs, and risk associated with the development of an affordable housing project, a developer fee is commonly included in the total development cost budget. The amount of the fee which may be eligible for tax credits under the low income housing tax credit program is limited by Arizona Department of Housing (ADOH) regulations.

Developer fee includes payment for basic project planning and financing tasks the developer must perform, whether these activities are performed by the developer's staff or by third party consultants. Examples of such services include: entitlement processing, construction management, and financial structuring of tax credit projects.

Payment of developer fee is limited by the amount of cash available in the development budget. Frequently in multifamily development projects, financing sources are insufficient to pay 100% of the allowed developer fee. In this case, a portion of the fee may be deferred and is reflected by a deferred developer fee note. Such a note obligates the property owner (often a partnership or LLC) to pay a specified portion of the future project cash flow to the developer until the note is repaid. In tax credit projects, the tax credit investor typically requires this projected repayment period to be complete within 10-15 years, thereby limiting the amount of fee that can be deferred if anticipated cash flow is modest.

Allowable Developer Fees

The Department will allow the following developer fees to be included within the development cost budget; however, they may not be eligible costs for direct City reimbursement.

For projects subject to Arizona Department of Housing (ADOH) regulations due to the use of low income housing tax credits, ADOH regulations for developer fee shall prevail in lieu of these City requirements.

- Special Needs Housing:

    - Up to 10% of the construction or rehabilitation cost if the developer utilizes its own staff to implement the project.
    - No developer fee is allowed if a third party consultant or project manager is used to manage the development process; however, the cost of the third party consultant may be included as an eligible project cost.

Distribution of Developer Fees

Developer fees that are not deferred may be distributed as follows, subject to the approval of other project lenders, tax credit equity investor, etc.:

1/3 at the close of all construction loans
1/3 in progress payments during construction
1/3 after six months of sustained occupancy and receipt of all tenant certifications

Use of Developer Fee for Cost Overruns

The final portion of the developer fee will be held as a contingency until the completion of the project. If necessary, it will be used to cover project cost overruns.

<u>Attachment C</u>: Environmental Reviews

Projects that are entirely or partially funded by Federal funds require a review under the National Environmental Policy Act of 1969 (NEPA) which we generally refer to as the "environmental." This review is extensive and different than the Phase I environmental assessment completed as part of a developer's due diligence.

The following chart indicates the various types of clearance that may occur for a project. Acquisition with rehabilitation projects will frequently, though not always, be cleared as Categorically Excluded and converted to Exempt (24 CFR 58.34 – 58.35). Most, if not all, new construction and demolition projects will require the more extensive Environmental Assessment (24 CFR 58.36) to be cleared.

<u>Timing</u>

It is difficult to determine the timeline for completion of an Environmental Clearance Request (ECR) because it is affected by the findings of the review (24 CFR Part 58 and 40 CFR Parts 1500 through 1508) in up to 52 subject areas. An ECR completed with no impacts (or "FONSI" Finding of No Significant Impact) to the environment can be completed in about four to six months. Projects with some impacts, but that are mitigated will be subject to the Federal advertising (24 CFR 58.43) and public comment periods (24 CFR 58.45) which range from 30 to 45 days.

Factors which cause more time to be added to a project schedule include: exceptional circumstances (24 CFR 58.46), archaeological testing and excavation, historic preservation approvals for design (including the State Historic Preservation Office), biological surveys (e.g. the potential for burrowing owls), or Sec. 404 (Waterways of the U.S.) permitting. Asbestos removal requiring a Maricopa County permit and certain flood zone projects also require a public notification and comment period.

<u>Get Started Early</u>

The Housing Department encourages developers to submit a Letter of Interest (refer to Attachment D to Exhibit I - Standard Loan Application Form) as early as possible. The Letter of Interest may be submitted in advance of a formal funding application.

By notifying the Housing Department early about upcoming development plans, developers can assist staff to initiate environmental reviews for the most time consuming subjects. Within 90 days, the developer will be notified of any known environmental concerns. Unfortunately, we cannot guarantee that new issues will not arise with a final application submittal and a formal environmental review. A full environmental review will not be initiated until a completed application is received.

<u>Don't Spend Project Funds</u>

If after applying for City of Phoenix Housing Department funds, federal funds are required to make a project feasible, then the following items need to be completed prior to any activity or expenditure of funds from any source on the project:

- Federal regulations require an environmental assessment must be completed and a Release of Funds obtained from HUD.
- City of Phoenix Council approval for commitment and expenditure of funds must also be obtained.

Attachment D: Competitive Scoring Criteria for Citywide Affordability Loans

1. The project meets one of the Department's Housing Production Strategies.
   ___ Acquisition – 5 points
   ___ New Construction – 2 points
   ___ Acquisition / Rehabilitation – 8 points
   ___ Financial Restructuring – 0 points

2. The project contributes to a recognized neighborhood revitalization plan as defined in the Consolidated Plan.
   ___ Yes [Neighborhood: __________________] – 5 points
   ___ No – 0 points

3. The proposed development provides good quality design, construction materials, and amenities.

   ___ Project has more than 15% usable open space – 5 points
   ___ Project has 10-15% usable open space – 3 points

   Amenities include: (1 point each)
   ___ Pool and/or outdoor recreation area
   ___ Clubhouse
   ___ Free covered parking (minimum 1 space per unit)
   ___ Free extra storage
   ___ All 2BR and larger units have at least 2 bathrooms
   ___ New construction, or rehabilitation will exceed $15,000 per unit – 10 points
   ___ Rehabilitation will exceed $10,000 per unit – 5 points

4. The project will result in a mixed income population.
   ___ Every 10% increment of market rate units (to a maximum of 60% market rate) – 2 points

5. The project will serve non-elderly residents.
   ___ Every 10% increment of 2+BR units – 2 points

6. The project serves special needs residents.
   ___ Every 10% increment of units restricted to special needs residents – 3 points

7. The project provides accessible units for residents with disabilities.
   ___ Every 5% increment of units that are accessible to persons with disabilities – 3 points

8. The project owner will provide (directly or through a 5+ year contract) the following supportive services. 5 points awarded for each service, not to exceed a total of 15 points.

- ___ Case Manager
- ___ After school tutoring
- ___ Family counseling
- ___ Healthcare services
- ___ Job training
- ___ Other: ____________________

9. The project is located within ¼ mile of a public school, park or recreational facility, full service grocery store, public transportation, hospital, or senior center.

- ___ Public school – 3 points
- ___ Park, recreation center, library, senior center – 3 points
- ___ Grocery store – 5 points
- ___ Public transportation – 5 points
- ___ Hospital – 2 points

10. The proposal furthers the Citywide scattering of low-income households in non-impacted census tracts.

- ___ Located in a High Priority urban village – 5 points
- ___ Located in a Medium – High Priority urban village – 3 points
- ___ Located in a Medium – Low Priority urban village – 1 point
- ___ Located in a Low Priority urban village – 0 points

Urban Village: __________________________

11. The extent to which equity investment represents more than 5% of the total development budget.

- ___ Equity exceeds 40% of total development cost – 10 points
- ___ Equity is 25%- 40% of total development cost – 7 points
- ___ Equity is 16% - 24% of total development cost – 4 points
- ___ Equity is 5% - 15% of total development cost – 2 point
- ___ Equity is less than 5% of total development cost – 0 points

12. Department funds are well leveraged by other funding sources.

- ___ Loan is less than 50% of total development cost – 5 points
- ___ Loan is 51% - 75% of total development cost – 3 points
- ___ Loan is more than 75% of total development cost – 0 points

13. Proposed rents are lower than maximum allowable program rents.

- ___ Rents more than 15% below maximum – 10 points
- ___ Rents are 11% - 15% below maximum – 8 points
- ___ Rents are 6%- 10% below maximum – 4 points
- ___ Rents are within 5% of maximum – 0 points

14. The project will be subject to extended affordability restrictions.
 ___ Restriction period is at least 55 years – 10 points
 ___ Restriction period exceeds 45 years – 8 points
 ___ Restriction period exceeds 30 years – 3 points
 ___ Restrictions are less than 30 years – 0 points

15. The proposal includes energy efficiency improvements.
 ___ Double-paned, Low-E windows – 2 points
 ___ HVAC with SEER Rating greater than 10 – 5 points
 ___ All unit appliances are "Energy Star" rated – 5 points
 ___ Services of a qualified energy efficiency consultant are utilized during the project design phase and recommendations have been incorporated into the project design – 8 points
 ___ Landscape designs utilize xeriscape principles to conserve water usage – 5 points

16. The project will contribute to the upgrading and/or improved appearance and stability of the surrounding neighborhood.
 ___ Yes – 5 points
 ___ No – 0 points

17. The project provides larger than average units.
 ___ Larger than average unit size – 5 points
 ___ Average unit size – 2 points
 ___ Below average unit size – 0 points

Average unit sizes: 0BR = 425 sf
1BR = 675 sf
2BR = 875 sf
3BR = 1175 sf

18. The development will include participation by minority or women-owned enterprises or a community based non-profit organization.
 ___ Yes – 5 points
 ___ No – 0 points

19. The applicant is a CHDO and the proposed activity counts toward the 15% set-aside for use by CHDOs.
 ___ Yes – 10 points
 ___ No – 0 points

20. The development has received all other necessary funding commitments and can begin construction within 4 months of Department approval.
 ___ Yes – 10 points
 ___ No – 0 points

<u>Attachment E</u>: Affordable Housing Dispersion Policy

- Phoenix Urban Villages (see map in 2005-2006 Annual Action Plan)

  High Priority Urban Villages
  - Ahwatukee Foothills
  - Deer Valley
  - Paradise Valley
  - North Mountain
  - Desert View
  - North Gateway

  Medium High Priority Urban Villages
  - Camelback East
  - Encanto

  Medium Low Priority
  - Alhambra
  - Maryvale
  - Estrella

  Low Priority
  - Central City
  - South Mountain
  - Laveen

- Affordable Housing Dispersion Policy Narrative

City of Phoenix
HOUSING DEPARTMENT

AFFORDABLE HOUSING DISPERSION POLICY

The city of Phoenix strives to disperse the location of affordable housing throughout the community. Affordable housing is usually defined as housing that costs no more than 30% of a family's annual income. For this discussion, the City of Phoenix Housing Dispersion Policy addresses families at or below 80% of Area Median Income.

Dispersing affordable housing throughout the city of Phoenix relieves possible impacts such concentrations could have on neighborhoods. Concentrations of low income households, especially families, into specific neighborhoods or developments, may burden an already impacted neighborhood. Impacted neighborhoods are those census tracts where over one-half of the households earn below 80% of Area Median Income. Scattering affordable housing throughout the community increases social, cultural and economic opportunity and choice for all residents in Phoenix and avoids creating conditions that could economically depress a neighborhood.

The City considers two factors when determining whether a property aids in the dispersal of affordable housing units:

- Is the property located outside of an impacted area, and
- Is the property located within a high priority area of the city.

The priority of an area is based upon the amount of existing affordable housing in relation to the overall housing. A high priority area of the city has a lower ratio of affordable housing to overall housing, while low priority areas have a higher ratio of affordable housing to total housing. Low priority areas are considered the most impacted.

The Phoenix City Council has formulated the following policies regarding the dispersion of affordable housing citywide and within developments.

Citywide Dispersion of Proposed Affordable Rental Housing

- ***Family Housing*:** New construction of rental housing in census tracts that have a high concentration of lower income households (impacted areas) would be discouraged. Acquisition/rehabilitation of family rental units would be acceptable throughout Phoenix, provided that doing so does not conflict with other City policies discussed below.

- ***Senior Citizen Housing*:** New construction and acquisition and/or rehabilitation of units for lower income senior citizens would be acceptable throughout Phoenix.

- ***Special Needs Populations*:** New construction and acquisition and/or rehabilitation of rental units for special populations (i.e., disabled, frail elderly, seriously mentally ill, etc.) would be acceptable throughout Phoenix, subject to a case-by-case review.

Priority rankings are used to distribute future family affordable rental housing into various areas of the city. These priority rankings or guidelines are followed in an effort to expand housing opportunity and choice in all parts of the City and to avoid high concentrations of affordable rental housing in certain areas. The Urban Village priority rankings were developed by taking an inventory of family assisted housing located within each Urban Village and then estimating the number of dwelling units that each Urban Village would have in the future. The rankings were based on the ratio of family assisted units to total units.

Affordable Rental Housing Within Developments

- ***Family Housing*:** It is the City's policy to limit lower income rental housing units WITHIN larger multifamily projects. In general, the greater the percentage of lower income households in the area (census blocks or tracts) the less the percentage of rental units in the development that should be designated for lower income families.

  New Construction

  - In general, the City will not support any new multifamily development where: i) in high priority Urban Villages, greater than 60% of the units will be designated for families earning less than 60% AMI, or ii) in all other Urban Villages, greater than 40% of the units will be designated for families earning less than 60% AMI. The city will consider a 100% affordable unit complex within high priority areas contingent upon certain criteria, such criteria to include, but not be limited to, affordable housing experience, quality design, above average amenities, and community support. Although exceptions up to 100% are intended to be limited to high priority areas, they may be afforded to projects being considered in other areas of the City upon concurrence by the Phoenix City Council.

  - Proposals for the new construction of housing for families earning less than 60% of area median income consisting of up to 25 units may be acceptable. These proposals will also be evaluated on a case-by-case basis to determine the impact on the area.

  Acquisition/Rehabilitation

  - The City generally discourages the acquisition and/or rehabilitation of large multifamily complexes where more than 40% of the units would be designated for families earning less than 60% AMI. Proposals involving the acquisition of large apartment complexes will be evaluated on a case-by-case basis to determine if designating greater than 40% of the units for households with incomes below 60% AMI impacts the area.

- ***Senior Citizen Housing*****:** Developments for senior citizens may designate up to 100% of the units for lower income households.

- ***Special Needs Populations***: Complexes serving special needs populations may designate up to 100% of the units for lower income households, subject to a case-by-case review. The number of units in the complex and the strength and experience of the developer/manager and program will be important factors in determining the acceptance of the proposal.

<u>Attachment F</u>: Affordable Housing Loan Program Funding Application

Available at ftp://phoenix.gov/pub/HOUSING/fundap05.pdf

<u>Attachment G</u>: Development Budget Templates

Available at http://phoenix.gov/HOUSING/u_dpw.pdf

<u>Attachment H</u>: Rent, Affordability & Occupancy Limits

HUD 2007 Income Limits for Phoenix-Mesa Metropolitan Statistical Area								
Family Size	1	2	3	4	5	6	7	8
50% AMI	$21,050	$24,050	$27,050	$30,050	$32,450	$34,850	$37,250	$39,650
60% AMI	$25,250	$28,850	$32,450	$36,050	$38,950	$41,800	$44,700	$47,600

City of Phoenix Maximum Occupancy Standards and Maximum Rent Including Utilities				
Unit Size	Maximum Occupancy (note 1)		50% AMI Gross Rent (note 2)	60% AMI Gross Rent (note 2)
Studio	1		$483	$513
1	2		$552	$588
2	4		$646	$696
3	6		$687	$762
4	8		$751	$855

Note 1: The City of Phoenix maximum occupancy standards allow two persons per sleeping room. Occupancy exceptions will be considered if a family has special circumstances that are justified in writing. Exceptions will not exceed HUD's Housing Quality Standards (HQS) which allow two persons per living/sleeping room.

Note 2: The City of Phoenix maximum rents are generally lower than HUD or State of Arizona maximum rents. The City of Phoenix rents are established by evaluating the City of Phoenix (only) fair market rents. Maximum rents are the lower of HUD fair market rents for the metropolitan statistical area or the City of Phoenix fair market rents adjusted for income and family size.

Note 3: These above limits apply to all programs administered by the Housing Department, regardless of funding source.

Attachment I: Summary of Special Needs Housing Loan Program

	Gap – Special Needs Housing
Funding Sources	HOME, GO Bonds, HOPWA, CDBG
Eligible Borrowers	Non-Profit 501c3
Loan Size / Quantity	$1,500,000 per loan 1 loan per year per applicant
Term	Acquisition & Construction: to 24 months Permanent: to 30 years
Interest Rate	0%
Maximum Loan to Value Ratio	Not Applicable; however, at least 10% of the development cost must be funded by non-City sources and property purchase price may not exceed appraised fair market value
Minimum Debt Service Coverage Ratio	1.15 combined on all must-pay debt
Repayment	Deferred until Permanent phase No payment if demonstrated inability to pay debt service, forgiven at end of term If ability to pay, repayment from 50% of any residual receipts
Security	Construction & Permanent loans are secured by a promissory note, deed of trust, and Declaration of Affirmative Land Use or Special Warranty Deed
Leveraging	Loans $400,000 or greater must utilize other available financing programs to minimize City participation

	Gap – Special Needs Housing
Affordability Requirement	All assisted units at or below 50% AMI or homeless Affordability covenant is 30 years
Allowable Uses	Site acquisition, construction, soft costs, etc. associated with affordable units within defined Special Needs facilities
Selection Method	Open Application, NOFA, RFP
Application Deadlines	Applications must be submitted by NOFA/RFP deadlines; open applications due first day of each month; applications for tax credit assisted projects or IDA tax-exempt bonds must be submitted at least 60 calendar days prior to ADOH or IDA application deadlines
Staff Review Processing Timeline	Loans up to $400,000 = 45 calendar days Loans greater than $400,000 = 60 calendar days

CHAPTER 3: Homeownership Assistance Loan Programs

The Department offers the programs described below which are designed to expand homeownership opportunities in conjunction with homeownership counseling programs. They are funded primarily with HOME funds. Other programs offered through redevelopment requests for proposals or which are funded primarily with CDBG funds may have different terms**.** The Department may consider other homeownership assistance proposals from non-profit agencies that will promote the concept of long-term affordable homeownership. The City provides construction loans to non-profit organizations that develop homeownership projects, as well as down payment and closing cost assistance programs for qualified homebuyers. The following categories of funding programs are available: Homebuyer assistance and Development/Developer assistance.

In all programs, **first-time homebuyers** must meet the following criteria:

A. Not owned their principal residence during the previous 3 years, unless ownership in a home was dissolved due to a divorce.
B. Household median income level does not exceed 80% of the median income level for the Phoenix area, adjusted for family size.
C. Family must contribute a minimum of $1,000 of their own funds towards the purchase.
D. The property must be the family's principal residence – the Department does not provide assistance for "Rent to Own" or "Lease-Purchase" transactions.
E. The purchase price may not exceed 90% of the FHA mortgage limit for one unit established for the City of Phoenix.
F. Qualifying debt - 28%-33% for the housing debt and up to 43% total debt (consult with Housing staff regarding any mitigating circumstances).
G. Family must receive a certification of completion for pre-purchase counseling.
H. Property must be located in the City of Phoenix

City assistance cannot be combined with any other form of City financial assistance except as approved through redevelopment area contracts or the Infill Fee Waiver Program.

3.1 Homebuyer Assistance Programs

The Department offers three first-time homebuyer assistance programs:

1. Closing Cost Grant
2. American Dream Down Payment Initiative (ADDI)
3. Shared Equity Down Payment Assistance Program (SEDAP)

3.1.1 The Closing Cost Grant Program

The Department provides grants, through non-profit housing counseling agencies, of up to $2,000 to low income first-time homebuyers having income at or below 80% AMI for the purchase of a single family home. These grants require no period of affordability and are offered on a citywide basis when funds are available. The grants are available for the purchase of existing housing only. Homes must not contain any exterior code violations, safety violations, or poor roofing.

3.1.2 The American Dream Down Payment Initiative Program (ADDI)

The Department contracts with HUD-certified non-profit counseling agencies who determine the eligibility of families to receive a deferred loan of $10,000. The 0% deferred loan may be used towards closing costs with any balance applied to down payment to buy down the principal balance of the mortgage. No cash back is allowed to the buyer.

Loans are secured by a City Deed of Trust. The period of affordability is ten (10) years. The family must own and occupy the home as their primary residence for the full 10 year period of affordability. Upon sale and/or evidence of default as defined in the loan agreement, the original loan amount will be due and recaptured by the Department.

Homes may be existing or new construction, must be located in the City of Phoenix and must pass a Housing Quality Standards Inspection (HQS).

Environmental rules may limit the number of loans that may be awarded by the same nonprofit for a newly constructed house in any new subdivision or housing development; or, within 2,000 contiguous feet of each other in an infill project without a City environmental clearance assessment (which may take 4-6 months).

3.1.3 The Shared Equity Down Payment Assistance Program (SEDAP)

The SEDAP program is tied to a buyer who can purchase a new home anywhere in the city. This is not a geographically tied program.

The Department contracts with HUD-certified non-profit counseling agencies which determine the eligibility of families to receive a shared equity down payment assistance 0% loan of up to $40,000 (based upon need). The loan may be used for down payment and closing costs towards the purchase of a newly constructed home.

Loans are secured by a City Deed of Trust and cannot be combined with any other form of City financial assistance except as approved through redevelopment area contracts or the Infill Fee Waiver Program.

Environmental rules may limit the number of loans that may be awarded through the same nonprofit for a newly constructed house in any new subdivision or housing development; or, within 2,000 contiguous feet of each other in an infill project without a City environmental clearance assessment (which may take 4-6 months). The intent for streamlined reviews is that the program is buyer driven (and they may choose any site) rather than developer or product driven (where assistance is associated with a location).

Upon sale and/or evidence of default as defined in the loan agreement, the original loan amount plus or minus a percentage of the appreciation or depreciation will be due to the Department. The percent appreciation/depreciation due is based on whether there is a gain or loss from a subsequent sale. Gain or loss from the borrower's sale shall be calculated as the subsequent sales price minus the allowed costs of sale minus the original cost of acquisition (original purchase price plus closing costs). If there is a loss, then 100% of such amount will be reduced from the City's original loan. If there is a gain, then the City will be paid its original loan plus a share of the appreciation, based on the percentage of the Department's shared equity loan to the Total Acquisition Cost (total of all funding at close of purchase) and the value of the anti-windfall note.

The difference between the SEDAP and the Development Assistance Loan is that the SEDAP is tied to a buyer who can purchase a new home anywhere in the city. The SEDAP is not a geographically tied program.

More details regarding the Development Assistance Loan are available below.

The return on equity will be calculated as follows:

Example 1:	
Total Acquisition Cost (including closing costs)	*$170,000*
<u>Funding at purchase:</u>	
First Mortgage	*$129,000*
Buyer's own down payment	*$ 1,000*
Shared Equity Loan	*$ 40,000*
Shared Equity Percentage ($40K/$170K)	*23.5%*
Subsequent Adjusted Sales Price (incl closing costs)	*$207,000*
-Original Acquisition Cost	*($170,000)*
=Appreciation	*$ 37,000*
Amount Due Department upon sale:	
Original Shared Equity Loan	*$ 40,000*
Department's Share of Equity/Appreciation	
23.5% of $37,000	*$ 8,695*
Total Amount Due Department	*$ 48,695*
Remaining Funds to the Family:	
Subsequent Adjusted Sales Price (incl closing costs)	*$207,000*
(Assumed) Balance of Mortgage	*$120,000*
Less Amount Due Department	*$ 48,695*
Remaining Funds to the Family	*$ 38,305*

3.2 Development Assistance Program

Developers including nonprofits, must utilize this program if the down payment assistance is linked to a development project or is geographically targeted. The above program is used when the assistance is tied to the buyer who can purchase a new home anywhere in the city.

3.2.1 Shared Equity Down Payment Program with optional Acquisition/Construction Loan for Nonprofits

The City provides construction loans to non-profit organizations that develop homeownership projects, as well as down payment and closing cost assistance programs for qualified homebuyers.

The Department provides limited loans to non-profit developers, working independently or in partnership with a for profit developer, for new construction. Upon completion, a shared equity loan of up to $40,000 (based upon need) may be provided to eligible families. The developer must either be or contract with a HUD-certified non-profit counseling agency to determine the eligibility of families. A non-profit developer that is also a housing counseling agency may process loans for the development.

A. Program Requirements:

- Homes must be located within the city of Phoenix.
- If a development is planned, no more than 51% of the dwellings may receive Department assistance; or, be restricted to lower income homebuyers, unless otherwise approved by the Department.
- The department encourages mixed income development in all housing types.
- Must have a minimum of 3 bedrooms. Four or more bedrooms will be permitted only if needed to accommodate family size. Exceptions may be approved by Department staff for town home and condominium properties where fewer bedrooms are more typical.
- Homes must pass a Phoenix Housing Quality Standards inspection.
- The purchase price must not exceed 90% of the FHA mortgage limit for one (1) unit established for the City of Phoenix.
- The net purchase price/mortgage must not exceed the greater of appraised value or the total development cost, as approved by the Department.
- Homes must be modest in design (i.e.; no pools, dens, fireplaces, premium lots, or upgrades from basic model.) The Department must approve the development design, home plans and specifications.
- Single family homes should meet the City's Infill Housing Program Development and the City's design standards.
- The Department will perform the appropriate environmental review.

B. Eligible Borrowers: Construction loans are provided only to non-profit developers that provide evidence of IRS Section 501(c)(3) status. Developers must demonstrate experience in the successful development and sale of single family homes.

C. Loan Terms:

- Loan terms of up to 24 months
- Interest rate of 0%
- Maximum loan size is the lesser of $2,000,000 or $100,000 per dwelling unit

D. Repayment: Payments are not required during the construction phase. The principal of any construction phase loan is payable upon sale/closing of the homes.

E. Developer Fee: A developer fee of 10% of hard and soft costs may be included in the development budget for each dwelling unit assisted by the City. The 10% developer fee for non-assisted units is not regulated.

F. Security: A Deed of Trust, Promissory Note, and Special Warranty Deed or Declaration of Affirmative Land Use Restrictions will be required for every loan.

G. Recourse: Construction Phase loans are provided on a recourse basis and are also secured by collateral. Loans may be cross-collateralized against properties included in the same financing transaction.

H. Funding Conditions: Prior to, or concurrently with, Construction Phase loan funding, the borrower must provide evidence of the following:

- All other necessary construction funding sources have been committed and closed.
- Binding commitments are in place for all sources of permanent "take out" financing.
- Qualified homebuyers have been identified and have entered into purchase contracts for all the units that will begin construction.
- Building permits have been approved and are ready to issue.
- A fixed price general contract has been executed and is based on the final approved plans and specifications.

I. Transfer: Development loans or loan commitments are not assignable or transferable.

J. Construction: Construction may begin only with the express written approval of the Department (a preconstruction conference must be held among the Department, the developer, and the contractor - the Department must issue a Notice to Proceed). For single family detached homes, construction specifications should comply with the City's Infill Housing Standards.

K. Affirmative Marketing: The Developer will be obligated to comply with Department policies and all applicable federal, state and local laws, codes and ordinances regarding nondiscrimination in the sale and occupancy of the units

L. Prevailing Wage Policy: All applicants receiving acquisition or construction financing from HOME funds that assist 12 or more units or construction funding from CDBG funds that assist a project with 8 or more units must comply with Federal Davis-Bacon wage requirements.

3.2.2 The Shared Equity Second Mortgage Buyer Assistance Loan

The Shared Equity Second Mortgage Buyer Assistance Loan is available to first-time home buyers as part of the Development Assistance Program. The down payment assistance loan is available through the non-profit developer, whether or not the developer also utilizes the funds for development (acquisition or construction) purposes.

An additional note will be required when there is the difference between the sales prices and a higher appraised value; this is referred to as the anti-windfall note. On the city-assisted units, this value must be captured in a shared equity note recorded to the city's benefit. For units in the development or agency work plan that are not city-assisted, the developer may require payment in cash, take a note to their own benefit, allow the buyer to realize this immediate equity, or some combination of these. Loans are secured by a Deed of Trust.

If a family sells the house (for any reason) and/or there is evidence of default as defined in the loan agreement, the loan principal and a percentage of the equity will be due to the Department. The following Shared Equity Second Mortgage Down Payment Loan calculation will be utilized when the Department has a contractual relationship with the developer:

Example:		
Total Acquisition Cost (incl closing cost)		*$205,000*
Less Closing Cost (to be included in Buyer Assistance)		*$ 5,000*
Sales Price/Appraisal		*$200,000*
Total Development Cost (TDC)		*$150,000*
Difference (Anti-Windfall Loan)		*$ 50,000*
TDC	*$150,000*	
Closing Costs	*5,000*	
TDC + CC		*$155,000*
Mortgage	*$129,000*	
Buyer Down Payment (min 1,000)	*$ 1,000*	
Total Buyer Investment		*$130,000*
Shared Equity 2nd Mortgage Buyers Assistance Loan (Shortfall)		*$ 25,000*
SEMBA	*$ 25,000*	
Anti-Windfall Loan	*$ 50,000*	
Total Shared Equity Mortgage Lien Amount		
Anti-Windfall + Shortfall Loan	*$ 75,000*	
Shared Equity % ($75k/$205k)	*36.5%*	
Subsequent Adjusted Sales Price (incl closing costs)	*$245,000*	
Original Total Acquisition Cost	*$205,000*	
Increased Equity/Appreciation	*$ 40,000*	
Amount Due City of Phoenix Housing Department:		
Total Shared Equity Mortgage Loan	*$ 75,000*	
Department's Share of Equity/		
Appreciation – 36.5% of $40,000	*$ 14,600*	
Total Amount Due Housing Department	*$ 89,000*	
Remaining Funds to the Family:		
Subsequent Adjusted Sales Price (net of closing costs)	*$245,000*	
Balance of Mortgage (assumed)	*$115,000*	
Amount due Department	*$ 89,000*	
Remaining Funds to the Family	*$ 41,000*	

3.3 Application Processing Flexibility and Predictability

In order to be responsive to opportunities while assuring predictability and efficiency in leveraging other resources, the City established the following process for Homeownership development applicants:

Applications for these loan types can be submitted by the 1st of any month during the year. On the 1st, staff assignments will be made on any applications received by that date. Each application form will include a standard checklist of items to be submitted by the applicant.

City review, recommendation, and City Council authorization, if approved, typically occurs within 90 calendar days. A closing schedule will also be part of the application, with closing of the loan expected within 90 calendar days of City Council approval unless otherwise extended to meet other funding source deadline or environmental clearance.

Assistance to Projects

The purpose of City loans is to assist qualifying projects, i.e., the City will only make loans that are part of a specific project transaction. The City will not make loans that are unsecured or lack sufficient collateral. Loan requests will be reviewed based on the merits and economics of the project and the full capability of the borrower and development team with successful past experience with similar type and scale of projects.

The City will not financially participate in the refinancing of a non-profit owned project where there is cash out to the non-profit agency. The City does not intend to participate in a transaction where an owner receives cash back in the refinancing or sale of a property for a profit or gain. This includes other transactions with similar results.

Avoiding and Dealing with Project Performance Problems

The City will not advance additional funds for projects it has previously assisted. Program funds are designed to create new or additional affordable units. Any additional funds or write-offs are the responsibility of the developer, investors, tax credit partners or the first mortgage lender. The City will not be subordinated to these additional investments.

The City, at its sole discretion, may consider the allocation of additional funding to non-profit developers experiencing extraordinary cost increases realized between the date of initial City Council funding approval and end of construction. However, the City will look for additional public benefit and/or greater return on its investment. The City will not retroactively consider such requests after substantial completion of a project has been reached.

3.4 Basic Requirements For All Applications

The following basic requirements apply to the loan programs, however, for projects that only utilize down payment assistance, some of these terms do not apply:

- *Feasibility Assessment:* Due to market location, prevailing economic conditions, low income rent targeting, or property operating costs, the typical affordable housing development is economically infeasible but for some degree of public financial assistance. The Department may provide assistance to projects in the amount minimally required to create financial feasibility.

- *Leverage Objective:* Prior to submitting a funding application to the Department, the developer shall demonstrate efforts to effectively leverage the use of public and private funds for the proposed project by identifying other available programs and designing the project to qualify for relevant sources of assistance.

- *Loan Security:* Department financial participation shall be in the form of loans, and shall be secured by a recorded Deed of Trust and the Uniform Commercial Code (UCC) Financing Statement and personal guarantees, as required by the department.

- *Continuing Affordability:* A Special Warranty Deed or Declaration of Affirmative Land Use Restrictive Covenants will be recorded to ensure compliance with applicable regulatory restrictions. The length of affordability will be determined based on the amount of the City's loan. Generally, it will be 10 years for a loan up to $10,000 and 20 years for a loan greater than $10,000.

- *Economic Viability and Dispersion Goals:* Development proposals shall appropriately consider prevailing market conditions such as sales comparability and neighborhood impact to ensure that projects are well located and contribute to neighborhood stability and vitality.

- *Environmental Assessment (EA) and Clearance:* All projects must undergo an environmental assessment before funds may be released. If federal funds are involved in the project through a City loan or other, no project acquisition (exempting reasonable down payment costs) or construction activities may take place after application submittal and prior to the completion of the environmental clearance process, regardless of the source of funds.

- *Consolidated Plan Consistency:* The programs and projects must serve a balance of families, senior citizens, and special needs populations. The specific weight given to each program and project will be consistent with the City of Phoenix Housing Element and Consolidated Plan.

- *Readiness:* Federal subsidies often require that funds committed be expended within a fixed time period. Therefore, projects submitted must demonstrate their readiness to begin implementation.

- *Equal Opportunity / Affirmative Action:* All suppliers, contractors and lessees wishing to enter into a business relationship with the City of Phoenix must comply with either Article IV or V of Chapter 18 of the City Code, as appropriate. Compliance is achieved by submission of the affirmative action reporting forms. Forms may be obtained from the Equal Opportunity Department, Affirmative Action Division, 251 W. Washington St., 7th Floor, Phoenix, AZ 85003-2107, Tel: (602) 262-6790. The Phoenix Housing Department encourages the use of Minority Business Enterprises (MBE), Women Business Enterprises (WBE) and disadvantaged firms in carrying out all of its loan programs. A directory of City certified MBE/WBE firms can be found at http://phoenix.gov/EOD/newcerts.html.

- *Development Standards:* After rehabilitation or development, all properties must meet the federal Housing Quality Standards and the Phoenix Rehabilitation Standards. The standards ensure long term viability of the property. The standards include minimum accessibility standards as well.

- *Waiver Requests:* Waivers are discouraged and will only be considered when they will result in a project which will better serve the affordable housing objectives of the Housing Department.

As one of several lenders, the City may consider forbearance agreements on the same terms provided by senior lenders. Consideration of forbearance to a project with an existing City loan requires an application, new set aside units, and a new review of the project.

The City may consider funding requests for troubled projects it has not previously assisted on the same basis of evaluation as it considers new loan requests, whereby additional affordability will be required in exchange for the City loan.

3.5 Overall Application Processing Procedure

Processes are described in the following phases:

- Pre-Application Review
- Application

- Evaluation
- Commitment
- Funding
- Performance
- Compliance & Monitoring

Pre-Application Review Phase

Prior to receipt of a loan application, Department staff is available to address questions from potential developers and provide pre-submittal consultations regarding specific project concepts. While such consultations do not commit the Department to fund a particular proposal, they provide valuable insight into the prospective benefits, funding availability, and issues associated with a potential development.

This process is mutually beneficial to the Department and developer and is encouraged. Early knowledge of the project enables staff to begin performing a variety of regulatory reviews (including archaeology, environmental impacts, flood, Sec. 404, etc.) and avoid undesirable delays at a later point in the development cycle. Developers are encouraged to notify the Department by submitting a written "Interest Letter" as early as possible in the development process – please refer to Appendix B regarding the Environmental Review process.

IMPORTANT NOTE: If after applying for City of Phoenix Housing Department funds, federal funds are required to make a project feasible, then the following items need to be completed prior to any activity or expenditure of funds from any source on the project:

- Federal regulations require an environmental assessment must be completed and a Release of Funds obtained from HUD.
- City of Phoenix Council approval for commitment and expenditure of funds must also be obtained.

Application Phase

Applications are submitted through an open application, site-specific RFP, or Notice Of Funding Availability (NOFA) process depending upon loan program. Department staff is available to address questions from potential developers regarding program objectives, specific application requirements, funding program regulations, and project proposals.

Applications must be submitted at least 60 calendar days prior to the date upon which an official Department action (including letters of support, conditional commitments, etc.) is required. This period provides adequate time for the Department to carefully review applications and provide consistent service to all applicants.

- *Communication:* The Department will send each applicant an acknowledgement that the application has been received within 7 days.

Evaluation Phase

Upon receipt, each application is assigned to a Department staff member for review. Applications are first reviewed for completeness, then for compliance with all applicable threshold requirements, and finally for individual feasibility and scoring purposes. To achieve consistent review and comparison among competing proposals, the Department may assign the same sections of multiple applications to a single reviewer rather than assigning a single application to a single reviewer in its entirety.

- *Communication:* Applicants will be notified which staff member has been assigned to manage the application review and whether the application has passed the threshold review. At the discretion of

Department management, applicants may be given specific time frames to respond to deficiencies in their proposals prior to being disqualified. Applicants who fail to respond within the prescribed period will be dropped from the review of applications.

During the process of application evaluation, Department staff will perform a range of underwriting tasks and will prepare a staff recommendation containing a written loan underwriting narrative with accompanying financial schedules.

- *Communication:* The staff member will discuss the staff review, concerns, and issues with the applicant as needed.

The staff recommendation will then be reviewed by a Department loan committee and management and approved, approved with conditions, or declined.

- *Communication:* Applicants will be notified of the loan committee decision within 3 calendar days following the decision date. A decision will be made within 60 calendar days after receipt of an application.

Final loan approvals will be issued as soon as possible thereafter, using one of the following methods:

1. Projects ready for immediate funding will be presented to Department management, and to City Council if applicable, for final approval.

2. Projects with longer lead times may be issued a support letter that can be used for purposes of requesting funding from other sources to complete the project financing requirements. The support letter will also serve as a conditional funding reservation for a specified period of time. The Department may decline to fund applications whose funding reservations have expired.

   Prior to expiration of the conditional reservation, and upon receipt of evidence from the applicant that other necessary funding has been obtained and the project is ready to proceed, Department staff will review the transaction to ensure that it remains consistent with the original application. Projects that have changed materially from the original application will be resubmitted to the Department loan committee for approval, and may be approved, approved with conditions, or declined. Projects consistent with their original applications and changed projects subsequently approved by loan committee will be presented to Department management, and to City Council if applicable, for final approval.

- *Communication:* Applicants will be notified of all City Council hearings and final loan approval or conditional funding reservation within 3 calendar days following the management and/or City Council action.

<u>Commitment Phase</u>

Following final loan approval, the assigned housing staff member is responsible for preparing the formal loan commitment and incorporating any special conditions. The Department will also complete any necessary regulatory review and include any required mitigation measures in the commitment.

- *Communication:* Applicants will be provided a copy of the formal loan commitment within 20 calendar days after the date the management and/or City Council action.

Developers that are required to comply with prevailing wage regulations as a condition of their commitments should schedule a meeting with Department staff to ensure that the development team and contractor understand the implication of prevailing wage monitoring on the construction process and that appropriate provisions are included in construction contracts.

Funding Phase

In preparation for loan funding, the designated staff member will perform the following:

- Document Preparation: Completing the final loan documents (Loan Agreement, Promissory Note, Deed of Trust, UCC Financing Statement, Special Warranty Deed or Declaration of Affirmative Land Use Restrictions, as applicable) to include any special funding conditions and mitigation measures required by an environmental review.

- Verification of Closing Conditions: Review all pre-funding conditions of the Loan Commitment to ensure that the borrower has complied with conditions and provided necessary documentation.

Prior to signing of loan documents, applicants may request a meeting with Department staff to review the Department's escrow instructions, conditions for disbursement of any funds, recordation of documents, title insurance policy requirements, and post-closing reporting and compliance expectations.

- Scheduling the Closing: Department staff shall be responsible for scheduling the closing, collecting, and reviewing final loan documents.

- Loan Funding: Prior to disbursement of loan funds, the Department must receive the following:

  - Original or certified copies of executed loan documents
  - Proof of current property tax payments
  - Proof of insurance meeting City insurance requirements
  - Title insurance meeting Department standards
  - Proof of environmental clearance
  - Proof of compliance with prevailing wage requirements, if applicable

Development Phase

Borrowers must comply with various provisions of the loan agreements that begin during the development period. These provisions may include timely submission of construction progress reports, copies of draw requests, project and/or developer financing statements, prevailing wage compliance reports, etc.

A Department staff member will be assigned as the borrower's principal contact during the development process; this person will serve as the focal point for coordinating between the borrower and City departments responsible for the enforcement of Federal, State and Local regulations such as NEPA, MBE/WBE, prevailing wages, etc.

Compliance & Monitoring Phase

Upon project completion, a Department asset management staff member will be assigned to each project. This individual will serve as the borrower's primary contact during the operating phase of the development and is responsible for reviewing continuing compliance with regulatory agreements, each project's financial performance, and verification of timely payment of mortgage payments and any residual receipts payments, and closing of individual mortgages/assistance.

Reporting

Borrowers, as stated in the loan agreements, will be required to periodically report to the Housing Department to ensure compliance. The required reports shall provide information on the beneficiaries (homebuyers, renters, special needs populations) of the Housing Department funding and the financial condition of the borrower/project.

3.6 Other Available Assistance Programs

This section offers some One-Stop Shop referrals to other housing programs supported/delivered by the City.

Fee Waivers (Infill Housing Program)

The Business Customer Service Center offers up to $1,200 per unit fee waivers for new single family owner occupied houses complying with the Infill Program guidelines. Program goals are to encourage homeownership, develop vacant properties, and eliminate blight in the central city. See the website at www.phoenix.gov/BCSC or call 602-534-2000 for additional information.

Land Assembly, Infrastructure Funding, Technical Assistance (Redevelopment)

Within the City's redevelopment areas (RDAs) and Neighborhood Initiative Areas (NIAs), various departments support community-driven plans and project objectives to rehabilitate properties and create new housing opportunities, primarily homeownership (among other redevelopment/revitalization strategies they implement). Competitive solicitations (Requests for Proposals) for redevelopment projects are periodically issued. The Housing Department will require the support of the lead department for projects located in an RDA or NIA or certain targeted areas identified below.

Lead Department/Contact information	Areas
Downtown Development Office www.phoenix.gov/downtown	Downtown Transit overlay areas
HOPE VI Office www.phoenix.gov/HOPEVI	Hope VI Special RDA

For further information on Priority Areas please visit:
http://phoenix.gov/NSD/nsd.pdf (maps)

Homeowner Housing Rehabilitation Program information, contact the Neighborhood Services Department ("NSD") at 602-495-0700 (homeowners) or 602-495-5249 (Neighborhood Revitalization Open Application for nonprofit agencies).

3.7 Single-Family Mortgage Revenue Bond Program

The Phoenix Industrial Development Authority and the County of Maricopa Industrial Development Authority offer the *Home In 5* Mortgage Assistance Program for first-time homebuyers. The *Home In 5 Program* is designed to help families purchase a newly-constructed or existing home by providing an attractive mortgage loan interest rate with a 5% grant for down payment and closing costs assistance. The Program can assist families with incomes up to 115% AMI and houses may be located anywhere in Maricopa County. Target-Area and Non-target Area income and purchase price limits apply.

For more information visit http://phoenix.gov/HOUSING/sfmrbp.html.

Attachment A: Standard Underwriting Assumptions

Applicants must provide a detailed development budget with full sources and uses.

Design Requirements:

Mixed Income: Mixed income developments are encouraged.

Affordable Units Within the Project: The affordable units must be scattered throughout the project and have the same proportional mix, sq. ft., and amenities as non-restricted units.

Minimum Unit Size for Single Family Detached Construction shall comply with current City Infill Standards.

Quality: Project amenities and construction quality must be at least comparable to good quality market rate units in the surrounding areas, as determined by a market study.

Attachment B: Environmental Reviews

Projects that are entirely or partially funded by Federal funds require a review under the National Environmental Policy Act of 1969 (NEPA) which we generally refer to as the "environmental." This review is extensive and different than the Phase I environmental assessment completed as part of a developer's due diligence.

The following chart indicates the various types of clearance that may occur for a project. Acquisition with rehabilitation projects will frequently, though not always, be cleared as Categorically Excluded and converted to Exempt (24 CFR 58.34 – 58.35). Most, if not all, new construction and demolition projects will require the more extensive Environmental Assessment (24 CFR 58.36) to be cleared.

Timing

It is difficult to determine the timeline for completion of an Environmental Clearance Request (ECR) because it is affected by the findings of the review (24 CFR Part 58 and 40 CFR Parts 1500 through 1508) in up to 52 subject areas. An ECR completed with no impacts (or "FONSI" Finding of No Significant Impact) to the environment can be completed in about four to six months. Projects with some impacts, but that are mitigated will be subject to the Federal advertising (24 CFR 58.43) and public comment periods (24 CFR 58.45) which range from 30 to 45 days.

Factors which cause more time to be added to a project schedule include: exceptional circumstances (24 CFR 58.46), archaeological testing and excavation, historic preservation approvals for design (including the State Historic Preservation Office), biological surveys (e.g. the potential for burrowing owls), or Sec. 404 (Waterways of the U.S.) permitting. Asbestos removal requiring a Maricopa County permit and certain flood zone projects also require a public notification and comment period.

Get Started Early

The Housing Department encourages developers to submit a Letter of Interest (refer to Attachment D to Exhibit I - Standard Loan Application Form) as early as possible. The Letter of Interest may be submitted in advance of a formal funding application.

By notifying the Housing Department early about upcoming development plans, developers can assist staff to initiate environmental reviews for the most time consuming subjects. Within 90 days, the developer will be notified of any known environmental concerns. Unfortunately, we cannot guarantee that new issues will not arise with a final application submittal and a formal environmental review. A full environmental review will not be initiated until a completed application is received.

Don't Spend Project Funds

If after applying for City of Phoenix Housing Department funds, federal funds are required to make a project feasible, then the following items need to be completed prior to any activity or expenditure of funds from any source on the project:

- Federal regulations require an environmental assessment must be completed and a Release of Funds obtained from HUD.
- City of Phoenix Council approval for commitment and expenditure of funds must also be obtained.

Attachment C: Competitive Scoring Criteria for Citywide Affordability Loans

1. The project meets one of the Department's Housing Production Strategies.
   - ___ Acquisition – 5 points
   - ___ New Construction – 2 points
   - ___ Acquisition / Rehabilitation – 8 points
   - ___ Financial Restructuring – 0 points

2. The project contributes to a recognized neighborhood revitalization plan as defined in the Consolidated Plan.
   - ___ Yes [Neighborhood: __________________] – 5 points
   - ___ No – 0 points

3. The proposed development provides good quality design, construction materials, and amenities.

   - ___ Project has more than 15% usable open space – 5 points
   - ___ Project has 10-15% usable open space – 3 points

   Amenities include: (1 point each)
   - ___ Pool and/or outdoor recreation area
   - ___ Clubhouse
   - ___ Free covered parking (minimum 1 space per unit)
   - ___ Free extra storage
   - ___ All 2BR and larger units have at least 2 bathrooms

   - ___ New construction, or rehabilitation will exceed $15,000 per unit – 10 points
   - ___ Rehabilitation will exceed $10,000 per unit – 5 points

4. The project will result in a mixed income population.
   - ___ Every 10% increment of market rate units (to a maximum of 60% market rate) – 2 points

5. The project will serve non-elderly residents.
   - ___ Every 10% increment of 2+BR units – 2 points

6. The project serves special needs residents.
   - ___ Every 10% increment of units restricted to special needs residents – 3 points

7. The project provides accessible units for residents with disabilities.
   - ___ Every 5% increment of units that are accessible to persons with disabilities – 3 points

8. The project owner will provide (directly or through a 5+ year contract) the following supportive services. 5 points awarded for each service, not to exceed a total of 15 points.

___ Case Manager
___ After school tutoring
___ Family counseling
___ Healthcare services
___ Job training
___ Other: ______________________

9. The project is located within ¼ mile of a public school, park or recreational facility, full service grocery store, public transportation, hospital, or senior center.

___ Public school – 3 points
___ Park, recreation center, library, senior center – 3 points
___ Grocery store – 5 points
___ Public transportation – 5 points
___ Hospital – 2 points

10. The proposal furthers the Citywide scattering of low-income households in non-impacted census tracts.

___ Located in a High Priority urban village – 5 points
___ Located in a Medium – High Priority urban village – 3 points
___ Located in a Medium – Low Priority urban village – 1 point
___ Located in a Low Priority urban village – 0 points
Urban Village: ____________________________

11. The extent to which equity investment represents more than 5% of the total development budget.

___ Equity exceeds 40% of total development cost – 10 points
___ Equity is 25%- 40% of total development cost – 7 points
___ Equity is 16% - 24% of total development cost – 4 points
___ Equity is 5% - 15% of total development cost – 2 point
___ Equity is less than 5% of total development cost – 0 points

12. Department funds are well leveraged by other funding sources.

___ Loan is less than 50% of total development cost – 5 points
___ Loan is 51% - 75% of total development cost – 3 points
___ Loan is more than 75% of total development cost – 0 points

13. Proposed rents are lower than maximum allowable program rents.

___ Rents more than 15% below maximum – 10 points
___ Rents are 11% - 15% below maximum – 8 points
___ Rents are 6%- 10% below maximum – 4 points
___ Rents are within 5% of maximum – 0 points

14. The project will be subject to extended affordability restrictions.
- ___ Restriction period is at least 55 years – 10 points
- ___ Restriction period exceeds 45 years – 8 points
- ___ Restriction period exceeds 30 years – 3 points
- ___ Restrictions are less than 30 years – 0 points

15. The proposal includes energy efficiency improvements.
- ___ Double-paned, Low-E windows – 2 points
- ___ HVAC with SEER Rating greater than 10 – 5 points
- ___ All unit appliances are "Energy Star" rated – 5 points
- ___ Services of a qualified energy efficiency consultant are utilized during the project design phase and recommendations have been incorporated into the project design – 8 points
- ___ Landscape designs utilize xeriscape principles to conserve water usage – 5 points

16. The project will contribute to the upgrading and/or improved appearance and stability of the surrounding neighborhood.
- ___ Yes – 5 points
- ___ No – 0 points

17. The project provides larger than average units.
- ___ Larger than average unit size – 5 points
- ___ Average unit size – 2 points
- ___ Below average unit size – 0 points

Average unit sizes: 0BR = 425 sf
1BR = 675 sf
2BR = 875 sf
3BR = 1175 sf

18. The development will include participation by minority or women-owned enterprises or a community based non-profit organization.
- ___ Yes – 5 points
- ___ No – 0 points

19. The applicant is a CHDO and the proposed activity counts toward the 15% set-aside for use by CHDOs.
- ___ Yes – 10 points
- ___ No – 0 points

20. The development has received all other necessary funding commitments and can begin construction within 4 months of Department approval.
- ___ Yes – 10 points
- ___ No – 0 points

Attachment D: Standard Department Loan Documents

- Deed of Trust
- Promissory Note
- Special Warranty Deed
- Loan Agreement
- Subordination Agreement re: City Loan and Affordability Covenants

(TO BE PROVIDED)

Attachment E: Affordable Housing Loan Program Funding Application

Available at ftp://phoenix.gov/pub/HOUSING/fundap05.pdf

Attachment F: Income Limits

HUD 2007 Income Limits for Phoenix-Mesa Metropolitan Statistical Area								
Family Size	1	2	3	4	5	6	7	8
50% AMI	$21,050	$24,050	$27,050	$30,050	$32,450	$34,850	$37,250	$39,650
60% AMI	$25,250	$28,850	$32,450	$36,050	$38,950	$41,800	$44,700	$47,600
80% AMI	$33,650	$38,500	$43,300	$48,100	$51,950	$55,800	$59,650	$63,500