Summary of Policy Proposals

Housing Levy Administrative & Financial Plan, November 2016

Policy Proposals available at: Seattle.gov\housing\levy

Acquisition & Preservation Program

The Acquisition and Preservation (A&P) Program will provide loans for strategic acquisition of sites for low income housing development and preservation, with a priority of occupied buildings with low rents. Projects must demonstrate that short-term bridge financing is necessary for the proposed project to proceed, and have a high likelihood of obtaining permanent financing within 5 years. Each loan can be up to $5 million dollars and have a loan term up to 5 years with an affordability covenant to remain in place for 20 years. A&P funds must serve households at or below 80% of median income; lower affordability requirements may be applied by permanent financing sources, including OH permanent financing. Market-rate units will be allowed so long as the number of restricted units is proportional to the funding provided by OH.

Place-Based Development Funding

OH may award funding from the Rental Housing and Homeownership programs through a competitive Request for Proposals process for a site specific development opportunity in concert with disposition of a publicly owned site. The site may be owned by the City or by a public agency partner or partners. The RFP process provides a way for OH to award development financing at the same time as selecting a developer. It eliminates the need for an already selected project developer to compete for funding in the annual NOFA process.

Rental Rehabilitation Loans

OH will offer rehabilitation loans to private owners to improve the condition of low cost rental housing and preserve affordable rents for low-income Seattle residents. At least half the units will be rent and income restricted at or below 60% of median income, and the loan term will be based on the amount of City funding per affordable unit. The scope of rehabilitation work must address any outstanding housing code violations and OH will encourage, and fund to the extent feasible, energy saving building improvements.

HOME and CDBG Affordability

OH administers federal HOME and CDBG funds, which have declined significantly in recent years and currently total about $2.5 million annually. This policy increases the City-adopted affordability levels to provide greater flexibility in the use of these dollars, particularly in preservation projects. Allowing federal funds to support projects serving households with incomes up to 60% of median will also enable these funds to replace any Levy funds used for Rental Rehabilitation loans. New affordability limits are:

- HOME: 80% of units affordable to households at or below 60% of median income and 20% of units at or below 50% of median income, per federal regulations.
- CDBG: affordable to households at or below 60% of median income.

Supplemental Funding

OH awards supplemental funding for improvements to low-income rental housing previously funded by OH that is still subject to an OH regulatory agreement. Policy changes relate to requirements for owner contributions and leverage of other fund sources:

- Maximum City funding increased from 40% to 50% of total development cost (TDC) for projects using OH-administered low-income weatherization funds
- Maximum City funding up to 75% of TDC, and mandatory sponsor contribution waived, for buildings with at least 75% of units restricted at or below 30% AMI
- Director may award funding for an emergency repair loan outside of competitive NOFA cycle to address life/safety emergencies

Operating & Maintenance Program Funding

The O&M Program provides a shallow operating subsidy to housing serving extremely low income residents, with a priority for projects serving homeless or other special needs populations. The maximum initial subsidy remains unchanged at $2,500/unit/year, but the cap on overall project funding is lowered to 25% of operating income, based on realistic leverage requirements and recent trends. In addition, policies now allow O&M to support enhanced property management costs in PSH units with project-based Section 8 under limited circumstances.

Tenant Access and Admissions

OH proposes changes and clarifications to funding policies and monitoring procedures that will increase access to housing for homeless households and others with barriers. These changes would affect portfolio projects (as appropriate given existing loan agreements) as well as new developments. In addition, OH will continue to support best practices in housing operation through training sessions, OH guidelines, and implementation of the Housing Resource Center. The overall recommendation includes:

- Listing vacancies
- Increasing access for people with barriers
- Referrals from coordinated entry to homeless housing
- Voluntary homeless housing
- Funding coordination

Tenant Income and Rent

This policy implements a provision of the 2016 Levy which allows households with income up to 40% AMI to qualify for units regulated at 30% AMI in limited cases. OH would allow higher income tenants on a case by case basis, upon a finding that the owner made sufficient efforts to market the unit and the unit has been vacant for 90 days, or the building is at risk of missing lease up deadlines. This policy also adds a reference to current practice for over-income tenants in mixed-income buildings: owners are encouraged to offer the next available unit to a lower-income household.

Home Repair Grants

OH will provide Home Repair Grants of up to $10,000 for low-income homeowners at or below 50% of median income to assist with maintaining stable housing. Grants will be available 1) to owners who are ineligible for OH's existing home repair loan program, 2) to cover necessary repairs in excess of the owner's borrowing capacity, or 3) to pay for low-cost repairs necessary to access weatherization grants.

The grants would be administered by OH so that homeowners can access OH's home repair loans, home repair grants and weatherization grants efficiently based on their needs and eligibility.

Homebuyer Assistance

The Homebuyer Assistance policy changes address the challenge of achieving ownership for households below 80% of median income in a high-cost market and the need for development of affordable homeownership units for this income group. For down payment assistance programs, the maximum OH loan amount is increased by $10,000 to $55,000 for all low-income buyers, eliminating the higher subsidy for buyers under 60% of median income. For acquisition and development loans, new policies are added modeled after policies in the Rental Housing Program. OH will fund up to $70,000 per unit for development of resale-restricted homes. Individual homebuyer counseling will now be required for anyone purchasing a home through DPA or an OH-funded re-sale restricted unit.

Foreclosure Prevention Loans

OH will provide loans of up to $30,000 to assist low-income homeowners at or below 80% of median income who are facing foreclosure to become current on delinquent mortgage payments, real-estate tax payments and/or homeowner association dues. Loans will be provided only to those who can demonstrate that they can continue to afford housing payments after assistance has been received. Homeowners must be referred by, and working with, an OH-approved homeowner counselor. The administrator of the loan program will be selected through a competitive RFP process. This is proposed to be a 24-month pilot program.

2016 Housing Levy Administrative and Financial Plan and OH Funding Policies

Policy Proposal: ACQUISITION AND PRESERVATION PROGRAM

Proposal Summary

The Acquisition and Preservation (A&P) Program will provide loans for strategic acquisition of sites for low income housing development and preservation, with a priority of occupied buildings with low rents. Projects must demonstrate that short-term bridge financing is necessary for the proposed project to proceed, and have a high likelihood of obtaining permanent financing within 5 years. Each loan can be up to $5 million dollars and have a loan term up to 5 years with an affordability covenant to remain in place for 20 years. A&P funds must serve households at or below 80% of median income; lower affordability requirements may be applied by permanent financing sources, including OH permanent financing. Market-rate units will be allowed so long as the number of restricted units is proportional to the funding provided by OH.

Context

Under the 2009 Levy, OH provided two types of short-term acquisition loans: Acquisition and Opportunity (A&O) loans and the Rental Housing Program's bridge loans. The A&O loan program was designed to encourage strategic acquisitions of lower cost buildings and development sites for rental and ownership housing during the recession. The loans were up to five years, and made with funds from other levy programs. The program exceeded goals: the program stopped making loans in 2012, all loans have been repaid, and the projects are nearly all completed.

The Rental Housing Program's bridge loans also support strategic acquisitions of improved and/or unimproved property, providing loans up to 2 years for projects that will apply to the Rental Housing Program for permanent financing. Bridge loans are made both directly from OH and in partnership with other acquisition lenders, and continue to be available.

In the 2016 Levy, City Council created a sizable acquisition lending program. The Acquisition and Preservation Program is authorized to make up to $30 million in short-term loans "for cost-effective purchases of buildings or land for rental or homeownership development that will then be used to serve households up to 80% of median income. The program will prioritize the acquisition of occupied buildings." Similar to the earlier A&O loan program, these loans will be made using funds from other levy programs that must be repaid when funds are needed. The affordability level at 80% of median income provides flexibility to fund acquisition for homeownership as well as rental housing projects, and is also intended to minimize the need to relocate over-income tenants when occupied buildings are acquired. The long-term affordability level will be set when the permanent financing sources are secured for the development.

Proposed Language: New Chapter

ACQUISITION AND PRESERVATION PROGRAM

The Acquisition and Preservation (A&P) Program provides short-term funding for strategic property acquisition for low-income housing development and preservation. These loans will be repaid with permanent project financing, which may or may not include City fund sources. Bridge loans of up to two years are authorized under separate policies in the Rental Housing Program.

PROGRAM OBJECTIVES

- Acquire and preserve existing affordable housing, particularly occupied buildings that are subsidized rental housing or affordable private market housing.
- Provide affordable housing opportunity in communities where low income residents and communities of color may be at risk of displacement.
- Produce or preserve low-income housing in high-capacity transit station areas and locations with high-frequency transit service, to provide access to employment and services.
- Support cost-effective housing investment, particularly where short-term acquisition financing is critical to achieve cost savings.
- Leverage significant funding for housing development, operations, and/or services, or project-related infrastructure investments, which may be lost without the availability of short-term acquisition financing.

PROGRAM POLICIES

A&P Loans must be used for site acquisition, including acquisition of improved or unimproved property, or both, to assist in the development of low-income rental or homeownership housing.

A. Notice of Funds Available

OH will issue a Notice of Funds Available (NOFA) and will accept applications on a rolling basis. The NOFA will specify application requirements similar to the Rental Housing and Homebuyer program applications. Pre-application meetings with OH staff will be mandatory. A&P Loans may be made only when, in the judgment of the OH Director, there is a high likelihood that permanent financing for low-income housing will be available on acceptable terms before the loan maturity date.

B. Eligible Borrowers

To be eligible for a A&P loan, the borrower must have successfully developed and operated at least three affordable housing projects; be in good standing on any OH loans; and have demonstrated capacity to secure permanent financing within five years for the proposed project. Applicants with an outstanding A&P loan will generally not be eligible unless permanent financing for the outstanding loan has been secured.

C. Loan Rate and Terms

- Loans may be approved up to $5 million.
- Loan to value shall generally be up to 95% on vacant land and up to 100% with Director approval. Loan to value shall be up to 80% on improved income producing property. City funds shall be leveraged with other land acquisition sources.
- The interest rate shall be 1% to 3% simple interest. Accrued interest shall be paid in full when the loan is repaid.
- OH may require recourse to the borrower or a guarantor if for any reason a loan is not fully secured by the real property.
- Borrowers must agree to terminate a use other than low-income housing, upon OH request.
- The loan term shall be up to 5 years. The Director shall have the option to allow extensions, or to convert the bridge loan to permanent financing if permanent financing is awarded through a NOFA. Any extensions may be conditioned on the borrower submitting an updated proposal for approval by OH.
- A 20-year covenant will be recorded against the property which will require use of the property wholly or in part for low income housing affordable to households up to 80% of median income. The covenant shall continue and shall remain in first position when the loan is repaid or discharged. However, the Director may release the covenant, wholly or in part, in connection with a sale of the property approved by the Director, if the property is not in housing use and the Director determines that development of low income housing is infeasible and that the loan must be repaid.

2016 Housing Levy Administrative and Financial Plan and OH Funding Policies

Policy Proposal: PLACE-BASED DEVELOPMENT FUNDING

Proposal Summary

OH may award funding from the Rental Housing and Homeownership programs through a competitive Request for Proposals process for a site specific development opportunity in concert with disposition of a publicly owned site. The site may be owned by the City or by a public agency partner or partners. The RFP process provides a way for OH to award development financing at the same time as selecting a developer. It eliminates the need for an already selected project developer to compete for funding in the annual NOFA process.

Context

Publicly owned sites can offer unique benefits for affordable housing development, such as free or discounted land, proximity to major transit investments, access to property in areas with limited undeveloped land, and opportunities to promote complementary public benefits such as affordable childcare or public amenities. OH works collaboratively with other City departments and public agency partners such as Sound Transit and King County to maximize these unique development opportunities and make place-based investments that advance City affordable housing goals.

A policy is needed to establish a separate competitive process for selecting a developer and awarding funds when a publicly owned site is made available for low income housing. An RFP process outside the annual NOFA process will be more efficient for the developer and OH, since project applications can be reviewed on an appropriate timeframe, and without the duplicative process of requiring the selected developer to apply for funding in the standard NOFA. It will also be more transparent, as funding dedicated to development on public property will be determined at the same time as developer selection.

Proposed Language – New Chapter

SURPLUS AND UNDER-UTILIZED PUBLIC PROPERTY

Publicly owned sites provide an opportunity for affordable rental and ownership housing development, including affordable housing combined with other public facilities and amenities. When a suitable site has been identified, OH may follow the policies in this section to select an affordable housing developer and award OH funding, in lieu of awarding funding through an annual NOFA process for the Rental Housing and Homeownership programs.

PROGRAM OBJECTIVES

- Utilize well-located publicly owned properties for affordable rental or ownership housing, particularly properties located near transit station areas and high capacity transit service.
- Co-locate affordable housing, when feasible, with facilities providing community and public services, such as community centers, providing convenient access for low-income families, seniors, and people with disabilities.
- Achieve cost-savings for affordable housing development through favorable purchase terms, to the extent feasible.
- Engage neighborhood organizations and community groups to identify local needs and opportunities as part of planning for housing development.

PROGRAM POLICIES

OH may award funding from the Rental Housing and Homeownership programs for a site specific development opportunity. The following policies shall apply:

1. **Competitive Process:** Funds shall be awarded through an open, competitive process such as a Request for Proposals (RFP). In addition, OH may utilize a Request for Interest (RFI) or Request for Qualifications (RFQ) process prior to a Request for Proposals to help generate interest in a property and/or define the field of interested or qualified applicants.

2. **Funding Amounts:** OH may publish an “up to” funding amount that provides sufficient resources to achieve program goals for affordability and overall production, while encouraging competition based on cost effectiveness.

3. **Coordination with Other Public Partners:** When allocating City funds for development on a site owned by another public agency, OH will coordinate with partner agencies to incorporate City housing goals, policies and priorities into the RFP and throughout the selection and funding process.

4. **Evaluation Criteria:** Evaluation criteria shall be published in offering documents, and shall include factors such as conceptual soundness, financial feasibility, organizational capacity, and ability to advance City goals.

5. **Review Panel:** Proposals shall be evaluated by a review panel made up of OH staff, other City staff, partner agency staff, and other external stakeholders, as deemed appropriate by the Director for the development site.

6. **Decision-making:** Funding decisions shall be made by the Director based on his or her judgment of the strengths of each proposal in meeting the published goals, priorities and evaluation criteria specified in offering documents.

7. **Applicable Funding Policies:** Rental Housing and Homeownership Program policies shall apply to funds awarded through a site-specific RFP process, except where those policies conflict with policies stated in this section.

8. **Community Relations:** Winning applicants shall comply with OH's Community Relations Policy (see General Policies for Capital Funding, pg. __), except that neighborhood notification shall begin upon award of OH funding, rather than prior to application for funding.

2016 Housing Levy Administrative and Financial Plan and OH Funding Policies

Policy Proposal: RENTAL REHABILITATION LOANS

Proposal Summary

OH will offer rehabilitation loans to private owners to improve the condition of low cost rental housing and preserve affordable rents for low-income Seattle residents. At least half the units will be rent and income restricted at or below 60% of median income, and the loan term will be based on the amount of City funding per affordable unit. The scope of rehabilitation work must address any outstanding housing code violations and OH will encourage, and fund to the extent feasible, energy saving building improvements.

Context

As part of the City's housing preservation and anti-displacement strategies, there is interest in engaging private market property owners to preserve low rents in existing buildings while improving housing conditions. Low cost financing for rehabilitation could encourage some property owners to hold their rents steady while making needed upgrades, rather than selling the property, increasing rents to repay higher cost financing, or allowing the property to deteriorate. This financing can be paired with multifamily weatherization and/or future tools like the preservation tax exemption, to increase participation by property owners and preservation of affordable housing.

In the Levy resolution adopted by City Council, OH is directed to develop policies for rental rehabilitation for multifamily housing to make buildings healthier, bring buildings up to current City building codes, or make other needed improvements, such as ADA accessibility changes. Rents, tenant incomes, and term of restrictions would be to the greatest extent feasible given City funding levels. Funding would be targeted to buildings affordable at or below 60% of median income.

Per Council's Levy resolution, if OH receives its annual allocation of HOME and CDBG funding, it is expected that this program would be funded with levy dollars and that HOME and CDBG funding would replace the levy dollars allocated to the Rental Rehabilitation program. Currently OH receives approximately $2.5 million annually in these funds, and occasionally additional funding from loan repayments. The program will be reviewed each year to determine if funding is available to continue the program and to measure its effectiveness.

Proposed Language – New Section

RENTAL REHABILITATION LOANS

Rental rehabilitation loans are intended to improve the condition of low cost rental housing by providing owners with capital to make needed improvements without raising rents. Owners will agree to preserve affordable rents for low-income residents for a term determined by the amount of OH funding.

Eligible Properties

- Multifamily rental housing with minimum of three affordable units (see Income and Rent Restrictions)
- Properties must not be subject to existing affordability restrictions, except through a tax exemption program
- For properties with outstanding code violations, OH may require owner financial participation
- Properties may be located throughout the city, provided that OH may prioritize locations identified as high risk for displacement of low-income residents in its Notice of Fund Availability for the program

Income/Rent Restrictions

- Owners must provide at least half the units in their property as affordable units, with both tenant incomes and rents restricted at or below 60% of median income for the term of the loan. To the extent feasible, restricted units should be distributed throughout the property and include a mix of unit sizes (such as number of bedrooms) comparable to the overall property.
- Units not designated as affordable shall not be subject to income restrictions. However, to prevent displacement of current tenants, owners must agree to hold rents in all units at their current rates (as of the time of loan application), with reasonable inflationary increases allowed during the term of the loan. To ensure that tenants are not intentionally displaced prior to application, owners must certify that rents have not been raised within 6 months prior to application. OH may request copies of leases or other documentation of past rents to verify this information.
- As affordable units turn over, Owners must advertise broadly to provide access to a wide range of applicants, including underserved groups.
- If a property does not initially have half of its units occupied by income-qualified tenants, OH may approve a loan on the condition that rent and income restrictions are extended by the amount of time it takes for the building to become fully qualified, provided there is evidence that non-qualifying units will turn over within a reasonable period of time.

Loan/Regulatory Terms

- The maximum loan amount shall be $20,000 or $30,000 per affordable unit depending on the term of affordability agreed to by the Owner. An Owner may choose to restrict incomes and rents in more than 50% of the units in their property to be eligible for a higher loan amount.

- The term of affordability shall be determined by the actual loan amount per affordable unit in the project, as follows:

Loan Amount per Affordable Unit	Affordability Term / Maturity
Up to $20,000	10 years
$20,001 to $30,000	15 years

**For example, an owner with a 7-unit building providing the minimum of 4 affordable units for 10 years could borrow a maximum of $80,000. If an owner wished to borrow more, he/she could either provide more than 4 units as affordable, or agree to a longer term of affordability (e.g., 5 units for 10 years yields up to $100,000, or 4 units for 15 years yields up to $120,000).*

- Loan disbursements shall be made for reimbursement of eligible uses only.
- Interest shall generally be 3% simple interest, but may be forgiven over the term of the loan if the project remains in compliance with all loan and regulatory terms.
- Payments shall generally be amortized over 15 years and will require a balloon payment for loans that mature at an earlier date. OH may also provide borrowers with the option to defer payments until the maturity date.
- Owner shall grant a deed of trust and covenant that runs with the land. The City may subordinate its interests to a prior loan, subject to OH review and approval of senior loan documents.
- OH may approve an extension of the loan and affordability term if the project remains in compliance, if requested by the owner.
- Owners shall have the option to prepay the loan and obtain a release of regulatory restrictions, subject to terms established by the Director.

Eligible Uses

The scope of rehabilitation must, at a minimum, address any health and safety issues and any code violations. OH may augment the rehabilitation loan with a HomeWise weatherization grant to pay for eligible energy efficiency improvements. Eligible uses of loan funds include, but are not limited to, the following:

- Rehabilitation work, including energy efficiency improvements, accessibility improvements, and abatement of hazardous materials (note: construction activity must not cause displacement of tenants)
- Architectural/engineering fees
- Environmental/hazardous materials assessment
- Permit fees
- Lender required insurance
- Refinancing existing debt
- Financing costs, including title insurance, escrow fees, recording fees and loan fees

2016 Housing Levy Administrative and Financial Plan And OH Funding Policies

Policy Proposal: HOME AND CDBG AFFORDABILITY REQUIREMENTS

Proposal Summary

OH administers federal HOME and CDBG funds, which have declined significantly in recent years and currently total about $2.5 million annually. This policy increases the City-adopted affordability levels to provide greater flexibility in the use of these dollars, particularly in preservation projects. Allowing federal funds to support projects serving households with incomes up to 60% of median income will also enable these funds to replace any Levy funds used for Rental Rehabilitation loans. New affordability limits are:

- HOME: 80% of units affordable to households at or below 60% of median income and 20% of units at or below 50% of median income, per federal regulations.
- CDBG: affordable to households at or below 60% of median income.

Context

City policy sets affordability levels of both HOME and CDBG below Federal requirements knowing that the greatest need of affordable housing is at the lowest incomes. Half of HOME and CDBG funds must serve households below 50% AMI and half below 30% AMI. The amount of Federal funding has dropped significantly for many years, but has remained steady for the past few years. Currently OH allocates approximately $2 million in HOME and $500,000 in CDBG annually. Additional funding may be available from loan repayments.

In the 2016 Housing Levy, City Council added a new eligible activity – Rental Rehabilitation– within the Rental Housing Program. The Rental Rehabilitation program will provide low-cost loans to owners of affordable private market buildings in exchange for restricting rents and incomes in a percentage of rental units. The Council resolution directed OH to design a pilot program for buildings affordable at or below 60% of median income, using Levy funds, with the expectation that federal HOME and CDBG funds will backfill Levy dollars and keep program funding whole. To effectively backfill the Levy funds, the HOME funds must be available for housing at 60% of median income.

The 2016 Levy also emphasizes preservation of affordable housing. CDBG funds are especially suited for acquisition and rehabilitation projects, since federal regulations can be prohibitively restrictive for new construction.

Flexibility in use of HOME and CDBG funds is also beneficial because these funds are challenging to use. Strict federal regulations -- for example, regarding the timing of environmental review and deadlines for spending funds – can increase costs and/or make projects ineligible, to the point where it can be difficult to find a project able utilize these funds. A higher affordability level will increase OH's options to invest these relatively small funding amounts in a project or projects that meet federal requirements.

Proposed Language: Rental Housing Program [page 5]

I. AFFORDABILITY REQUIREMENTS

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B. ~~Fund Allocation for~~ Federal HOME and CDBG Funds

This ~~allocation~~ policy is applied to federal HOME and CDBG funds that are available for rental housing projects each program year, consistent with the Consolidated Plan's Annual Action Plan <u>and federal affordability requirements</u>:

- ~~At least 50% of the combined total of CDBG and HOME rental housing program funds shall be used for units affordable to households with incomes not exceeding 30% of Median Income;~~
- ~~Remaining CDBG and HOME rental program funds must be used for units affordable to households with incomes not exceeding 50% of Median Income.~~
- <u>HOME funds will be used for housing with up to 80% of units affordable to households with incomes at or below 60% of median income and at least 20% of units affordable to households below 50% of median income.</u>
- <u>CDBG funds will be used for housing units affordable for households at or below 60% of median income.</u>

ATTACHMENT: Summary of Federal Affordability Requirements

HOME

Focused on Low Income Households

- 100% of HOME $$$ help people <80% MFI
- Lower income levels for some activities
  - Program rule: 90% of rental and TBRA households at 60% of median
  - Project rule: 20% of units in rental projects of 5+ HOME units at 50% of median and below

CDBG

Low/Mod Benefit - Housing

- To meet the housing national objective, structures must be occupied by low/mod
  - One unit structures occupied by LMI
  - One unit of duplex occupied by LMI
  - 51% of 3+ units LMI occupied by LMI
- May have less than 51% LMI occupancy only under certain circumstances
- Aggregation allowed in some instances

2016 Housing Levy Administrative and Financial Plan and OH Funding Policies

Policy Proposal: SUPPLEMENTAL FUNDING

Proposal Summary

OH awards supplemental funding for improvements to low-income rental housing previously funded by OH that is still subject to an OH regulatory agreement. Policy changes relate to requirements for owner contributions and leverage of other fund sources:

- Maximum City funding increased from 40% to 50% of total development cost (TDC) for projects using OH-administered low-income weatherization funds
- Maximum City funding up to 75% of TDC, and mandatory sponsor contribution waived, for buildings with at least 75% of units restricted at or below 30% AMI
- Director may award funding for an emergency repair loan outside of competitive NOFA cycle to address life/safety emergencies

Context

The 2016 Housing Levy includes a goal of **350 units reinvested**, acknowledging the need for supplemental funding to some older buildings in OH's portfolio. During development of the levy proposal, an analysis of OH's portfolio highlighted the need for systems upgrades and efficiency improvements in older buildings, particularly those with extremely low incomes and rents that make project borrowing infeasible. Since most housing development sources cannot be used for this rehabilitation, subsidies to address these building needs are extremely limited.

The existing Supplemental Funding policies, adopted in 2014, built on OH's recent work with owners to develop capital needs assessments for their portfolios. Project sponsors must demonstrate that the project has a critical capital need that cannot be addressed through cash flow, reserves, or other available resources. OH funding may be used to improve living environments, reduce operating costs, achieve energy savings, and extend the life of the building. The recent policies have proven to offer helpful policy direction. Policies requiring leverage funding and sponsor contributions, however, are challenging due to the limited availability of subsidy sources. These policies are particularly challenging for owners with multiple older buildings with a significant number of units restricted at or below 30% AMI.

Proposed OH Policy Language – Rental Housing Program

VIII. SUPPLEMENTAL FUNDING (page 19)

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Unless otherwise stated in this Section, Rental Housing Program Policies will apply.
<u>Consistent with Section V, OH will issue a Notice of Fund Availability (NOFA) at least once a</u>

year. The Director may approve a supplemental funding award outside the annual NOFA process to address an emergency condition where the health and wellbeing of the residents are at risk. Consistent with Section III, project sponsors must demonstrate that they have operated the housing in accordance with their loan and regulatory agreements, and they have the ability to complete the rehabilitation work and effectively manage the housing. Applicants may propose an appropriate relationship with an entity that will provide the necessary capabilities.

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C. Leveraging and maximum percentage of capital funds

~~The Sponsor is expected to make a significant financial contribution to the project in addition to any City-required reserve accounts.~~

In general, the City will allow a maximum of 40% of total development costs (TDC) of the project to be financed with City funds. For projects also using City low-income weatherization grants, the City's maximum percentage is 50% of TDC. For purposes of this section, "project" is defined as those housing units that have previously received City funding and are rent-regulated, any additional housing units proposed to be rent-regulated, and common areas to the extent they serve those housing units. The City's maximum percentage includes all Rental Housing Program funds and other City capital funds including, but not limited to, Housing Levy, Community Development Block Grant, HOME, Weatherization grants, funds from land use incentive programs, any special mitigation funds, program income, Office of Economic Development (OED) equity funds, and OED Community Development Corporation and technical assistance funds used as capital for development or other long-term capital gap-financing subsidy. The City's maximum percentage of project financing also includes funding from document recording fee revenues awarded by King County. The maximum percentage does not include any funds used by the City to purchase transferable development rights (TDR). CD Float Loans and Section 108 loans are not included in computing the percentage.

The Director may allow for up to ~~50%~~ 75% of TDC ~~of the project~~ to be financed with City funds for a project with at least 75% of units restricted by OH to serve households at or below 30% of median income, ~~for projects where~~ if the Director finds that other ~~leverage~~ financing sources have made their maximum award and any reduction of the proposed scope of work would negatively impact the remaining useful life of the building.

The sponsor is expected to participate financially to the project. Existing project reserves may be included as a sponsor contribution only if a post rehabilitation capital needs assessment approved by OH demonstrates a 20-year useful life of the building. Sponsor contribution requirements will not apply to projects where at least 75% of units are restricted by OH to serve households at or below 30% of median income.

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2016 Housing Levy Administrative and Financial Plan and OH Funding Policies

Policy Proposal: OPERATING & MAINTENANCE PROGRAM

Proposal Summary

The O&M Program provides a shallow operating subsidy to housing serving extremely low income residents, with a priority for projects serving homeless or other special needs populations. The maximum initial subsidy remains unchanged at $2,500/unit/year, but the cap on overall project funding is lowered to 25% of operating income, based on realistic leverage requirements and recent trends. In addition, policies now allow O&M to support enhanced property management costs in PSH units with project-based Section 8 under limited circumstances.

Context

The Operating & Maintenance Program has been a component of every Housing Levy since the 1986 levy. O&M supports units that serve extremely low income households, which in recent years has primarily been housing serving chronically homeless and/or mentally ill residents. O&M has been combined with other operating and service sources such as McKinney, document recording fees, MIDD, and King County Vets and Human Service levy funds; these sources are limited and extremely competitive, especially for new projects, since ongoing funding is needed for existing housing.

The 2016 Levy requires that 60% of rental housing resources (capital and O&M funds) will support housing at or below 30% of median income. The Levy provides $42 million in O&M funds for 510 units, a significant increase. Despite this increase, operating subsidies will likely continue to be very limited. Therefore, the Program was modeled based on a continued maximum initial award of $2,500/unit/year to maximize the number of units supported. Consistent with this funding level, program policies should be amended to limit O&M subsidy to 25% of project operating income, which is a more realistic requirement for leverage funding consistent with trends over the past decade.

Second, O&M modeling assumed that O&M funding would not be combined with Section 8 rental subsides in the same unit. This assumes that Section 8 payments will continue to be sufficient to cover enhanced property management costs of permanent supportive housing, and that other sources will be identified to pay for project-based services. Policies should allow an exception only if a PSH project demonstrates the need for enhanced property management that are a higher cost than usual and cannot be fully covered by Section 8.

Third, the 2016 Levy is expected to fund more projects with a mix of affordability levels with a mix of affordability levels that include units restricted at 30% AMI without operating subsidy. Generally, these units will be financed using additional capital investment to reduce debt and project rental income from other units will help cover operating expenses. In some cases, a shallow O&M subsidy may be needed. Existing policies already allow for O&M-supported units in mixed income affordable buildings so long as O&M does not support project debt payments.

Proposed Language: Operating & Maintenance Program [page 28]

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C. Funding limits and match target for initial commitments

O&M is intended to be a shallow subsidy that is combined with tenant paid rent and/or other operating subsidies to cover building operating costs. In order to provide opportunities for as many projects as possible, the maximum funding that OH may award is $2,500 per unit per year, for the initial full year of occupancy. ~~Sponsors will generally be required to demonstrate evidence of reasonable availability of a 100% match of O&M subsidy with project income from sources other than tenant rent payments. This match can consist of financial support, in-kind assistance, or the reasonable value of services provided by a third party entity on site.~~ In general, the City will limit O&M funding to no greater than 25% of project effective gross income. Section 8 subsidy and O&M subsidy may be combined in the same project to ~~maximize~~ increase the number of Extremely Low Income units, but the subsidies from the two programs may not be combined to support ~~the operating costs of~~ the same units. OH may approve O&M to support permanent supportive housing units with Section 8 subsidy if additional operating subsidy is necessary to cover enhanced property management costs and no other fund source is available. Enhanced property management costs must be reasonably necessary costs of operating the housing in light of the population the sponsor has committed to serve, such 24-hour staffing.

Projects will be eligible for annual increases in O&M subsidy, subject to OH approval and availability of funds, to cover increases in the annual funding gap.

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2016 Housing Levy Administrative and Financial Plan and OH Funding Policies

Policy Proposal: TENANT ACCESS AND ADMISSIONS

Proposal Summary

OH proposes changes and clarifications to funding policies and monitoring procedures that will increase access to housing for homeless households and others with barriers. These changes would affect portfolio projects (as appropriate given existing loan agreements) as well as new developments. In addition, OH will continue to support best practices in housing operation through training sessions, OH guidelines, and implementation of the Housing Resource Center. The following summarizes the overall recommendation; notes in brackets refer to implementation steps.

1) Listing vacancies: Affordable housing using OH funding and incentive programs will list available housing in a centralized database, such as HousingSearchNW or a successor system, and must affirmatively market available housing to make vacancies known and accessible to a wide range of potential applicants, including homeless households and other underserved groups. Housing units taking referrals directly from the homeless coordinated entry system or other tenant referrals required by a service funder would be exempt from this listing requirement.
[Current practice for OH-funded housing. Proposed Policy: clarify Management Plan and Compliance policies]

2) Increasing access for people with barriers. OH-funded housing should provide opportunities for people with criminal records and other barriers to housing by revising screening criteria and providing individualized assessment, consistent with HUD's affirmatively furthering fair housing rule and guidance on criminal records. OH will continue to organize trainings and will work with stakeholders to prepare a best practice guideline on Individualized Assessment in Tenant Screening.
[New Guideline. Proposed Policy: Monitoring]

3) Referrals from coordinated entry to homeless housing: Most housing that is *regulated by OH to serve residents who are homeless or at risk of homelessness* have homeless services contracts and therefore receive (or will receive) tenant referrals directly from King County's coordinated entry system. These projects will adopt screening criteria as required by the homeless service contracts. Other OH-funded homeless housing (without homeless services contracts) should also serve households coming from coordinated entry. These projects will receive referrals via homeless service programs participating in coordinated entry unless they receive referrals required by another services funder. These owners will apply their

building screening criteria and will also be encouraged to significantly reduce screening. The proposed Housing Resource Center/Landlord Liaison Program will facilitate referrals from homeless services programs, and will provide mitigation and other incentives to encourage participation and reduced screening. Until coordinated entry and the HRC are fully operational, owners should take tenant referrals via ongoing or new MOUs with homeless service providers.
[Housing Resource Center/Landlord Liaison. Proposed Policy: Monitoring]

4) Voluntary homeless housing. Housing providers are asked to voluntarily make units available on a "preferred" basis for homeless households receiving Rapid Rehousing or Permanent Supportive Housing assistance. Households would come with short-term or long-term tenant-based rent assistance and support services. The Housing Resource Center will facilitate referrals to this housing.
[Housing Resource Center/Landlord Liaison]

5) Funding coordination. OH will continue to coordinate with services funders when reviewing applications for new homeless housing projects. This review will now include information provided by services funders regarding the applicant's performance on homeless standards and targets in existing homeless housing projects. Future homeless housing projects will be connected to coordinated entry, as now, through homeless services contracts. Annual service contracts, unlike 50-year regulatory agreements attached to capital funding, allow flexibility for funders to revise tenant referral, screening, and other program requirements as the homeless system continues to adapt to new data and national best practices.
[Proposed Policy: Project Selection. Rental Housing Program NOFA]

Context

There has been increasing interest in recent years regarding access to affordable and market-rate housing for people who are homeless, have low incomes, or have other barriers. In 2011 OH worked with King County, SHA and KCHA and landlord and tenant representatives to set up a free, real-time vacancy, housing locator – HousingSearchNW - which was subsequently expanded statewide. OH has worked for the past four years with housing providers and tenant advocates on education and best practices to increase access to housing for people with criminal records. This work includes learning sessions, fair housing training with the Seattle Office for Civil Rights, and an OH guidance for property managers: *Selecting a Tenant Screening Agency*. In addition, access to housing was a focus for the HALA recommendations, leading to the recently adopted Source of Income legislation and to Fair Chance legislation that will be developed this year.

Housing Levy Resolution: The City Council resolution calls for 2016 Levy funding policies that require projects that will serve homeless people to participate in coordinated entry and use homeless program screening criteria.

Housing Resource Center: Seattle's *Pathways Home* homeless policy framework calls for rapidly housing unsheltered and long-time homeless individuals and families, and promotes "housing first", or low barriers, for all programs in the homeless system. Successfully housing these households will require participation of nonprofit and market-rate landlords outside the homeless system as well. To promote housing access, Seattle is working with King County to relaunch the Landlord Liaison Program as a new Housing Resource Center with a focus on recruiting landlords. The HRC will assist homeless service providers to find affordable and market rate housing options for their clients. [See Attachment]

Homeless services standards and targets: The Focus Strategies homeless system recommendations included performance standards and targets for homeless services. In an MOU, Seattle Human Services, King County, and United Way committed to implementing common standards in homeless services contracts and OH and King County's housing program agreed to support the standards by evaluating agency performance when reviewing applications for new homeless housing.

Fair housing: OH will continue to work with the Seattle Office for Civil Rights, All Home, and other partners to provide education and training on local and federal fair housing law. We are helping organize two trainings this fall on HUD's new guidance regarding criminal records, including landlord panels discussing how they are revising screening criteria and procedures. Other fair housing efforts are currently underway that require coordination and education efforts: implementation of Seattle's source of income legislation, development of Seattle's fair chance housing legislation, and development of Seattle's federally required Assessment of Fair Housing.

Affirmative marketing: This year OH initiated a review of affirmative marketing for all affordable housing using OH's funding and incentive programs. This review includes a survey of organizations representing a range of racial groups and other protected classes under fair housing. Affirmative marketing policies will be updated first for incentive program participants, and then for OH-funded housing during 2017.

Proposed OH Policy Language: Rental Housing Program

V. PROJECT SELECTION [page 12]

. . .

B. Application components

OH uses the Washington State Combined Funder Application for Affordable Housing. At minimum, applications must contain the following:

1. Project description: location, number of units, rent levels, need, and special characteristics.
2. Applicant and borrower capacity in the development, ownership, and management of affordable multifamily housing and capacity in serving the focus population. For homeless housing proposals, OH will consider any available information provided by service funders regarding the applicant's performance in meeting homeless contract standards and targets for any existing homeless housing project.
3. Tenant profile: a description of proposed and existing tenants and their needs, projected household sizes, estimated amounts and sources of tenant income, any tenant referral arrangements and eligibility as required by proposed services fund sources.

IX. MANAGEMENT AND OPERATIONS [page 22]

Good management is critical to the overall success of projects. Project borrowers will be required to submit a management plan to OH for approval.

A. Management plan

Management plans should include the following:

1. Occupancy standard (# of persons per unit) that is consistent with applicable law, including Seattle Housing Code and Federal, State and City Fair Housing standards.
2. Rent standard (household income and rents) that complies with contract restrictions.
3. A management philosophy that is appropriate for the target population.
4. Affirmative Marketing Plan that complies with Federal, State and City laws and demonstrates outreach to all segments of the community. Borrowers must demonstrate cultural competency.
5. Roles and Responsibilities of key staff and contracted management.
6. Maintenance Plan including a schedule of routine and preventative maintenance; a schedule of inspections; and the long-term maintenance plan.
7. A Capital Needs Assessment (CNA) that includes a 20-year schedule of major replacements with a corresponding schedule of replacement reserve account deposits.
8. Budget: Annual projection of income, expenses, capital improvements, and reserve accounts.
9. Operating Policies and Procedures for the following management functions, at a minimum:
   a. ~~Leasing~~ Admissions Policies: Tenant referral agreements if applicable, screening criteria and procedures for individual assessment for applicants who do not meet screening criteria, ~~selection,~~ income qualification, and a copy of the lease or program agreement.
   b. Rent: Rent collection, deposits, late payments, addressing damage to units, rent increases

c. Commitment to the City's Just Cause Eviction Ordinance.
d. Management of tenant files and records
e. Work order and Repair process
f. Unit turnaround: filling vacancies
g. Building security and emergency plan
h. Community education and involvement plan for addressing complaints or issues raised by tenants and neighbors about the building or tenants.

10. Management plans for special needs housing and housing with support services should also include the following:
    a. Description of service support program to be provided to tenant households including funding commitments and contracts.
    b. Identification of key staff roles and responsible related to service delivery including written agreements that describe relationships with other agencies.
    c. <u>A description of any tenant referral arrangement required by operating or services funding.</u>
    d. Involvement of tenants in project governance and house rules.
    e. Description of performance or outcome measures.

X. PROJECT MONITORING [page 25]

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A. Compliance and performance evaluation

OH's compliance and performance assessments include, but are not limited to, the following compliance and performance areas. Additional, project-specific requirements may be included in loan documents.

1. Sound borrower fiscal health: The project borrower and its general partner, managing member or other sponsor when applicable are in sound fiscal health.
2. Management Plan: The project is operated according to the owner's original or amended management plan for the property.
3. Affordability: borrower must ~~be in compliance with~~ <u>provide an annual report that demonstrates that</u> tenant income and rent levels complied <u>with</u> affordability requirements~~, including tenant income determinations and rent levels~~.
4. Affirmative marketing and nondiscrimination: The housing ~~must be~~ <u>is</u> affirmatively marketed<u>, including advertisements in</u> <u>OH-identified listing sites that reach the general public and underserved groups</u>; the population served is diverse; and the borrower can demonstrate nondiscriminatory treatment for all applicants and occupants<u>, consistent with federal, state, and local fair housing laws and regulations</u>.

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Attachment

Seattle City Council, Human Services and Public Health Committee
Excerpt, Catherine Lester and Barbara Poppe Presentation, September 8, 2016

Housing Resource Center (HRC)

- Housing Resource Center (HRC) organizes affordable housing under one umbrella as a "one-stop" for access to rental housing options" including:
  - *OH homeless regulated united without homeless services*
  - *Affordable housing*
  - *Prioritized access to federally subsidized housing*
  - *Rooming houses and shared living options*
  - *Private market units*
- Leverages real estate expertise in order to work with landlords to connect service providers to units
- The HRC model increases capacity of homeless assistance organizations to implement housing first practices, and engage with property managements and owners of affordable rental units

Seattle Human Services

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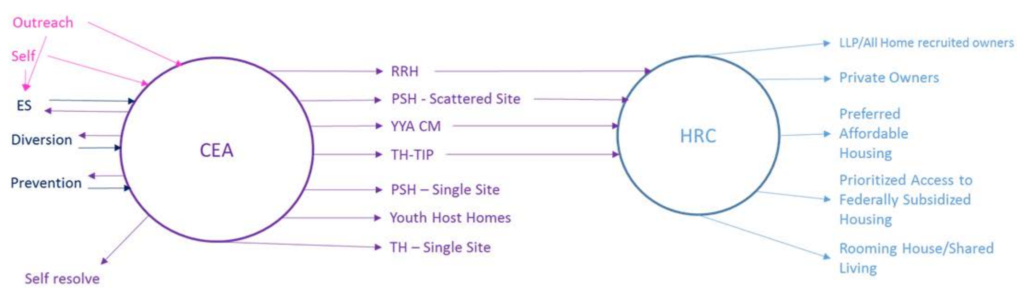

Seattle Human Services

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2016 Housing Levy Administrative and Financial Plan and OH Funding Policies

Policy Proposal: TENANT INCOMES AND RENTS

Proposal Summary

This policy implements a provision of the 2016 Levy which allows households with income up to 40% AMI to qualify for units regulated at 30% AMI in limited cases. OH would allow higher income tenants on a case by case basis, upon a finding that the owner made sufficient efforts to market the unit and the unit has been vacant for 90 days, or the building is at risk of missing lease up deadlines. This policy also adds a reference to current practice for over-income tenants in mixed-income buildings: owners are encouraged to offer the next available unit to a lower-income household.

Context

Housing levies have historically prioritized housing for extremely low income households up to 30% of median income. For most of these extremely low income projects, subsidies from a variety of sources have supported building operations while making it possible for tenants – typically with SSI incomes at about 15% AMI -- to pay very low rent based on their actual income. In recent years OH has funded several projects with units restricted at 30% AMI without operating subsidy. These unsubsidized units rely on the ability of the household to pay a rent affordable at 30% of median income. Therefore the intended residents are somewhat higher income: people working for very low wages or less than full time, and people on fixed income, such as retirement, veterans or disability incomes. A survey of recently opened housing found that the average household income in the 30% AMI units without operating subsidy was middle-20% AMI and rents were adjusted slightly downward to be affordable for these households versus collecting the maximum 30% AMI rent.

Seattle's minimum wage law could affect owners' ability to find income-eligible households for these units. Under the State minimum wage at $9.47/hour a one-person household working full time had a household income of $19,697, or 32% of median income. A two-person household with one wage earner would be at 28% of median income. As minimum wage increases to $15/hour, these households are becoming ineligible for 30% AMI units. The extent to which rising rents will make working people ineligible depends on increases to the HUD median incomes which determine income eligibility and rents.

Modeling for the 2016 Levy production projects approximately 425 extremely low income units without operating subsidy. Due to rising minimum wages and anecdotal experience from recent projects with 30% AMI units without operating subsidy, the 2016 Levy Ordinance allows flexibility when approving applicants for 30% AMI units without operating subsidy. In limited cases, housing may serve households up to 40% AMI.

Proposed Language: Rental Housing Program [page 22]

IX. MANAGEMENT AND OPERATIONS

. . .

B. Tenant income and rent requirements

Housing units are restricted to tenants who are income eligible ~~whose income does not exceed 80% of Median Income~~ at time of initial occupancy by the household, or at time of funding by the City, if later. Consistent with Program objectives and priorities, and affordability requirements to specific fund sources, housing units may be restricted to households with income up to 30%, 50%, ~~or~~ 60%, or 80% of Median Income. Tenants must be income qualified prior to move in or prior to City funding for acquisition of occupied units. A maximum restricted Rent is established for each housing unit, no higher than Affordable Rent for the income eligibility category and based on the number of bedrooms.

The Director may allow a housing unit restricted to households up to 30% of Median Income to be rented to a household with income up to 40% of Median Income upon a finding that the owner made a reasonable but unsuccessful effort to find an income-eligible tenant, and the unit has been vacant for at least 90 days or the building is undergoing initial lease up and may fail to meet occupancy requirements. This determination will be made on a case by case basis upon review of the owner's advertising of available housing, including affirmative marketing, and data about income of applicants turned away. This waiver is available only to housing funded with 2016 Housing Levy, for units restricted to households up to 30% of Median Income that are not receiving operating subsidy, such as Section 8 housing choice vouchers or Levy O & M funding. The 30% of Median Income Rent restriction for the unit will remain in effect, except as allowed in Section C below.

. . .

C. Rent Increases

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Tenants who are income-eligible at the time of their initial occupancy or the time of City funding, whichever is later, are not required to be relocated solely because their incomes increase and exceed the restrictions of their units. However, such over-income tenants are subject to separate mandatory or optional Rent increases, or both, as follows: (1) If a tenant's income surpasses 140% of the maximum income limit for the unit, borrowers must charge the maximum restricted Rent for that unit, and (2) If a tenant's income ~~as of any income certification~~ surpasses 65% of Median Income, the borrower has the option of raising the Rent to a level up to 30% of the tenant's income beginning no earlier than one year later, if the tenant's income remains above that level, regardless of the maximum restricted Rent.

If an agreement with HUD requires a higher Rent for a Yesler Terrace Replacement Housing unit than this section would permit, SHA may increase Rent for any tenant whose income exceeds the restriction of their unit (generally 30% of Median Income) up to the level required by HUD and as approved by OH.

All Rent increases are subject to other funder restrictions, and State and local law.

D. Floating units

OH may approve a "floating unit" regime that allows affordability levels in specific units to change so long as the total number of units at each affordability level in the development is maintained. <u>In such cases, owners will be strongly encouraged to change the affordability level in a unit occupied by an over-income household when a unit at a higher affordability level becomes available in the building. The tenant will not physically move, but a lower affordability level will be assigned to the vacant unit, which would be made available to an income-eligible tenant.</u>

2016 Housing Levy Administrative and Financial Plan and OH Funding Policies

Policy Proposal: CRITICAL HOME REPAIR GRANTS

Proposal Summary

OH will provide Home Repair Grants of up to $10,000 for low-income homeowners at or below 50% of median income to assist with maintaining stable housing. Grants will be available to 1) owners who are ineligible for OH's existing home repair loan program, 2) to cover necessary repairs in excess of the owner's borrowing capacity, or 3) to pay for low-cost repairs necessary to access OH-administered weatherization grants. The grants would be administered by OH so that homeowners can access OH's home repair loans, home repair grants and weatherization grants efficiently based on their needs and eligibility.

Context

The 2016 Housing Levy includes $9.5 million for homeownership, including a home repair grant program. In the Housing Levy resolution, Council said "OH should undertake further needs assessment and policy analysis for the . . . home repair grant program for low-income homeowners . . ."

The intended recipients for this program are low-income homeowners. There are approximately 15,000 owner households in Seattle at or below 50% of median income. Of these, more than 8,000 are paying over half of their income towards housing costs. These homeowners likely have difficulty handling home repairs, especially those that happen unexpectedly. They are also the households most in need of the utility bill savings that free weatherization can provide. This program will help low-income homeowners remain safely in their homes and in their communities.

The needs assessment and policy analysis identified three home repair services gaps for low-income homeowners:

- Emergencies, such as plumbing back-up
- Substantial repair needs, like a new roof, for owners who cannot qualify for a loan (for example, because they have no equity in their home or have a reverse mortgage)
- Repairs required for owners to access free weatherization upgrades (for example, roof repair prior to insulation)

The proposed Home Repair Grants are designed to close these gaps. The grants would be administered by OH so that home repair loans, home repair grants and weatherization grants can be offered based on the homeowner's needs and eligibility.

The Home Repair Grants would serve a different need than the Minor Home Repair Program funded by HSD. That program provides labor for very minor repairs such as installing grab bars in showers and replacing rotten steps, where the homeowner provides the material.

Proposed Language: HOME REPAIR PROGRAM [page 39]

OH's Home Repair Program provides low-interest loans and grants ~~primarily for the purpose of addressing~~ to address immediate health and safety issues and structural deficiencies of housing occupied by income-qualified homeowners. First priority is given to health and safety emergencies.

PROGRAM OBJECTIVES

- Assist low-income homeowners remain successfully in their home and community, especially seniors and homeowners at risk of displacement.
- Assist low-income homeowners with critical health and safety repairs needed to remain safely in the home and to protect their financial investment and security.
- Assist low-income homeowners make home repairs necessary to access free weatherization upgrades that reduce energy use and achieve utility cost savings for the homeowner.

HOME REPAIR LOAN POLICIES

1. Loan Amounts

The maximum individual home repair loan is $24,000. Total assistance that may be loaned for repair of a home over time may not exceed $45,000 outstanding at any one time. If the home has additional health and safety needs that cannot be addressed with $45,000, the OH Director may allow up to an additional $10,000, for an overall total of $55,000.

2. Homeowner Eligibility

Income limits for Program loans vary by fund source, but in no case will exceed 80% of median income.

3. Loan Terms

Interest rates generally are set at 0% for borrowers with incomes below 50% of Median Income or 3% for borrowers with income between 50% and 80% of Median Income. Loans may be amortized or deferred, depending on factors such as borrower income and debt, and ability to pay debt service to the City in addition to other obligations.

HOME REPAIR GRANT POLICIES

1. Grant Amounts

   OH will provide grants of up to $10,000. A home may receive multiple home repair grants over time, but total lifetime grant amounts for a home cannot exceed $10,000. There will be no minimum grant amount, but if the repair need is small, the homeowner will be encouraged to use other existing programs if available.

2. Homeowner Eligibility

   Homeowners at or below 50% of median income living in owner-occupied single-family homes are eligible. If the home has a rental unit(s), grant funding may be used to pay for exterior measures and any work needed in the unit occupied by the homeowner. In addition to income limits, homeowners may not have more than $25,000 in liquid assets (excluding among other things retirement accounts and equity in home). In limited cases, a homeowner may be allowed to have more than $25,000 in liquid assets, with approval from the OH Director.

   OH will assess a homeowner's eligibility for a home repair loan prior to considering a grant award. A grant may be approved if the homeowner is ineligible for a loan or if the cost of essential repairs exceeds the amount the homeowner is qualified to borrow. Homeowners will immediately be considered for a grant if (1) the cost of repairs is less than $3,000 or (2) the repair need must be addressed immediately due to health or safety concerns.

3. Priority Uses

   The program can be used to fund any interior or exterior repair to a home needed to maintain or improve homeowner health and safety, including energy efficiency improvements. The priority uses for the program will be:
   - Emergency repairs that address an immediate threat to health and safety
   - Repairs that cannot be made by other available home repair programs
   - Repairs needed to access free weatherization grants

4. Recoverable Grants

   Grant agreements will be recorded against the property, and the homeowner will be required to repay a portion or the entire grant at time of sale if the property is sold within three years of the date of the award and there are positive net proceeds from the sale.

2016 Housing Levy Administrative and Financial Plan and OH Funding Policies

Policy Proposal: HOMEBUYER ASSISTANCE

Proposal Summary

The Homebuyer Assistance policy changes address the challenge of achieving ownership for households below 80% of median income in a high-cost market and the need for development of affordable homeownership units for this income group. For down payment assistance programs, the maximum OH loan amount is increased by $10,000 to $55,000 for all low-income buyers, eliminating the higher subsidy for buyers under 60% of median income. For acquisition and development loans, new policies are added modeled after policies in the Rental Housing Program. OH will fund up to $70,000 per unit for development of resale-restricted homes. Individual homebuyer counseling will now be required for anyone purchasing a home through DPA or an OH-funded re-sale restricted unit.

Context

The effectiveness of the longstanding down payment assistance program faces challenges in the current housing market. Changes to improve the program's viability, clarify policy, reduce costs to the borrower and create an interest free option will help to address these challenges. In addition to down payment assistance, development of new affordable homeownership units is critical for creating opportunities for first-time homebuyers to access Seattle's homeownership market. Development of permanently affordable homes is already an eligible use under the current A&F plan. The proposed changes in this A&F plan will clarify policies around use of those dollars to provide more predictability.

Proposed Language – Homeownership Program [page 34]

HOMEBUYER PROGRAM POLICIES

A. Eligible use of funds

Homebuyer Program funds may be used for~~:~~

1. Subordinate Mortgage Loans: Loans to assist eligible homebuyers, which may be applied towards purchase price, closing costs, and/or mortgage loan interest rate write-down, as approved by OH, or

2. Development Assistance: Funding for development costs for a home or homes to be sold to eligible buyers, subject to resale restrictions, or

3. Acquisition/bridge lending to purchase land to develop a home or homes for eligible buyers, subject to resale restrictions, although most loans shall be made through the Acquisition and Preservation Program.

Specific funding guidelines are detailed in subsections below.

B. Homebuyer eligibility

Homebuyer eligibility requirements apply to any homebuyer utilizing a subordinate mortgage loan or purchasing a unit funded with development or acquisition assistance.

Homebuyers must be "first-time homebuyers" with household incomes at or below 80% of Median Income.

A "first-time homebuyer" is one or more individuals purchasing a home who are members of a household that does not include any person who has owned any interest in a residence within the 3-year period immediately preceding the home purchase for which assistance is provided, unless that person is a displaced homemaker. A displaced homemaker is an adult who, during the past 3 years, owned an interest in a home and worked primarily without remuneration to care for his or her home and family, and was displaced from his or her home.

Homebuyer households must successfully complete a pre-purchase homebuyer education program and one on one homebuyer counseling approved by OH, and purchase a home in Seattle to be used as their principal residence. Homebuyers must be able to financially qualify for a first mortgage approved by OH. Homebuyers may use any first mortgage product approved by OH, including FHA and Fannie Mae products, and portfolio loans. FHA 203(k) purchase-rehabilitation loans are also eligible, provided the rehabilitation amount exceeds $5,000.

C. Homebuyer contribution

Homebuyers must provide a minimum of $2,500 or 1% of the purchase price, whichever is greater, of their own funds toward the home purchase. Homebuyers may receive gifts of funds towards their portion of the down payment; however, gifts must not exceed 25% of the homebuyer's total down payment requirement. Homebuyers may provide a lower contribution as follows: (1) for eligible buyers participating in an OH-approved nonprofit-sponsored sweat equity housing program that requires significant participation by the homebuyer, the homebuyer's contribution of volunteer time may be accepted in lieu of the minimum cash contribution; and (2) for eligible buyers who have a long-term disability and whose household income includes SSI or similar public income support, gifts may constitute up to 75% of the homebuyer's total down payment requirement.

D. Property requirements

All types of for-sale units are eligible, including single-family residences, condominium units, limited equity cooperatives, co-housing, land trusts, and homes on leased land. The home must be located in Seattle. Purchases of properties for investment are not allowed under this program. Homes with an accessory dwelling unit are eligible, provided that the buyer will be an owner-occupant of the home. A lease-to-own contract or long-term lease may be considered a purchase. ~~Borrowers may purchase residential property that is owner occupied or vacant. Homes purchases with OH assistance must be owner-occupied Purchase of tenant-occupied housing is not eligible except in cases where the tenant is purchasing the home.~~

~~**E. Amount of assistance -**~~

E. Subordinate mortgage loans

1. Amount of Assistance

Assistance to enable homebuyers to purchase a home will be limited to gap financing for homebuyers, up to a maximum ~~of 45,000~~ $55,000 for any assistance household. "Gap" is defined as the delta between the purchase price of the home and a sustainable mortgage amount for the homebuyer. Generally, a sustainable mortgage amount is determined by the homebuyer agency administering the down payment assistance funds, however OH retains the right to review the analysis for reasonableness. In no case will the homebuyer's annual mortgage payment be less than 25% of his or her annual income. ~~There is one exception to the maximum amount of assistance~~: There is only one circumstance in which loans in excess of $55,000 are allowed:

1. ~~Homebuyers with incomes below 60% of Median Income are eligible for a maximum total of $55,000 in Program assistance.~~
    a. In order that single-source subordinate mortgages may be provided for the convenience of borrowers, in lieu of assistance from Levy or other City funds and non-City sources to the same borrower, OH may allow a higher amount of City-funded homebuyer assistance, not to exceed $70,000, for a borrower that receives assistance made as part of a project or lending program for which a nonprofit lending agency has obtained commitments of non-City homebuyer subsidy funds, but only if all of the following conditions are satisfied:

        i. Non-City subsidy funds provided to such project or program must be used for deferred subordinate mortgages or other assistance that increases the ability of Low Income households to purchase a home.

The average amount of City homebuyer assistance for all eligible households benefited by the program, including buyers who do not receive any City-administered funds, may not exceed. ~~$45,000~~ $55,000.

2. Terms

Homeownership Program funds may be used to fund subordinate mortgage loans directly as a loan to the homebuyer or through an intermediary approved by OH. Proceeds of subordinate mortgage loans may be applied to purchase price, closing costs, and interest rate write-downs of the first or subordinate mortgages. Subordinate mortgage loans will generally be 30-year deferred loans. Loan repayment terms shall specify the interest rate, if applicable, which generally shall not exceed 3% simple interest; loan term; period of payment deferral; and any contingent interest or share of appreciation if applicable, which may be reduced and/or eliminated over time. The terms of the subordinate mortgage loans shall provide that the entire principal balance is due upon sale, other transfer or refinancing of the home, at the lender's option, to the extent permitted by applicable law. However, OH may permit assumption of the loan by another eligible buyer household in lieu of repayment and may subordinate its deed of trust to substitute senior mortgage financing.

3. Notice of Funds Available

OH will provide subordinate mortgage funds via qualified homebuyer assistance agencies. At least once per year, OH will issue a Notice of Funds Available (NOFA). This NOFA will provide application requirements, applicant eligibility criteria, details on specific fund sources available, application forms, and deadlines. Minor deficiencies may be corrected and clarifications may be made by applicants during the review process. Otherwise, incomplete applications will not be considered for funding. The applicant must be in Good Standing on all existing loans, program agreements and contracts administered by OH. Good Standing is defined in Section H.

F. Development and Acquisition Loans for Resale Restricted Homeownership Units ~~Terms~~

[*The following section contains a significant amount of new language, which adds clarity around policies related to funding for development of permanently affordable homeownership units. For ease of reading, changes were not underlined or struck through, as with other policy proposals.]*

1. Resale Restrictions

Program funds may be used to assist in the development or acquisition of homes to be sold to eligible homebuyers as resale restricted homes. Resale restricted homes are homes that are subject to recorded restrictions intended to require that, for a period of at least 50 years, upon resale, the homes must be sold to eligible homebuyers ("first-time homebuyers" with incomes below 80% of Median Income) at a sales price affordable to a homebuyer at 80% of Median Income. Resale restrictions must be in the form of a ground lease, covenant, or other recorded document approved by OH, which may be subordinate to one or more mortgages.

2. Financing

Assistance shall generally be in the form of long-term financing. Long-term assistance shall generally be made available through 0% interest loans with payments deferred for 50 years. Acquisition funding shall generally be through the Acquisition and Preservation Program. However, in some circumstances OH may make a bridge loan under the policies set forth below in the section on Acquisition/Bridge Lending.

3. Eligible and Ineligible Costs and Activities

Program funds shall be used to fund the preservation and production of re-sale restricted homeownership units. Funds may be used to finance entire developments, individual units, or residential portions of a development. Non-profit borrowers are encouraged to use Impact Capital or other cost-effective sources for pre-development funding.

Eligible costs include but are not limited to:

- Appraisals
- Architectural/engineering fees
- Closing costs
- Construction
- Contingency
- Developer fees
- Environmental Assessment
- Financing fees
- Hazardous materials abatement
- Insurance
- Interest
- Inspection and survey
- Option costs
- Permits
- Reimbursement of pre-development costs*
- Professional Fees
- Purchase price
- Relocation
- Title insurance

Program funds may be used to fund housing units, residential spaces, and common areas to the extent they serve the low-income housing and not other uses. Program funds can be used for projects that combine affordable re-sale restricted homeownership units with market-rate housing and/or commercial or other nonresidential spaces. However, costs associated with market-rate housing and commercial spaces are not eligible for Program funding. Common areas may be eligible for funding if OH determines they will serve residents of the affordable homeownership housing.

Borrowers must demonstrate that Program funding is attributable to eligible residential spaces and that costs of other parts of the project are paid by funds eligible for that purpose. Where it is impractical to segregate costs between Program-funded units and other portions of a mixed-use or mixed-income project, the Director may permit such costs to be pro-rated between Program funding and other funding sources based on a reasonable formula.

4. Project Requirements

Eligible borrowers
An applicant and/or proposed borrower must demonstrate ability and commitment to develop, sell and steward affordable homeownership units, including a stated housing mission in its organizational documents. OH will evaluate the experience of an applicant's development team, management team, Executive Director, staff, and Board of Directors (if applicable) to determine if there is sufficient capacity to sustainably develop, own and steward affordable homeownership units on a long-term basis.
Applicants that lack direct experience in these areas may demonstrate capacity by partnering with an entity or entities that provide essential expertise to the project. In these cases, OH will evaluate the proposed partnership to ensure it meets the needs of the project and is sustainable for an appropriate length of time. The applicant, proposed borrower, and all Affiliated Entities of each of them (whether or not involved in the proposed project) must be in Good Standing on all existing loans and contracts administered by OH. Good Standing is defined in Section H.

Eligible applicants and borrowers are:

- Nonprofit agencies with charitable purposes. Private nonprofit agencies will be required to submit articles of incorporation and an IRS letter as proof of nonprofit status.
- Any corporation, limited liability company, general partnership, joint venture, or limited partnership created and controlled by a nonprofit or public corporation in order to obtain tax credits or for another housing-related objective approved by OH.
- Public Development Authorities.
- Seattle Housing Authority (SHA), except that funds for housing units developed as part of SHA HOPE VI (or successor program) redevelopments are not eligible unless the City Council approves such use through a Memorandum of Agreement or other agreement with SHA.

- Private for-profit firms.

Maximum amount per unit, leverage and cost-effective investments
In general, the City will provide up to a maximum $70,000 per unit. This maximum applies to the net amount of City assistance, not including any short-term acquisition and/or development loan that has been repaid. Funds are awarded competitively. Total development costs are all components of typical development budgets, including site acquisition, construction costs and soft costs.

The established sales price will be no greater than an amount affordable to a purchaser at 80% AMI, indexed by the number of bedrooms in the home. OH will provide assistance to achieve a lower established sales price, typically affordable to homebuyers at 65% to 75% AMI, as needed to maintain the unit as affordable to a low-income buyer (below 80% AMI) over a 50 year period.

The City strives to leverage non-City resources for capital to the greatest extent possible. Borrowers are expected to maximize other capital resources to help ensure that the great number of quality affordable homeownership units are produced.

Proposals for quality affordable housing must demonstrate a cost effective, sustainable investment of public funding. Minimum requirements for cost-effectiveness may be set in the NOFA.

Additional Policies:

Projects must also comply with the policies contained in Section X where applicable, including:

- Neighborhood Notification and Community Relations
- Fair Contracting Practices, MWBE Utilization, and Section 3 (applies to projects involving construction)
- Relocation, Displacement and Real Property Acquisition
- Affirmative Marketing (applies to projects where developer is selling units to homebuyers)

Additional requirements apply to fund sources other than the 2016 Housing Levy, including federal requirements for HOME and CDBG funds. Applicants should contact OH to determine applicable policies.

5. Project Selection

Notice of Funds Available

At least once per year, OH will issue a Notice of Funds Available (NOFA), which will provide application requirements, details on specific fund sources available, application forms, and deadlines. Funds may also be made available through site-specific Request for Proposals. Minor deficiencies may be corrected and clarifications may be made by applicants during the review process. Otherwise, incomplete applications will not be considered for funding. All applicants are required to attend a project pre-application conference with OH staff prior to submitting an application. The applicant must be in Good Standing on all existing loans, contracts and program agreements administered by OH. Good Standing is defined in Section H.

OH strives to ensure fair contracting methods and competitive pricing in the construction of affordable housing. OH may include minimum construction requirements in the NOFA, including but not limited to standards around selection of contractors, contracting and project management capacity. Borrowers are responsible for the compliance of all documents, plans and procedures with all applicable laws, regulations, codes, contracts and funding requirements.

Other information may also be requested or required in the NOFA, including but not limited to project description, borrower capacity to develop, own and steward permanently affordable homeownership units, buyer profile, evidence of site control, appraisal, and community notification.

Proposal review
Funding applications are reviewed and evaluated in detail by OH staff based on the requirements listed in this Section and additional criteria published in the NOFA.

When projects have been evaluated, staff makes funding recommendations to the Director. The Director, whose decisions on funding shall be final, shall make funding awards based on his or her judgment as to the merits of the proposed projects; the projects' strengths in meeting the objectives and priorities stated in applicable plans and policies and the NOFA; the capacity of the proposal to attain and sustain long-term homeownership affordability and other factors as detailed in the NOFA or offering documents. Results are reported to the Housing Levy Oversight Committee and made public.

Fund reservation
The Director authorizes a fund reservation for each selected project, which provides information about fund source requirements, funding levels, and conditions that must be met prior to closing. Fund reservations are not binding on the City until contract documents are signed by both the Director and the owner.

The Director may reduce or revoke funding to any project based on failure to meet funding conditions; decrease in costs from the preliminary cost estimate submitted in the application; failure of the applicant to obtain other funding; noncompliance by the applicant with City policies; determination of inaccuracies in the information submitted; increased costs or other factors affecting feasibility; results of environmental or other reviews; changes in the Good Standing of the applicant, borrower, or Affiliated Entities; or failure to the applicant to agree to loan conditions.

6. Loan Conditions

Loan conditions, including but not limited to repayment, covenant terms, interest rate, extensions and deed of trust will be covered in the NOFA, other offering documents and/or in loan documents.

A covenant will be recorded against the property that requires continued use of the units funded by the City as low-income housing for the stated term of the loan, and for any period for which the loan is extended. Unless otherwise agreed by the Director, the covenant shall continue in effect if the loan is repaid or discharged before the maturity. The Director may release the covenant, wholly or in part, in connection with a sale of the property approved by the Director, including any foreclosure, if the Director determines that under all the circumstances, including any proposed substitution of other units, the release will likely result in a net benefit to the City's efforts to achieve low-income housing goals, compared to maintaining the covenant.

G. Acquisition/bridge lending

OH may provide short-term financing to assist in the development of projects that would further the objectives of the Homeownership Program. Bridge loans must be used for site acquisition, which includes the acquisition of improved or unimproved property, or both, to assist in the production or preservation of low-income homeownership units. Once completed, the housing development must provide affordable housing consistent with Homeownership Program policies. Acquisition/bridge loans are available through a rolling NOFA.

Project sponsors must demonstrate that bridge financing is necessary for the proposed project to proceed, and that there is a high likelihood of obtaining permanent financing within two years. To be eligible for a bridge loan, the borrower must meet the eligibility requirements for the Homeownership Program and be in Good Standing as defined in Section H. In addition, the borrower or sponsor must have successfully developed and operated at least three affordable housing projects, and must have demonstrated capacity to secure permanent financing for the proposed project before the loan maturity date.

The interest rate on bridge loans generally shall be 3% simple interest. The Director may authorize a lower rate in order to leverage other funds that, together with OH funds, create a blended rate of approximately 3%. Accrued interest shall be paid in full when the loan is repaid. OH may require recourse to the borrower or a guarantor if for any reason a loan is not fully secured by the real property.

The Director shall have the option to allow extensions, or to convert the bridge loan to permanent financing if permanent financing is awarded through a NOFA. Any extensions may be conditioned on the borrower submitting an updated proposal for approval by OH. Borrowers must agree to terminate a use other than low-income housing, upon OH request.

A covenant will be recorded against the property which will require use of the property wholly or in part for low-income housing. The covenant shall continue in effect when the loan is repaid or discharged. However, the Director may release the covenant, wholly or in part, in connection with a sale of the property approved by the Director, if the property is not in housing use and the Director determines that development of low-income housing is infeasible and that the loan must be repaid.

H. Good Standing Policy

An agency is in Good Standing if:

- It is not in default of the terms of any outstanding loan, contract or program agreement, or if in default has reached resolution with OH on remedy.
- Any project funded with OH development or acquisition financing is proceeding without substantial concerns such as construction delays, budget overruns or inability to sell units; or if substantial concerns exist an appropriate mitigation plan has been proposed and accepted by OH.

2016 Housing Levy Administrative and Financial Plan and OH Funding Policies

Policy Proposal: FORECLOSURE PREVENTION PROGRAM

Proposal Summary

OH will provide loans of up to $30,000 to assist low-income homeowners at or below 80% of median income who are facing foreclosure to become current on delinquent mortgage payments, real-estate tax payments and/or homeowner association dues. Loans will be provided only to those who can demonstrate that they can continue to afford housing payments after assistance has been received. Homeowners must be referred by and working with an OH-approved homeowner counselor. The administrator of the loan program will be selected through a competitive RFP process. This is proposed to be a 24-month pilot program.

Context

The 2016 Housing Levy includes $9.5 million for homeownership, including a foreclosure prevention assistance program. Council also passed a resolution which said "OH should undertake further needs assessment and policy analysis for foreclosure prevention assistance for low-income homeowners. . ." That needs assessment will be completed by the end of November.

The intended recipients for this program are low-income homeowners. There are approximately 28,000 owner households in Seattle at or below 80% of median income. Of these, nearly 12,000 are paying over half of their income towards housing costs. This program will help low-income homeowners remain safely in their homes and in their communities and stave off the displacement of low-income homeowners from Seattle. The needs assessment report identified a decreased but still significant need for foreclosure prevention assistance. The data collected for the report also suggest that households of color are disparately impacted by foreclosures.

Proposed Language: New Section

FORECLOSURE PREVENTION LOANS

OH's Foreclosure Prevention Loan Program provides loans to eligible low-income homeowners who are at risk of foreclosure.

PILOT PROGRAM OBJECTIVES

- To decrease the number of foreclosures in Seattle and the subsequent displacement of low-income homeowners from Seattle.

- Assist low-income homeowners, especially homeowners of color and seniors, remain successfully in their home and community.
- Explore and create effective partnerships with housing counselors, King County and other city departments to determine how and when to appropriately intervene with financial or other assistance to assist low-income homeowners to successfully remain in their homes.

PILOT PROGRAM POLICIES

1. Grant Amounts
   The maximum loan amount is $30,000. The minimum loan is $2,000.

2. Homeowner Eligibility
   Homeowners at or below 80% of median income who own and occupy their home are eligible. Homeowners must be referred by an OH-approved homeownership counseling agency, and must demonstrate the ability to afford their housing payments after receiving assistance. Homeowners must have fully explored alternative workout options prior to or in conjunction with applying for the Foreclosure Prevention Loan, including use of personal savings or investments. OH will allow the homeowner to retain a minimum amount of reserves.

3. Eligible Uses
   Funds can be used to bring a mortgage current, help obtain a modification, pay off property tax arrears and/or pay off delinquent homeowner association dues that could lead to foreclosure.

4. Loan Terms
   Interest rates may range between 0% and 3%. Loans may be amortized or deferred, depending on factors such as borrower income and debt, and ability to pay debt service to the City in addition to other obligations. Deferred loans will be due upon sale or transfer. The amortization period can up to 20 years but a minimum payment of at least $50 per month is required. Monthly payments must cover interest. A lien will be recorded against the house; repayment will not be required if the homeowner does not have any net gain after sale of the home. Combined loan to value may be allowed to go higher than 100%, and loans may be made to homeowners with reverse mortgages.

5. Administration
   The administrator of the loan program will be selected through a competitive RFP process. The RFP will address the fee structure for underwriting and servicing loans. Repaid funds will revolve back to OH.