Multi Family Transaction

Underwriting Guidelines

January 21, 2020

How these Underwriting Guidelines Work

These guidelines are being used jointly by County of Napa and the City of Napa.

The County and the City each have their own sources of funding for affordable housing development in their respective jurisdictions that they individually administer. However, they have three common documents that they use for the administration and approval of funding: these Underwriting Guidelines, and common Pre-Application and Full-Application materials.

In these Underwriting Guidelines, references to funding from either the City or County of Napa shall say City and County or City and/or County, unless otherwise indicated.

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Part A: Key Contact Information	
Napa County Contact	Molly Rattigan Director of Housing and Homelessness County Executive Office, County of Napa 2751 Napa Valley Corporate Dr. Building B Napa, CA 94559 (707) 253-4112 Molly.Rattigan@countyofnapa.org
City of Napa Contact	Lark Ferrell Housing Manager City of Napa 1115 Seminary Street Napa, CA 94559 (707) 257-9547 lferrell@cityofnapa.org

Part B: Diversification Guidelines and Overview

The City and County will seek to promote a healthy diversification in its loan portfolio in order to minimize risk.

To encourage borrower diversity, applicants will be limited to two applications per calendar year to Napa County and two per year to City of Napa provided that only one of the two applications may be submitted by a single developer applicant; any second application must be submitted with another development partner. Applicants may also submit two applications that both involve development partnerships. To achieve a diversity of project types, the City and County will seek over time to fund a diversity of populations in different housing types including a mixture of unit sizes, project sizes, and new project types including new construction and rehabilitation.

These guidelines are primarily intended for the development of deed-restricted multifamily rental housing projects. However, both the City and the County of Napa will consider funding requests to support homeownership projects. Funding for homeownership developments will require specific income restrictions and deed restrictions. Developers of homeownership housing should consult with staff at the City and County of Napa early in the process to determine availability of funding and specific program requirements for homeownership projects.

Part C: Transaction Underwriting Guidelines

Part I: Applicant Thresholds

Developer Qualification/ Disqualification	An applicant seeking a subsidy from the City or County of Napa must meet the following qualifications listed below. If the developer entity is a joint venture, the leading developer must meet the required qualifications listed below. If the developers equally share the partnership interest, both developers must qualify. 1. A developer must have experiences within the last five years in developing and owning affordable housing projects that are similar in size, scale, tenure, type, target population and complexity (both from a physical and financial standpoint) to the one being proposed. 2. A developer will be required to disclose whether it, any of its principals, or any affiliated entity, has been an adverse party in litigation involving any county, city, redevelopment agency or other public entity within the past ten years. 3. A developer will be required to disclose all judgments and outstanding claims against it, its principals or any affiliated entity, involving, but not limited to, defaults on financial obligations, construction safety, landlord/tenant disputes, or negligence. 4. A developer will be required to disclose that it, any of its principals, or any affiliated entity, has filed for bankruptcy at any time within the past ten years. 5. A developer must demonstrate its experiences in gaining support from respective communities for its affordable housing projects. 6. Applications are not accepted from entities that have been notified that they are not in compliance with their current obligations on any loans issued by Napa County (if applicant is applying to Napa County), City of Napa (if applicant is applying to the City of Napa. Noncompliance, at the discretion of the City or County, may consist of any monetary or non-monetary provisions, such as failure to submit required financial statements in a timely manner, failure to comply with the requirements of the regulatory agreement, including but not limited to resident service and property management obligations, and failure to correct in a timely manner any building deficiency noted by any government agency. 7. The entities comprising the applicant must not have received negative points from the California Tax Credit Allocation Committee (CTCAC) or the California Debt Limit Allocation Committee (CDLAC) within the past three years.

	8. If the applicant is seeking 9% tax credits, the applicant entity must meet the standard for maximum general partner experience points under California Qualified Allocation Plan. 9. The applicant is willing to designate a principal available through the entire course of development and construction of the project if the developer track record relies on that principal. 10. The City or County reserves the right to deny funding assistance to any applicant based on the information provided by said disclosures.

Part II: Eligibility	
Eligible Projects	Project types to be funded will be defined by Notices of Funding Availability (NOFAs) that will be released from time to time by Napa County and/or City of Napa. Generally, the City and County are committed to providing affordable housing opportunities to the populations that have the greatest needs. The City and County also strive to provide affordable housing opportunities to specific segments of the population that are underserved or are at risk of homelessness. In general, eligible projects are affordable rental developments including, mixed income developments and mixed-use projects. Funding from the City and County provides loans for affordable housing projects that prevent the loss of existing long term affordable housing, or expand the supply of new long term affordable housing, through one or more of the following development opportunities: development and/or construction of new housing; conversion of non-residential structures to housing; preservation of existing affordable housing; acquisition of existing housing to preserve affordable housing or to create new affordable housing; and rehabilitation of existing housing. Priority will be given to projects presenting a financial need not readily available from other sources, and for projects that provide the maximum level of affordability possible within the framework of leveraging sources available at the time For projects receiving funds from the County of Napa, priority will be given to projects providing supportive services for the disabled and serving Extremely Low Income households. City of Napa NOFAs may require applicants to proactively market units to the City's Section 8 waiting list or to households that may be facing dislocation due to publicly assisted development projects.
Ineligible Projects	1. Emergency homeless shelters and transitional housing 2. Housing types that are in violation of Federal or State fair housing laws.
Eligible Applicants	1. Applications are accepted from non-profit and for-profit housing corporations, joint ventures, limited liability companies, partnerships, and local governmental entities that have met the Applicant Thresholds. All applicants seeking funding must include a nonprofit managing general partner, or request a waiver of this requirement. 2. City and County staff will review and approve the qualifications of the applicant and all partners in the ownership entity. a. Applicants are required to submit proposed or executed organizational documents of the applicant and ownership entity, including a detailed description of the role of each, if separate entities, throughout the regulatory period of the project. Applicant shall submit complete financial statements including Balance Sheets, Income Statements, and Statement of Cash Flows with notes for the last three years. Audited financial statements must

	be submitted if available. A credit report may be requested by the City and County at its discretion. If both the applicant and the ownership entity are both newly formed, the information submitted must also include all of the requested information above for the general partner, or the established development company that is a partner in the general partnership. b. Applicants are required to submit evidence of successfully participating in a least two projects of comparable size, scale, tenure, type, target population and complexity to the proposed development, and subject to a recorded regulatory agreement for at least five years prior to the application. The City and County may require evidence that projects have maintained positive operating cash flows and that all required reserves have been funded throughout the ownership period. Applicants who are unable to meet this experience requirement will be required to partner with an entity that has the necessary experience.
Eligible Uses of Funds	To provide financing for normal and customary pre-development and acquisition related expenses, take-out financing at construction loan closing for predevelopment expenses financed from other sources, and to fund normal and customary construction expenses on a pari passu basis with a construction lender. The Fund will determine, in its sole discretion, costs deemed excessive or unreasonable, or uses deemed ineligible.
Ineligible Uses of Funds	Costs associated with construction items or materials of a luxury nature; furnishings (except where required for special needs projects); developer/sponsor administrative costs (other than included in the developer fee); refinancing of existing debt, except in extraordinary cases; marketing events such as groundbreakings and grand openings; substitution of County or City funds for any source of funds that has been previously committed to the project, or represented to any other funding source as being available for the project.
Eligible Households	Very low, low and/moderate income households including households with special needs. The City and County use the income limits set the California Department of Housing and Community Development (HCD) to define low- and moderate-income households, unless funding sources require use of the federal income limits as promulgated by the US Department of Housing and Urban Development. Projects financed by the City of Napa will have different household income requirements depending upon the source of funding. A prospective developer should consult with City of Napa staff to determined funding eligibility.

Part III: Project Priorities and Location and Design Guidelines	
Project Priorities	Project priorities will be set forth in individual NOFAs when they are issued. <u>For Napa County</u> In general, priority in all requests for funding shall be given first to housing projects that guarantee permanent affordability. <u>For Napa County and City of Napa</u> It is a goal of the City and County to provide loans for housing that serves a combination of special needs, very low income, low income and moderate-income households. Specific project targets and criteria may be adopted periodically in response to evolving housing challenges and needs that are identified. It is the policy of both the City and County of Napa to affirmatively further fair housing and not exacerbate segregation in all matters pertaining to project locations. Projects will be evaluated with respect to criteria that are consistent with City and County's goals and policies. In addition, projects that provide the following will be viewed favorably and when compared against other projects: 1. Projects that provide the greatest benefit per dollar of funds spent. 2. Rental projects that have other funding sources identified and committed. 3. Projects with all or a portion of the units set aside as permanent supportive housing. 4. Rental projects which benefit the highest percentage of low- and moderate-income persons, provide the lowest rents, and/or include a greater percentage of affordable units. 5. Rental projects that use program funds as a match or leveraging tool to stimulate the use of conventional and below-market resources, including tax credits, state and federal funding programs, and/or other funding sources. 6. For projects seeking funding from the County of Napa, rental projects that benefit farm workers and their families.
Location Policy and Suitability for Development	<u>For Napa County</u> In general, the County seeks to distribute loans throughout the county in proportion to the population or housing needs of the various communities in the county and to avoid concentrating lending in a limited number of areas of the county. The County specifically seeks to target for lending those sites listed in the Housing Element as being suitable for affordable housing development. The County also encourages infill development and the redevelopment of properties that have outlived their useful lives, where economically feasible. This

	aligns with the County land use and development policies to accommodate growth without outward expansion of the urban area. The County of Napa has a preference for local workers, where allowed by law, with a goal that farmworker households comprise 10 percent of assisted households. <u>County will give priority to projects in the Affordable Housing Combination District (AHCD) zone or on the Napa Pipe site.</u> <u>For City of Napa</u> The City encourages infill development and the redevelopment of properties that have outlived their useful lives, where economically feasible. In general, the City seeks to distribute loans throughout the city in proportion to the population or housing needs of the various communities in the city and to avoid concentrating lending in a limited number of areas of the city. <u>For both Napa County and City of Napa</u> Sites proposed for an affordable housing project must be suitable for development. Some characteristics of suitability include close proximity to transportation, services, schools, recreational amenities and compatibility with adjacent land uses. In negotiating the cost to acquire a site for development, the developer should keep in mind that the site should not have extraordinary costs associated with the proposed project, such as higher than typical grading costs due to unusually steep sloping or unstable soil characteristics or extraordinary costs to bring roads or utilities to the site, unless there exists some offsetting characteristic of the land, such as a lower price or there exists a County or City policy encouraging development at that particular location, that would provide equal or greater public benefit for allowing development as affordable housing.
Design Guidelines	<u>For Napa County</u> Developers of new construction projects in the City of Napa but seeking County funding are required to meet with City design review staff prior to submitting a full application to the County. For projects located in the unincorporated parts of Napa County, developers of new construction or acquisition rehab projects are required to meet with the Director of Conservation, Development and Planning (or Director's designee) prior to submitting a full application to the County . Developers should incorporate the principals of universal design by improving accessibility and ease of use for all residents. For projects located in the County in a city other than Napa, the design guidelines of that city will apply. <u>For City of Napa</u> Site and building design. All projects will be subject to design review and developers may be required to provide renderings of the project with their pre-application. Developers of new construction projects are required to meet with City design review staff prior to submitting a full application to the City. Developers of rehabilitation projects may be required to meet with design

	review staff prior to Council approval. Developments should adhere to the City Design Standards, which provide guidelines for site layout, parking, building differentiation and orientation, and materials, among other design standards. Developers should incorporate the principles of universal design by improving accessibility and ease of use for all residents. <u>For Both Napa County and City of Napa</u> The pre-application requires an extensive design review package to be submitted. Architectural drawings for conceptual review must be submitted and shall include a site plan, building elevations, and unit floor plans (including the square footage of each unit). The site plan shall identify all areas or features proposed as project amenities, laundry facilities, recreation facilities and community space. Preliminary drawings must have a conceptual landscape plan and shall be at a scale that clearly shows the requested information. Blueprints need not be submitted. A narrative site description from the architect must accompany the preliminary drawings and shall address the following: lot dimensions, surrounding uses, prevailing setbacks, traffic patterns (if applicable), neighborhood amenities and availability of public transportation. The narrative should explain the orientation of the project design in relation to the site and area characteristics. Project must incorporate Crime Prevention through Environmental Design ("CPTED") principles.
Livability standards	The provision of affordable housing financing is a long term investment. Underwriting includes assuring that each development will be well-designed and well-constructed to provide decent, safe affordable housing over the long term for a population that does not have a wide range of housing choices. For Napa County, the project must meet all code requirements imposed by the Conservation, Development and Planning Department, but it may be appropriate to exceed these requirements for certain projects. For the City of Napa, the project must meet all City of Napa Municipal Code requirements , but it may be appropriate to exceed these requirements for certain projects. Unit layout and size –staff will carefully review unit size and layout for livability. Size limits must follow guidelines as set by the Tax Credit Allocation Committee. Windows/Lighting/Ventilation – Units must be designed so that there is adequate natural light and ventilation. Building Shape and Appearance – The structure should respond to its context, enhance the neighborhood, and create a pride of place for its residents. Landscaping – The design should be appropriate for the intended use of all of the residents. Quality of Building Materials – Materials must be of a quality and durability to

	assure long term viability of the structures. Open Space/Storage Space - The project must address adequate levels of the following, based on the type of project, location and target group. Examples of acceptable open space/storage space include: common space (e.g. community room and social services space, if applicable); secure, on-site laundry facilities; children's play area (family projects); storage space (both inside and outside of the unit); and open space (public and private space within the housing complex). Resident Service Community Space – Residential amenities, including but not limited to, common outdoor open space, common indoor space, private outdoor space (balconies, patios, etc.) should be incorporated into a project’s design. Innovative project designs and construction types/methods that result in reduced construction costs are encouraged.
Inclusion of computer technology	Projects must provide the capacity for high-speed internet access in each unit by a means that does not impede use of a primary telephone line. This requirement may be waived for rehabilitation projects if infeasible.
Accessibility	All Projects must comply with all applicable federal, state, and local disabled persons accessibility requirements including but not limited to the applicable provisions of: (i) the Unruh Act, (ii) the California Fair Employment and Housing Act, (iii) Section 504 of the Rehabilitation Act of 1973, (iv) the United States Fair Housing Act, as amended, (v) the Americans With Disabilities Act of 1990, and (vi) Chapters 11A and 11B of Title 24 of the California Code of Regulations.

Part IV: Development Team	
A. Development Team Underwriting and Qualifications	
Developer Experience	Applicants must meet Applicant Thresholds. In addition, when applicable, applicant team shall have a demonstrated successful track record in providing social services to the targeted population, and adequate capacity to provide social services, or shall contract with a service provider who does. This track record should be evidenced by documentation on project staffing levels, annual social service budget, sources of funds, types of services provided and contracts/agreements with third party service providers at existing projects.
Staffing and workload levels	<u>Pipeline, Staffing and Workload Levels</u> 1. Applicant shall identify proposed project manager committed to the project. 2. Applicant shall identify current project pipeline including type of project, location, number of units and status. 3. Applicant shall identify the number of project managers on staff and the average number of current projects per project manager. Applicant shall also describe the how project management is structured within their organization.
Funding Ability/ Financial Strength	1. The borrower's capacity and financial strength are very important considerations when evaluating whether an affordable housing project will be successful. The City and County reviews the borrower's financial statements and/or tax filings for at least the past three years plus the current year to date to evaluate whether there is sufficient income, equity and cash flow to undertake, carry out and successfully complete the proposed project. Co-borrowers and guarantors will be considered in this evaluation. 2. Developer may be asked to demonstrate that it has met the financial guarantee requirements of any lenders and investors as may be required for the project to obtain the anticipated funding.
Identities of interest and related parties	1. Identities of interest and related parties. The applicant must identify any persons or entities (including affiliated entities) that plan to provide development or operational services to the proposed project in more than one capacity, and provide full disclosure of any "Related Party," as defined in the CTCAC Regulations, Section 10302 ii (Definitions) of the December 12, 2018 regulations. 2. 2. The City and County prohibits members of the boards of directors of nonprofit corporations and their immediate and extended families from participating financially in their organization's projects.
B. Other Development Team Members	
General Contractor	Although it is not necessary to select the project General Contractor (GC) at the Pre-Application stage, it is recommended that the applicant involve the proposed GC as early as possible during the project design stage. The selected GC should have relevant experience working on housing of a similar design to

	the project being proposed, and it is highly desirable that the developer have previous experience working with the proposed GC. Experience in projects with similar funding source types, such as Federal, state or local assistance is desirable, but not mandatory.
Construction Contract	Form of Construction Contract: 1. The form of construction contract should be an AIA Stipulated Sum, Document 101, or Guaranteed Maximum Price (G Max) contract Document A102, with special conditions as appropriate. 2. The City and County may require sharing of cost savings on the construction contract between the contractor and the City or County as Lender, depending upon the overall level of compensation to the contractor.
Architect	The project architect must have design experience with at least three recent and similar projects as the proposed project. The architect must show experience in similar construction types and similar project complexities as the proposed project. Experience in projects with similar funding source types is desirable, but not mandatory.
Property Manager/ Resident Services	The sponsor will include the property management company on the development team during the project design phase. The qualification of the firm, if sponsor will use an outside management company, should be submitted with the Pre-Application. A thirty party or retained property management firm may be selected to provide tenant services at the property. Details on the services to be provided and the qualifications of the service provider(s) should be included in the application for funding. The City and County will reserve the right to approve or disapprove the property management company, management plan, and lease agreement as part of the Pre-Application and/or Full Application process and upon any subsequent change, and annually monitors all projects for occupancy, affordability, management and social service requirements. The City and County will reserve the right to require the management company be changed if, in their sole discretion, it is determined that the management company is not following policies and procedures specified in the approved management plan, lease agreement, or regulatory documents. For property management companies new to Napa, references from at least three property owners may be required.
Construction Manager	Developer must identify specific staff or consultant(s) who will provide construction management functions on behalf of the owner, including permit applications and expediting, cost analysis, completion evaluations, change order evaluations, scope analysis and schedule analysis.

Financial Advisor/Consultants	Consulting fees must not exceed $100,000 and should be dependent upon the size and complexity of the project. Specific consulting services include: preparation of tax credit applications; preparation of City and County applications and other public agency applications; preparation of Affordable Housing Program (AHP) applications and applications for conventional financing, as well as provision of general development services such as the selection and coordination of the development team; loan documentation; and, processing local approvals and entitlements. Fees required for construction management services are not included in this category.

Part V: Project Underwriting Guidelines	
A. City and County Debt – Terms and Conditions	
1. Loan Terms	
a. Method of Financial Assistance	Predevelopment, Construction and Permanent Loans
b. Loan Sizing	1. The loan amount shall not exceed the difference between total development cost and the maximum potential equity and debt raised from private and public sources other than the City and County. Staff shall determine the financial gap based on review of the application. 2. In order to serve the widest array of projects in the County and/or City and to be as efficient as possible in providing affordable housing units, and to also protect investors and users from unnecessary risk, the City and County will generally limit the size of its loans based upon an analysis of the project as outlined below. The maximum amount will be determined through an economic analysis of the project to ascertain the necessary funding required to achieve housing affordability. Comparable projects will be used as one indicator, along with consideration of the unit size, number of bedrooms, affordability level, length of affordability, availability of other subsidies, and local or regional project costs.
c. Interest Rate	3.0% simple interest when developer has ability to repay City and/or County loan. Sponsor may request a lower interest rate if needed to support tax credit equity financing requirements. 0% if proposed use/operation has no income source for repayment; special needs developments may be offered the possibility of debt forgiveness tied to years of service provision.
d. Loan Term	55 years from conversion of permanent financing; this loan term will run in the range of 55 to approximately 57 years. A shorter loan term may be negotiated based upon the project's ability to repay.
e. Loan repayment	Determined on a project-by-project basis. Standard recommendation: Years 1-55: City and County/Developer 50/50 split of residual receipts Balance due at expiration of the term of the loan.

	The portion of residual receipts allocable to the City and County may be shared with other public agencies in proportion to the respective loan amounts committed by each public agency.
f. Refinance Proceeds	City and County/Developer 50/50 split of net refinancing proceeds (*net refinancing proceeds = proceeds after repayment of outstanding debt, refinancing costs, and takeout of other third-party funding sources, subject to City and County approval*). The portion of refinancing proceeds allocable to the City and County may be shared with other public agencies in proportion to the respective loan amounts committed by each public agency.
g. Disbursement of Funds	Distribution pari passu with City and County, which must approve order of disbursement of its funds.
h. Draw Requests	Provided on a monthly basis or as needed.
i. Payment and Performance Bonds	Payment and Performance bonds may be required at the City and County's discretion. City and County must be a named beneficiary on the performance and payment bond policies.
j. Conditions for Final Disbursement	The City and County will hold back a minimum of 10% of loan proceeds until the following conditions have been met: • Receipt of a Certificate of Occupancy, a Temporary Certificate of Occupancy or acceptable evidence of final sign-off from the Conservation, Development and Planning Department. • Achievement of 90% occupancy. • Submission of complete rent rolls. • Evidence of application for property tax abatement if original proforma contemplated tax abatement. • Evidence that any conventional debt for the project has closed or will close concurrently. Evidence that reserves have been fully funded and further, evidence that the replacement reserves levels are appropriate to the development project. City of Napa has particular concerns that the levels of replacement reserves for small new construction projects be adequate to make future capital repairs, and may require higher than usual reserves levels for small new construction projects (i.e. projects under 20 units).
k. Cost Savings	To the extent that there are Excess Sources (as hereafter defined), the applicant (and at this future point in time will then be the "Borrower") shall make a special payment to the City and County within thirty (30) days of receipt by the Borrower of the approved final cost certification relating to the development . The amount of the special payment shall be the lesser of (x) the outstanding principal balance of the City and County loan, plus accrued interest, and (y) Excess Sources. For the purposes of these Underwriting Guidelines, "Excess Sources" shall be defined as the

	amount by which the funding sources actually available to Borrower for acquisition and new construction and/or rehabilitation of the development exceed the actual aggregate cost for the acquisition and new construction and/or rehabilitation of the development, as such sources are determined by the final cost certification. Such payment hall be applied first to accrued interest, and then to outstanding principal. For projects using both Napa County and City of Napa funding, the Excess Sources would be shared between Napa County and City of Napa on a pro rata basis.
l. Hard and Soft Cost Contingency	Project contingencies must be included at the following levels: new construction hard costs of 5% to 10%; rehabilitation hard costs of 10% to 15%; soft cost contingency of 3% to 5%.
2. Loan Related Fees *Note: if applicant is applying to both Napa County and City of Napa, applicant must pay **<u>each</u>** of the fees below, specifically the fees lettered a to d, to **<u>each</u>** entity (for example, loan application processing fees will be due to both the County and the City at the required payment times set forth below. For further clarification, an applicant would pay $5,000 to Napa County and $5,000 to City of Napa at the Pre-Application submittal; $5,000 to each entity at Full Application, and the balance of the 1% fee to each entity at the close of escrow).*	
a. Loan Application Processing Fees	Loan fees will total 1% of the requested loan amount with a minimum fee of $10,000 for any loan request under $1 million. This 1% fee is non-refundable and is to be paid as follows: $5,000 at Pre-Application submittal; $5,000 at Full Application submittal; and the balance at the close of escrow.
b. Rehabilitation Technical Services Fee	For rehabilitation projects, the City and County charges an additional fee of $5,000 beyond the loan application fee for rehabilitation technical services for a preliminary rehabilitation work write-up/cost estimate and subsequent inspections of work in place. This fee must be included in the total development cost of a proposed project and be paid at close of escrow.
c. Loan Monitoring Fees	
i. Initial Set Up Fee	The loan monitoring system set up fee is $1,000 and is due at the close of escrow.
ii. Annual Monitoring Fee	Compliance Monitoring fees must be incorporated into the operating proforma. The annual fees are based on a sliding scale. The base monitoring fee is $100 per unit for the first 40 units. The base fee decreases $10 for each unit more than 40 units, and decreases $20 for each unit more than 80 units. For example: 1-40 units/beds @ $100 per unit

	41-80 units/beds @80 per unit 81+ units/beds @ $60 per unit For purposes of calculation Monitoring Fees, only units funded by the City and/or County of Napa will be included in the units for which fees are collected. Fees for the first two years will be withheld from the final disbursement of the City and County's loan. Subject to annual increase of 3% per year.
d. Loan Amendment and Modification Fees	The $5,000 fee will be assessed to cover costs associated with modifications and amendments when they are requested by the applicant/borrower.
3. Affordable Housing Provisions	
a. Term of Deed Restrictions	All units assisted by the City and County will be subject to affordability covenants of 55 years for rental projects. For County of Napa, the affordability covenant is 40 years for homeownership projects; for the City of Napa the affordability covenant is 45 years for homeownership projects.
b. Eligible Households	See eligibility section.
B. Private Permanent Financing – Terms and Conditions	
1. Debt Service Coverage Ratio	<u>Target</u> <u>4% LIHTC</u>: 1.15 – 1.20 <u>9% LIHTC</u>: 1.15 – 1.20
2. Loan to Value	Maximum 90% LTV. 80% LTV or less preferred. Subject to industry standards.
3. Loan Term	30-40 years (Shorter loan terms may apply subject to constraints imposed by State and Federal financing sources.)
4. Interest Rate	The interest rate on the senior bank debt must be competitive with the prevailing market interest rate for similar financing structures with similar risk characteristics.

C. Cash Flow Projections (including Annual Reserves, Services, and Fees)	
1. Income	
a. Rent Inflation Factor	2.5% annually (adjusted to industry standard annually).
b. Other Income-Description and Justification	The applicant should show the details of any miscellaneous income expected to be generated from the project. This income could include laundry machine income, storage, or other non-housing related income sources.
c. Other Income Inflation Factor	Not to exceed rent inflation factor and justification of inflation factor to be provided.
d. Lease-up Income	Lease-up income is defined as cash flow from the project operations prior to the conversion of the primary construction loan to a permanent loan. Lease-up income should <u>not</u> be shown as a source of funds for budgeting purposes; however, borrower must submit details of lease-up income amounts prior to conversion to permanent loan.
2. Expenses	
a. Operating Expenses	Operating expenses must meet the minimum standards set by CTCAC, and must not exceed the industry standards.
b. Vacancy Rates	Vacancy rates will be set at the greater of the vacancy rate identified in appraisal, or at the following rates for stabilized occupancy: a minimum of 5% annually for multi-family projects .
c. Operating Expense Inflation Factor	3.5% annually: The proforma operating expenses (excluding property taxes and replacement reserves) should not be inflated by less than one percent (1%) higher than the proforma revenues.
d. Replacement Reserves	Minimum replacement reserves should be consistent with California Tax Credit Allocation Committee (CTCAC), California Debt Limit Allocation Committee (CDLAC), California Department of Housing and Community Development (HCD), and/or California Housing Finance Agency (CalHFA) requirements, as appropriate. In the absence of senior lender requirements, the replacement reserves must be consistent with CTCAC standards. An annual audited financial statement is required, including the balance, deposits, and withdrawals from the replacement reserve account. If the senior lender and/or tax credit investor does not require approval of withdrawals, the City and County shall reserve the right to approve. The audited financial statement also must calculate the amount of residual receipt repayment of the City and/or County loan for that year, in accordance with the loan documents. Reserve levels must be supported by a capital needs assessment; this

	applies only to rehabilitation projects. Applicants will be required to meet the capital needs assessment standards set forth by CTCAC for rehabilitation projects. Applicants must provide evidence that the replacement reserves levels are appropriate to the development project.
e. Operating Reserves	Minimum operating reserves should be consistent with CTCAC, CDLAC, HCD, and/or CalHFA requirements, as appropriate. In the absence of senior lender requirements, the City and County will require operating reserves consistent with CTCAC standards. The annual audited financial statement must include the balance, deposits, and withdrawals from the operating reserve account. If the senior lender and/or tax credit investor does not require approval of withdrawals, the City and County shall reserve the right to approve. For projects with tenant-based assistance and/or other operating subsidies that are renewable or terminate prior to the end of the City and/or County loan, reserves in excess of the CTCAC requirements may be required.
f. Limited Partner Asset Management Fee	Paid during years 1-15 from project cash flow after debt service prior to payment of a deferred developer fee or distribution of residual receipts. Potential range at Year 1: $5,000 - $10,000. May escalate annually at the minimum of CPI or 3%.
g. General Partner Asset Management Fee	Paid during years 1-55 from project cash flow after debt service and payment of deferred developer fee before distribution of residual receipts. Potential range at Year 1: $10,000 - $25,000 *(Limited Partner and General Partner Asset Management Fees combined not to exceed $35,000 in Year 1.)* May escalate annually at the minimum of CPI or 3%.
3. Developer Compensation	
a. Deferred Developer Fee	First draw on cash flow. Subject to repayment with interest within 15 years from date in service. Interest on deferred fees should be payable from the developer's share of residual receipts, and the rate shall not exceed the interest rate of the City and/or County loan.
b. Other Developer Compensation	Any other proposed developer compensation shall be evaluated on a case-by-case basis.
4. Social and Supportive Services Budget	Evaluated on a case-by-case basis. Budgets are to be accompanied by breakdown of costs, including salary, transportation, and supplies.

D. Developer Compensation and Requirements	
Maximum Developer fees	Developer fees for multifamily projects include all funds paid at any time as compensation for developing the proposed project. The maximum developer fee allowed by the identified leveraging source may be included in project costs. The maximum developer fee that may be eligible for payment from construction or permanent financing sources shall be consistent with CTCAC regulations. For projects not using bonds and/or tax credits, such as small supportive housing developments or small rehabilitation projects, the maximum developer fee shall be determined on a per unit basis: $25,000 per unit for the first ten units, $15,000 per unit for units 11 through 30, and $12,000 per unit for units 31 and above. In no case shall the developer fee exceed 15% of the total development costs. For projects where the housing will be for-sale to qualifying buyers, developer profit shall be negotiated between the developer and the City and/or County.

E. Other Financing Sources – Terms and Conditions	
Maximum Leverage Required	It is expected that the applicant will leverage all available outside funding sources to the greatest extent possible to minimize the gap funding required from the City and County. During the earliest stages of the project development, the applicant is strongly encouraged to explore all funding sources available to the project. The applicant should provide evidence of its activities in soliciting proposals from the various funding sources and detailed information supporting their funding assumptions.
Debt Sources	<u>Construction Loan</u> Applicants are required to actively solicit bids from prospective construction lenders in order to best leverage the use of construction funds while also working to minimize interest expense, credit enhancement costs, and lender fees incurred by the project. <u>Permanent Loan (Conventional mortgage loan or tax-exempt bond proceeds)</u> Applicants are required to actively solicit bids from prospective permanent lenders in order to best leverage the use of bond proceeds or private mortgage loans for their proposed project. Although applicants are not encouraged to use debt that would jeopardize the long-term viability of the project, they are encouraged to seek out the most competitive terms and conditions that allow for the maximum leveraging of project cash flow, while ensuring the long-term viability of the project operations. An applicant must provide preliminary commitment letters from one or more lenders indicating that the term debt level is

	supportable. The project's Debt Service Coverage Ratio on the permanent loan payment should be at least 1.15, but no greater than 1.20 unless there are extenuating circumstances requiring a higher DCSR.
F. Tax Credit Equity Commitment	
	Applicants are required to actively solicit bids from prospective tax credit equity investors. As with construction lenders, the applicant shall contact at least three different tax credit equity investors or syndicators to compare the various terms and conditions, such as tax-credit factors and pay-in schedules, to see which investor or syndicator may be able to provide the most beneficial tax credit equity contributions for the proposed project.
G. Exceptions to Guidelines	
	Exceptions to these underwriting policies will be granted in limited situations if staff concludes a waiver is appropriate and approves the request. Requests for exceptions must be submitted by the applicant in writing. It shall be at staff's sole discretion to determine the appropriateness of the request. For Napa County, requests for exceptions must be submitted by the applicant to the Housing Director who will approve or disapprove such requests in writing. For City of Napa, requests for exceptions must be submitted by the applicant to the Community Development Director who will approve or disapprove such requests in writing. Appeals may be made to the City Manager.
H. Commercial Space Underwriting Guidelines	
	To be determined on a case-by-case basis and subject to industry standards.

Part VI: Third Party Reports	
I. City and County Debt – Terms and Conditions	
Appraisals	All appraisers must be state-certified MAI appraisers who do not have an identity of interest with any member of the development team or sponsor. Appraisals must be prepared no earlier than six months prior to the date of the land or building's purchase contract. Appraisals prepared for the project's lender(s) may be accepted . Appraisals are to be submitted as soon as possible, but no later than two months before the projected closing date of the City and/or County loan and/or the construction loan. Appraisals for rehabilitation projects must include "as-is" and "post-rehabilitation" values. Appraisals for new construction must include a land valuation and completed value. The property value shall be based on an appraisal that takes restricted rents and the value of below-market financing and tax credits into consideration, as applicable. The appraisal must be commissioned by the senior lender or by the City and/or County, funded through project costs, and performed by a reputable agency that is acceptable to the City and/or County. The appraisal must address unit type demand at the submarket level (or other geographic area if deemed more appropriate), and must provide comparables of other restricted affordable apartments. The valuation methodology should assess: • Value of unimproved land • Value as-improved without rent restrictions • Value as-improved with restricted rents • Value of below-market financing • Value of tax credits • Value of commercial space, if any. As Napa's real estate market can change rapidly, an update for appraisals less than six months old may be appropriate for purposes of accurate valuation. For leasehold properties, appraisals should define market value and estimate the property's below-market value. The appraisal valuation, whether for fee simple or leasehold properties, should support the amount of the first-priority loans as well as the City and/or County's loan amount.
Rehabilitation assessment	For project's involving rehabilitation of an existing building, a capital or physical needs assessment of the property must be submitted that details the conditions and remaining useful life of the building's major components, including but not limited to electrical, plumbing, HVAC, foundation, and roofing. The scope of rehabilitation work identified in the application should match the findings of the physical needs assessment. The physical needs assessment must be prepared by the project architect or a qualified independent third party, neither of whom has an identity of

	interest with any member of the development team or sponsor. The needs assessment must be performed no earlier than 120 days prior to the application. The physical needs assessment shall include a 15-year reserve study, which indicates the expected dates and costs of future replacements of all major building components that are not being replaced immediately. The assessment shall also include a schedule of reserve contributions needed to fund those replacements.
Phase I or Phase II environmental assessments	Every application must include a Phase I Environmental Assessment which must follow the standards outlined in the American Standards of Testing and Materials (ASTM) standards (E 1527-05) to discover the potential presence of onsite and neighboring property contamination, (including but not limited to lead-based paint, asbestos, and methane) and will have been completed within the last six months. If a project's Phase I Environmental Assessment indicates the need for further assessment, a Phase II report must be submitted. The project budget must include a cost estimate for any required remediation.
Lead-based paint/Asbestos	All rehabilitation projects and new construction projects which involve demolition of existing structures, must submit an asbestos assessment and lead-based paint report completed within the past twelve months. For new construction projects where there is complete demolition of all existing structures, the applicant may submit a letter in lieu of a lead test report indicating that applicant will assume the presence of lead and follow the appropriate (federal, state, and local) lead hazard abatement protocols. For occupied sites, assessment must include minimally-invasive sampling and readily-accessible surfaces. Testing for asbestos shall be subject to AQMD standards. As it relates to lead-based paint, testing and compliance shall be consistent with those standards outlined in HUD's "Guidelines for the Evaluation and Control of Lead-Based Paint Hazards in Housing" (2012. If the assessment determines that lead is present, (except for new construction with complete existing structure demolition as indicated above), a Lead Abatement Plan must be submitted with application.
Soils report	All new construction projects must submit a soils report completed within the last twenty-four months for the purpose of evaluating the geo-technical engineering characteristics of the on-site subsurface soils relative to the anticipated development. The report shall include the description of the field exploration and laboratory tests performed; evaluation of soil liquefaction potential; conclusions and recommendation relating to construction of the proposed residential development based upon the analyses of data from exploration and testing programs; and knowledge of the general and site-specific characteristics of the subsurface soils. Reports for sites occupied by structures must include subsurface investigations that are conducted in compliance with, and subject to, Napa County's Department of Building and Safety standards and/or City of Napa Community Development Department

	standards.
Pest report	All applications for rehabilitation projects must submit a pest report completed within the previous 6 months. If the report shows repairs necessary, these costs must be included in the construction budget and scope, and a clear pest report will be required at the conclusion of construction. The pest report must be prepared by a company licensed by the State of California Pest Control Board.