HOUSING FUNDING POLICIES

Effective January 2014

TABLE OF CONTENTS

1. INTRODUCTION 1
2. RENTAL HOUSING PROGRAM 2
3. OPERATING & MAINTENANCE PROGRAM 28
4. HOMEOWNERSHIP PROGRAM 34
5. HOME REPAIR AND WEATHERIZATION 39
6. GENERAL POLICIES FOR CAPITAL FUNDING 40
7. DEFINITIONS 46

1. INTRODUCTION

The Housing Funding Policies contains funding priorities and guidelines for the following programs administered by the Office of Housing:

- Rental Housing Program
- Operating & Maintenance Program
- Homeownership Program
- HomeWise -- Home Repair and Weatherization

Prior to 2014, policies governing these programs were primarily contained in the Housing Levy Administrative & Financial Plan and in the Seattle Consolidated Plan for Housing & Community Development. They are now combined in a single document to improve accessibility and consistency.

The fund sources subject to these policies include the 2009 Seattle Housing Levy; federal HOME and CDBG funds; earnings and repayments derived from earlier housing levies and City-administered federal funds; and any other City funding, grant funding, and funds from land use incentive programs that are made available through a NOFA for the Rental Housing or Homeownership program. In addition, HomeWise fund sources include federal, state, Seattle City Light and private utilities. For convenience, all fund sources for each of the four areas identified above are referred to as a single program, although, for example, an affordable housing incentive program under the City Land Use Code is legally a separate program.

The use of certain fund sources must also comply with requirements that are not included in this document. HOME and CDBG funds, including program income, are subject to other priorities and requirements, including those in the Consolidated Plan, as applicable depending on the proposed use of funds for rental or homeownership projects. Funds received by the City under land use incentive programs are subject to applicable ordinances, laws and any related agreements or permit documents. In addition, special federal grants, prior housing levies, and other fund sources may be subject to legal requirements that are not reflected in these Housing Funding Policies. In case of any conflict with these Policies, the other priorities and requirements referred to in this paragraph control.

2. RENTAL HOUSING PROGRAM

The Office of Housing (OH) funds the development of affordable rental housing in Seattle using the 2009 Housing Levy Rental Production and Preservation Program funds and other fund sources. The following program objectives and policies apply to all fund sources for the Rental Housing Program, unless otherwise indicated in Section 1 above or below in this Section. At least once per year, OH shall publish a Notice of Funds Available (NOFA) for the Rental Housing Program. The NOFA describes specific funding priorities and requirements for each available fund source.

Rental Housing Program Objectives

The following objectives will guide the Rental Housing Program:

- Provide a mix of affordable rental housing, consistent with affordability requirements for each fund source, promoting housing opportunity and choice throughout the City.
- Working collaboratively with other funders of affordable rental housing, ensure that the greatest number of quality affordable housing units are preserved or produced each funding round.
- Contribute to countywide efforts to end homelessness by providing housing that serves individuals and families who are homeless or at risk of homelessness, including those with long or repeated periods of homelessness, criminal record, or other significant barriers to housing.
- Provide a stable and healthy living environment where Low-income individuals and families can thrive, with culturally relevant and linguistically competent services, and with access to education, employment, affordable transportation, and other opportunities and amenities.
- Promote cost-effective sustainable design, construction, rehabilitation, and operations of affordable housing.
- Promote preservation of affordable housing, and prevent displacement of Low Income residents, through purchase and rehabilitation of existing housing.
- Contribute to the revitalization of low-income communities through development and preservation of affordable housing, including mixed-income housing and housing opportunities for existing Low Income residents at risk of being displaced by redevelopment and rising housing costs.
- Contribute to the development of sustainable, walkable neighborhoods, particularly near high-capacity transit, giving Low Income residents access to transportation, services and economic opportunity.

Rental Housing Program Priorities

Rental Housing Program funds are intended to serve vulnerable people in our community, including Low Income seniors and people with disabilities, families and individuals who are either experiencing homelessness or are at risk of homelessness, and people who earn low-wages and have difficulty finding housing they can afford.

To meet Levy production goals, projects must leverage other public and private fund sources: capital funding for housing development and, for homeless and special needs housing, ongoing funding for building operations and supportive services. In the next three years capital funding leveraging from the Low Income Housing Tax Credit program is expected to be stable, however funds from the State Housing Trust Fund are expected to be constrained by continuing State budget shortfalls. Operating and service funding is limited due to high demand for available state and local funds, and by federal budget cuts for Section 8 Housing Choice Vouchers and other programs.

The Rental Housing Program emphasize efficient and sustainable housing development to meet the range of Program Objectives. OH will continue to prioritize leverage of other public and private investment, both capital funding for housing development and operating and supportive services funding for residents with special needs. Proposed projects will be prioritized if they will preserve existing housing subsidies and/or prevent displacement of Low Income residents.

I. PROJECT LOCATION

The City encourages production and preservation of affordable housing throughout the city to maximize choice for low-income residents of Seattle. OH will encourage project locations that afford low-income residents the greatest access to opportunities such as jobs, quality education, parks and open space, and services. OH will encourage housing projects that support focused community development investments that improve the quality of life in low-income communities, and projects in locations where revitalization trends are leading to the displacement of low-income residents.

Criteria to evaluate project locations will be published in the NOFA. Access to transit is a priority, as transportation costs are second only to housing costs for a majority of low-income households and many low-income households do not own a car. The location criteria will be tailored according to the population intended to reside in the housing, for example, schools would not be a consideration for senior housing.

The City encourages geographic dispersion of extremely low-income housing through its Development Siting Policy (see Section 6.A below).

II. RESIDENT POPULATIONS

The following are funding priorities related to the resident populations intended to be served in Rental Housing Program projects. A project may propose to serve residents who fall into more than one population group – for example, seniors who are formerly homeless – and therefore may address several priorities.

A. Housing for homeless families, adults and youth, including chronically homeless individuals with disabling conditions

Housing for the homeless continues to be a critical need in Seattle. In 2013 over 1,989 people were homeless on the streets in Seattle on a single night and many more were living in shelters and transitional housing. Seattle Schools reported 1,872 homeless students over the 2011-2012 school year, which is 3.8% of the student body. A range of housing, combined with supportive services, is needed to assist families, individuals and youth regain housing stability and work toward self-sufficiency.

For projects serving homeless people, sponsors must demonstrate a high likelihood of securing funds to provide appropriate levels of supportive services. For projects that will serve chronically homeless people, appropriate services generally will include on-site case management, mental health, health care, and chemical dependency services.

Projects that will serve homeless people must be aligned with local planning and funding initiatives of the Committee to End Homelessness, including the Family Homelessness Initiative, Youth and Young Adult Initiative, and Campaign to End Chronic Homelessness. In addition, OH will encourage sponsors to implement best practices that are supported by data and research, including “Housing First” and rapid re-housing. Sponsors are also encouraged to provide housing opportunities for people with significant barriers to housing, such as criminal records, through their tenant admissions policies and referral relationships.

B. Housing for seniors and people with disabilities

Many seniors and people with disabilities live on low, fixed incomes and struggle to afford housing while paying for food, health care and other expenses. Many low-income Seattle renters over age 62 are severely cost burdened; over 27% of these households pay more than half their income for housing. People relying on social security disability benefits typically have incomes as low as 17% of median income, so they cannot maintain stable housing without an affordable place to live.

OH-funded housing is generally available to seniors and people with disabilities, and projects are designed to provide accessible housing and common areas. Projects that are proposing to provide on-site services for extremely low-income seniors and people with disabilities and/or residents who require supportive services to live independently must demonstrate high likelihood of obtaining appropriate levels of operating and services funding for the intended residents.

C. Housing affordable to low-wage working families and individuals

Many families, single adults and young people in Seattle are employed and yet struggle to afford housing. Some of these households have extremely low-income—at or below 30% of median income, which is below $18,200 for an individual or $23,400 for a family of three. These households are the most likely to be severely cost burdened among renters in Seattle. They may be working a minimum wage job, or working part-time or intermittently. They are at high risk for homelessness if a child's illness forces a parent to miss work or an unexpected expense results in a missed rent payment.

In addition, the people who provide everyday services to residents and visitors in Seattle often do not earn enough to pay market rents. Food preparation workers, retail salespersons, and preschool teachers earn on average $12.25-14.15 per hour. Medical assistants, substitute teachers and office administrative support staff may earn an average of $15 to 18 per hour. In the current Seattle housing market, an income of $21.22 per hour is needed to afford the average one-bedroom apartment.

Proposed projects that will serve households at these income levels, generally up to 60% of Median Income, should be located near transportation and local services and amenities, giving low-wage workers the option to forgo a vehicle. A mix of unit sizes and amenities to accommodate families, including large families, is preferred in new construction projects.

Rental Housing Program Policies

I. AFFORDABILITY REQUIREMENTS

A. Housing Levy Fund Allocation by Income Level Served

This fund allocation policy is applied Levy program-wide, not on a project-by-project basis. All 2009 Levy Rental Production and Preservation Program funding awards made each year will be included in calculating performance under the following policy:

- At least 60% of funds shall be used for housing serving households with incomes not exceeding 30% of Median Income;
- Up to 10% of funds may be used for housing serving households with incomes greater than 60% of Median Income and not exceeding 80% of Median Income; and
- The balance of funds shall be used for housing serving households with incomes not exceeding 60% of Median Income.

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:

- 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.

II. ELIGIBLE AND INELIGIBLE ACTIVITIES AND COSTS

Program funds shall be used to fund the preservation and production of rental housing. Funds may be used to finance entire developments, individual units, or residential portions of a development.

A. Eligible costs

Eligible costs include, but are not limited to:

- Appraisals
- Architectural/engineering fees
- Capitalized Operating Reserves
- Capitalized Replacement Reserves
- Closing costs
- Construction
- Contingency
- Developer fees
- Environmental Assessment
- Financing fees
- Hazardous materials abatement
- Inspections & Surveys
- Insurance
- Interest
- Option costs
- Permits
- Reimbursement of pre-development costs*
- Professional Fees
- Purchase price
- Relocation
- Title insurance

*Nonprofit borrowers are encouraged to use Impact Capital or other cost-effective sources for pre-development funding.

B. Residential spaces

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. Examples include:

- Areas for cooking, eating, bathing
- Building Lobby
- Areas for resident use such as television or reading rooms
- Corridors, stairwells, storage areas
- Management and service office space that is accessory to the housing
- Spaces used for on-site social services

C. Mixed-use and mixed-income developments

Program funds can be used for projects that combine affordable rental housing 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 and program office space may be eligible for funding if OH determines they will serve residents of the affordable rental 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.

In order to facilitate development of the eligible residential spaces, OH may allow Program funds to be disbursed for the full amount of a shared cost item if:

1. Documentation is provided prior to expenditure of Program funds that assures sufficient funding from other sources will be provided prior to project completion equal to the full amount allocable to such space; and
2. The final cost certification confirms the allocation of appropriate non-Program funds for such spaces.

D. Leases

Ownership of a property is preferred to site control through a long-term lease except in cases where the City is lessor, or the lessor and the lessee agree to accept the loan conditions described below and the City receives security in both leasehold and fee interests. Projects involving a borrower that is a lessee (except from the City) where the lessor and lessee do not both accept these terms and conditions will be permitted only if the project represents an unusual cost-effective opportunity or furthers other community development objectives. At a minimum, the following conditions will apply to properties where the borrower is the lessee and the owner does not agree to accept the normal loan term and conditions above:

1. Repayment: Loans involving leases must be structured to provide for repayment over the life of the lease. The OH Director may modify the normal repayment terms, as appropriate, by requiring different terms from or in addition to those generally specified by this Administrative and Financial Plan.
2. Lease term: Minimum lease term is 50 years with a preference for longer terms when feasible. The lease term must exceed the City loan term by at least six months.
3. Security: Security for the City loan should be appropriate to protect the City's interest in repayment of the loan.

E. Replacement housing conditions

Program funds shall not be used to finance development of replacement housing developed as a condition to a tax exemption through the Multifamily Tax Exemption program or proposed as a condition to a Major Institution Master Plan boundary expansion. If the City receives funds from a Major Institution to satisfy the replacement housing requirements under SMC 23.34.124.B.7, OH shall use the funds to develop replacement housing consistent with any conditions included in the Major Institution Master Plan and no other permanent City funding shall be used in the development of these units unless expressly approved by City Council.

III. PROJECT REQUIREMENTS

A. Eligible Borrowers

An applicant and/or proposed borrower must demonstrate ability and commitment to develop, own, and manage affordable housing, 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 there is sufficient capacity to sustainably develop, own and operate housing 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 subsidy contracts administered by OH. Good Standing is defined in Section IX Project Monitoring.

Eligible applicants and borrowers are:

1. 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.
2. 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.
3. Public Development Authorities.
4. Seattle Housing Authority (SHA), except that Levy Rental Preservation and Production 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.
5. Private for-profit firms.

B. Cost-effective long-term investments

Proposals for quality affordable housing must demonstrate a cost effective, sustainable investment of public funding. Following are minimum requirements:

1. Land acquisition costs must be justified and not exceed a competitive market price.
2. Design must clearly promote efficient use of space and utilities.
3. Per-square foot and per-unit costs must reflect current market trends for the type of housing being produced.
4. Low per-square-foot land acquisition costs should not be sought at the expense of considerable site work challenges.
5. Fees for contractors and professional services must be competitive.
6. Unnecessary costs are avoided whenever possible.

C. Maximizing production and preservation

The City strives to leverage non-City resources for capital, operating, and supportive services to the greatest extent possible. OH works collaboratively with other funders of affordable housing including, but not limited to: the Washington State Housing Trust Fund, King County's Community and Human Services Division, the City's Human Services Department, the Washington State Housing Finance Commission, equity syndicators and Investors, and private lenders. OH and its borrowers are expected to maximize these capital resources to ensure that the greatest number of quality affordable housing units are preserved or produced by the public funders each funding round, consistent with adopted priorities and funding allocation policies for the Housing Levy and other housing fund sources. In order to produce the maximum number of Extremely Low Income housing units, the City Council encourages the Director not to use Program funds to replace housing for Extremely Low Income households that is to be demolished as part of a housing project, unless the Director determines the housing is nearing the end of its useful life and would be more cost effective to replace than to renovate, or replacement facilitates a net gain in the number of Extremely Low Income housing units.

D. Leveraging and maximum percentage of capital funds

For purposes of this section, "project" is defined as those housing units that are City funded and/or rent-regulated and any common areas that OH has determined are eligible for funding. In general, the City will provide a maximum of 40% of total development costs (TDC) of a project. Funds are awarded competitively, and the actual City percentage is generally 25%. Total development costs are all components of typical development budgets, including site acquisition, construction costs, and soft costs.

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, 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). Bridge loans, Acquisition & Opportunity Loans and Section 108 loans are not included in computing the percentage.

The Director may allow up to a total of 50% of TDC to be financed with City funds for projects that meet one of the following criteria:

1. Projects that are located in an area with little or no subsidized housing or in an area identified in the City's Comprehensive Plan or other adopted policies as one in which subsidized housing should be encouraged.
2. Projects that provide special amenities and/or unique design features for the proposed tenant population such as large units for families; units requiring reconfiguration to meet the needs of the proposed population; or special design features resulting from the participation of potential tenants and/or community members in project development.
3. Projects where other public funders have made their maximum award and the project is a rental housing priority as described in these policies or the City's Consolidated Plan. The Director may ask borrowers to apply for other fund sources later, if appropriate.

E. Additional policies

Projects must also comply with applicable policies contained in Section 6 below, including:

- Development Siting Policy
- Neighborhood Notification and Community Relations
- Fair Contracting Practices, MWBE Utilization, and Section 3
- Relocation, Displacement and Real Property Acquisition
- Affirmative Marketing

Additional requirements apply to particular fund sources other than the 2009 Housing Levy, including federal requirements for HOME and CDBG funds. Applicants should contact OH to determine applicable policies.

IV. CONSTRUCTION REQUIREMENTS

OH strives to ensure fair contracting methods and competitive pricing in the construction of affordable housing. Borrowers receiving permanent financing shall meet the following minimum construction requirements. OH may include additional requirements in NOFAs, but may reserve the right to waive or modify any such additional requirements. Borrowers are responsible for the compliance of all documents, plans and procedures with all applicable laws, regulations, codes, contracts and funding requirements.

A. Competitive selection of contractors

Borrowers must competitively select their contractors. Borrowers must propose a competitive process that clearly meets the City's requirements as published in each NOFA. The borrower shall submit a summary of the proposed competitive selection process for OH approval. OH may require modifications to the process prior to implementation.

B. Contracting types and project delivery methods

Borrowers may propose to use a Cost Plus a Fee with a Guaranteed Maximum Price, a Stipulated Sum contract, or an alternative contract type that meets the City's requirement as published in each NOFA. The Borrower's construction contract with the general contractor and any amendments to the contract shall be submitted to OH prior to execution.

C. Construction management

If project sponsors do not have sufficient in-house construction management capacity, they will be required to contract for this service. Sponsors proposing to manage their own construction projects must demonstrate capacity to OH. Such borrowers must have prior experience managing a construction project and have staff available to coordinate necessary work. In addition, the scope of work should appropriately match the sponsor's construction management experience and staff expertise.

D. Wages

State Residential Prevailing Wage Rates shall be the minimum rates applicable to all projects, unless a higher minimum rate applies or an exception is made as allowed in this paragraph. When federal funds in a project require prevailing wages to be determined under the Davis-Bacon Act, the higher of either the State Residential Prevailing Wage Rates (unless modified as stated below) or Davis-Bacon wage rates will apply to each job classification, unless applicable law requires otherwise. The Director may approve a change in these prevailing wage requirements if necessary to achieve compatibility with a state or federal funding source or to promote inclusion of Program-funded units in mixed income and/or mixed-use buildings. OH shall establish procedures regarding payment of appropriate wages, in consultation with the City's Department of Finance and Administrative Services which monitors compliance. In cases where Davis Bacon wages are triggered, Davis Bacon monitoring procedures are followed as required by HUD, instead of OH monitoring procedures.

E. Apprenticeship programs

Borrowers are encouraged to require contractors to participate in State-approved apprenticeship programs.

F. Project labor agreements

Applicants who demonstrate to OH's satisfaction that use of a project labor agreement would be beneficial for project development may require a project labor agreement.

G. Sustainability requirements

Projects must comply with requirements of the State's Evergreen Sustainable Development Standard. These requirements apply to all projects, regardless of whether State funding is used. Details are available through the State Department of Commerce.

V. PROJECT SELECTION

A. 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. 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 for funding.

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.
3. Tenant profile: a description of proposed and existing tenants and their needs, projected household sizes, estimated amounts and sources of tenant income.
4. Evidence of site control: fee simple ownership, an option to purchase, an earnest money agreement, or a lease (or option to lease) with a minimum term of 50 years, will constitute site control. OH will consider projects where the underlying ownership is through a real estate contract if the contract holder is willing to subordinate his/her interest to the OH loan or if there is adequate provision for the applicant to discharge the underlying contract and obtain fee title.
5. Appraisal: If the project involves acquisition, an appraised value based on the highest and best use at the time of site control will be used to assess whether or not a fair price is paid for land, including any structures. Project applicants should make acquisition offers subject to verification by appraisals acceptable to the City and subject to the outcome of environmental review.

6. Construction description: Proposed contractor selection plan; scope of work; outline specifications; cost estimates; contract type and project delivery method; Evergreen standards; reports and evidence of early design guidance from the City's Department of Planning and Development if the proposed project will be subject to Design Review.
7. Project schedule
8. Zoning: Zoning must be appropriate for the proposed project at the time of application.
9. Phase I site assessment including asbestos/lead paint/hazardous materials survey—a survey to identify the presence and amount of asbestos/lead paint and/or any other hazardous materials or underground tanks within the building or elsewhere on site and a description of proposed abatement measures. A Phase II assessment will be required if recommended in the Phase I.
10. Development budget and proposed sources
11. Relocation Plan, if applicable
12. Operating Pro Forma, including 15 year operating Pro Forma with proposed rents and required rental assistance or operating subsidy; taxes, insurance, utilities, salaries, management fees, replacement and operating reserves, maintenance supplies and services.
13. Support services: budget and support services plan, if applicable
14. Community notification: description of community notification process as of the time of application and plans for additional notification activities. Proposal must describe how community issues or concerns raised will be addressed.

C. 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. OH staff works closely with the other public funders that have been requested to fund each project. The public funders collaborate on proposal evaluations and financing strategies that meet the requirements of each fund source while maximizing the number of affordable housing units that can be produced and/or preserved each funding round.

When projects have been evaluated, staff makes funding recommendations to the Director. The Director may request review by a Credit Committee composed of persons appointed by the Director to serve as advisors from the private and public sectors and staff members of the Mayor's Office and City Council who have expertise in affordable housing financing and/or public policy. 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 overall mix of projects funded by the City; and leveraging of public and private resources to preserve or produce the highest number of quality affordable housing units each funding round. Results are reported to the Housing Levy Oversight Committee and made public.

D. 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.

If a project continues to be eligible for OH funding throughout the development process, OH will take into account, in considering any reduction in a funding award, whether it would eliminate the project's ability to utilize another critical funding source. The Director also may increase funds to a project after initial funding decisions are made if reasonably necessary to assure success of the project or maximum public benefit, based on new information not available at the time of the initial decision.

E. Yesler Terrace Redevelopment

To the extent consistent with the Yesler Terrace Cooperative Agreement, OH may review and approve funding applications separate from the selection process described in subsections A and C of this section for SHA housing developments in Yesler Terrace Phase I and II, up to a maximum of $7.622 million in City funding. OH shall not release or provide any City funds for housing in the Yesler Terrace Redevelopment Area unless a detailed funding application including cost estimates is submitted and reviewed by the OH and determined by the Director to be in accordance with City funding guidelines.

VI. LOAN CONDITIONS

Financing shall generally be in the form of long-term loans. In addition, OH may approve short-term loans as provided in Section VII. Bridge Loans and Section VIII. Supplemental Funding.

Loan conditions are meant to promote and encourage long-term use of properties for low-income housing. The Director may deviate from the loan terms and conditions contained in these Policies in the following cases:

1. For tax credit entities, where such loan terms may impair the availability of tax benefits
2. When the borrower expects to receive other funding sources from which full or partial repayment of the City loan can be made prior to the normal maturity date
3. To enable a project to secure other financing, including HUD-insured loans and HUD capital grant

A. Loan terms

Permanent loan terms will be a minimum of 50 years. OH may provide an acquisition or construction loan for a much shorter term that is eligible for conversion to a permanent loan upon satisfaction of conditions.

B. Interest rate

The interest rate for projects not using low-income housing tax credits will generally be 1%. The interest rate for projects using low-income housing tax credits will be a minimum of 1% simple interest and a maximum of the Applicable Federal Rate for the purposes of Section 42 of the Internal Revenue Code, depending in part on the project's projected capacity for repayment. The actual interest rate for projects using low-income housing tax credits will generally range from 1% to 3% and will be set on a case-by-case basis. The interest rate will exceed 1% where there is a net financial benefit to the project. One purpose of establishing a range for the interest rate on Program funds is to provide flexibility in financial structuring to maximize tax credit equity contributions and to help preserve long-term affordability.

C. Repayment

OH will generally make deferred payment loans that are payable in full on sale, on change of use, or at the end of the loan term. Terms generally will permit borrowers to further defer payment of principal, deferred interest, and contingent interest by extending the loan term. Amortizing loans, or loans requiring periodic payment of some or all interest, may be required if project proformas indicate that the borrower may be able to make payments and meet expenses consistent with Rent limits. Required payments may be set to begin at a future date, such as after a tax credit compliance period. Terms of repayment will be established at the time the regulatory agreement is executed, and OH may modify repayment terms at a future date, such as after a tax credit compliance period.

D. Transfer and assumption

OH may permit the transfer and assumption of the loan, and the transfer of the property acquired, constructed or rehabilitated with the proceeds of the loan, without requiring repayment of principal, interest or other amounts owing under the loan at the time of the transfer, under any of the following circumstances:

- The loan is assumed by a tax credit entity and the entity makes a substantial equity investment in the low-income housing;
- The property is transferred by a tax credit entity to a nonprofit corporation or public agency approved by the Director, or to an entity controlled by such a nonprofit corporation or public agency, including without limitation a transfer to the general partner or manager pursuant to the terms of an option agreement made in connection with the formation of the tax credit entity; or

- The property is transferred, with the approval of the Director, to a qualified nonprofit corporation or public agency, without substantial consideration to the transferor other than assumption by the transferee of outstanding obligations.

Prospective new owners must complete a transfer of ownership application and meet the guidelines established for transfer of ownership.

E. Refinancing of private debt

OH may allow refinancing of private debt in cases that result in additional capital investment in the project; that result in a lower interest rate and reduced debt service; or that produce some other long-term project benefit. OH shall review the proposed new financing terms; proposed transaction costs; a capital needs assessment; and the adequacy of reserve accounts. OH may define additional submittal requirements

F. Covenant

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. Supportive housing

Loan terms may include requirements specific to dedicating units for people who have been homeless or who have special needs. Borrowers whose projects have units restricted to persons with particular special needs may propose to change the special needs or target population group being served in a project sometime during the loan term. If an event occurs requiring a change in population group served, borrowers with special needs projects will first be required to serve another special needs population. If OH determines that it is not feasible or appropriate, OH may allow for a population of a specific income to be served.

H. Contingent interest

Contingent interest shall be required for all projects at maturity, except as described below, or in the event of change of use or sale of property before the loan maturity date. Upon sale, change of use, acceleration or prepayment of the loan, loan principal plus the greater of either deferred interest or contingent interest shall be due. Contingent interest shall be calculated according to a formula established by OH.

The City's contingent interest should reflect the amount of City funds contributed as permanent financing to a project and should be modified by any additional funds contributed during the loan term, such as capital contributions approved by the City or borrower subsidy necessary to cover operating losses. For example, if the loan is paid or becomes payable before the maturity date, if City funds are 50% of total project costs, the City should receive, in addition to repayment of its principal, 50% of proceeds remaining after repayment of approved project debt (but not including contingent interest owing to other project lenders). Contingent interest may be limited, however, to a maximum effective rate of interest on the City loan, determined by the OH Director to be reasonable in light of the City's relative priority to other lenders on the project and any other relevant factors. Contingent interest may also be subject to cancellation or reduction as described in Sections J and K below.

I. Prepayment premium

Prepayment of loans will be subject to OH approval. Such approval shall not be unreasonably withheld if the borrower provides adequate assurances of future compliance with the affordability and occupancy restrictions in the regulatory agreement and recorded covenant. If a borrower repays the City loan (principal plus the greater of interest or contingent interest) during the first 15 years of the loan term, a prepayment premium shall also be due.

The prepayment premium shall be 50% of the original loan principal if the loan is repaid during the first five years of the loan term. The prepayment will decline by 5% per year in years 6 through 15. There will be no prepayment premium after 15 years.

Prepayment premiums shall not be due in the event of involuntary prepayment, due to casualty where there are insufficient insurance proceeds or other sources reasonably available to complete the repairs or condemnation.

J. Loan term extension

Any unpaid principal balance and accrued, but unpaid, interest on OH loans will be due and payable at the end of the approximately 50 year loan term. Loan documents may provide borrowers with an option of extension, or, in certain circumstances described below, satisfaction of some or all of the amounts owing through extended provision of affordable housing. At the end of the loan term, borrowers will be encouraged to extend the loan term and continue to extend the period of affordability restrictions for an additional 25 years, provided the property continues to be in compliance with the OH requirements. If the loan documents do not allow the option to extend, such encouragement may take the form of provisions that would result in the cancellation of any contingent interest if the borrower requests extension but the City determines to require repayment of principal and ordinary interest.

K. Debt satisfaction through extended affordability

As an inducement to serve Extremely Low Income households, OH may agree to terms in loan documents, for projects in which 50% or more of the units serve these households, by which, if the loan term is extended for 25 years and the borrower and the property remain in compliance with OH loan

documents, the debt will be deemed satisfied at the end of that extension period or ratably over the extension period.

For any other projects, principal debt and ordinary interest are not forgivable, but if the period of affordability restrictions is extended after the initial approximately 50-year term for an additional 25 years, during which period the loan terms may require payments on the outstanding debt from a portion of net cash flow as determined by a formula approved by the Director, then the terms may provide that contingent interest will be deemed satisfied at the end of that extension period or the contingent interest percentage reduced ratably over the extension period.

L. Use of funds owing to the City

Sale of projects during the loan term requires OH consent. Loan payments to the City will be deposited in the Low-Income Housing Fund. Payments will be reallocated by OH to low-income housing projects according to priorities established in the currently applicable City policy plans as determined by OH, subject to any specific requirements applicable to program income from particular fund sources.

M. Deed of Trust; Non-recourse

Loans shall generally be secured by a deed of trust on the property where the City-funded units are located and generally shall be made on a non-recourse basis, with the City's remedy limited to its security in the project, project rents, and project reserves, except in cases of fraud, waste, or other circumstances determined by the Director to justify recourse against the borrower. OH may require recourse to the borrower or a guarantor if for any reason a loan is not secured by the real property, or may require recourse for a specific amount of time or until certain conditions are satisfied when the City's security in the property may be inadequate.

N. Use of Levy projects as security for other low-income projects

Borrowers may use Levy funded projects as security for financing other low-income housing projects if borrowers receive advance written approval from the OH Director. OH may give such approval if the borrower demonstrates that using a Levy-funded project as security for financing another project will achieve benefits for the City and not jeopardize the viability of the Levy-funded projects.

O. Conduit financing

To take advantage of opportunities to respond to requirements of particular projects, OH may provide funds to a project indirectly, for example by a loan to a borrower that then re-lends the funds to a project owner or lessee. Such financing may include, without limitation, acquisition of tax-exempt bonds from a conduit financing agency where the proceeds are used for an eligible project. In general, the project owner or lessee in such cases must agree to OH's regulatory terms and must provide a deed of trust for the benefit of the City or assigned to the City.

VII. BRIDGE LOANS

OH may provide short-term financing to assist in the development of projects that would further the objectives of the Rental Housing 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 rental housing. Once completed, the housing development must provide affordable housing consistent with Program policies. 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 Rental Housing Program. 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 maximum term of the loan shall be 2 years, except that Equitable Transit Oriented Development loans may have a maximum term of 4 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. 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.

VIII. SUPPLEMENTAL FUNDING

OH may provide supplemental funding for projects that address critical capital needs of existing City-funded housing projects. For over 30 years the City has been funding affordable housing development, and many projects involved acquisition of older buildings. In recent years OH has encouraged owners to prepare detailed capital needs assessments of their housing portfolio, strengthen replacement reserves, and identify available fund sources for necessary upgrades. City funds may be used to assist with capital improvement projects which will improve living environments for residents, reduce building operating costs, achieve energy savings, and extend the life of the building.

Unless otherwise stated in this Section, Rental Housing Program policies will apply. 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.

Project sponsors must demonstrate that the housing has critical capital needs that cannot be addressed through the property's cash flow, reserves or other available resources. OH will give priority to proposals that meet at least one of the following additional criteria:

- Projects that are at or near the end of their existing City loan terms, if the owner would consider discontinuing the use as affordable housing unless the property can be rehabilitated.
- Proposals that present leverage opportunities that would allow a substantial rehabilitation of an existing project.
- Proposals whose scope of work includes items that, in addition to extending the useful life of the building by 20 years or more, will also improve the operational efficiency of the building.

A. Eligible and ineligible activities and costs

The project scope of work generally shall be limited to activities that address unmet capital needs and/or improve operational efficiencies. Eligible costs include, but are not limited to:

- Architectural/engineering fee
- Capitalized Replacement Reserves in an amount approved by OH in the NOFA
- Closing costs
- Construction
- Contingency
- Construction management
- Environmental Assessments
- Hazardous materials abatement
- Inspections & Surveys
- Insurance
- Permits
- Professional Fees
- Relocation
- Title insurance
- Condominium association assessments imposed for capital purposes
- Sponsor project management costs

Supplemental funding may be used to fund housing units, other residential spaces, and structural elements or common areas to the extent they serve the low-income housing and not other uses in the building. Examples include:

- Areas for cooking, eating, bathing
- Building Lobby
- Areas for resident use such as television or reading rooms
- Roofs, facades, corridors, stairwells, storage areas
- Management and service office space that is accessory to the housing
- Spaces used for on-site social services that are required to serve the residents of the housing

Costs associated with market-rate residential units or commercial spaces are not eligible for supplemental funding.

B. Cost-effective long-term investments

Supplemental funding proposals must demonstrate a cost effective, sustainable investment of public funding. Following are minimum requirements:

- Capital needs assessment must demonstrate that the proposed scope of work will extend the useful life of the building by at least 20 years, unless otherwise approved by the Director for specific building components.
- Per-square foot and per-unit costs must be reasonable given the type of housing, scope of work and market conditions.
- Fees for contractors and professional services must be competitive.

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 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, 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% of TDC of the project to be financed with City funds for projects where other leverage 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.

D. Construction requirements

Section IV Construction Requirements policies will apply to supplemental funding with the exception of the following areas:

1. Competitive selection of contractors. The Borrowers must competitively select its contractors. Borrowers must propose a competitive process that clearly meets the City's requirements as published in the NOFA. The Borrower shall submit a summary of its proposed competitive selection process. OH shall review the process and may require modifications prior to implementation. Depending on the scope of work in the supplemental funding proposal and the Borrower's demonstrated ability, OH may allow the Borrower to act as its own general contractor.
2. Sustainability requirements. Projects generally must follow the requirements of the Washington State Evergreen Sustainable Development Standard. Details are available through the Washington State Department of Commerce. OH may waive certain requirements in instances where application of the Standard would unnecessarily expand the scope of work of the proposed capital improvement project.

E. Loan conditions

Section VI Loan Conditions policies will apply to supplemental funding with the exception of the following areas:

1. Loan maturity. Supplemental funding loans will generally be a minimum of 50 years. OH may make a supplemental funding loan for a shorter term if the scope of work is relatively limited or if modification of the existing loan provides increased public benefit as described in paragraph 3 below. OH may provide short-term financing, for example, to address an urgent capital need or health or safety concern.
2. Interest rate. The interest rate for supplemental funding loans will generally be one percent (1%). If the project serves Extremely Low Income households in at least 50% of the units, the Director may set the interest rate at zero percent (0%).
3. Loan terms. OH may modify existing loan terms and conditions to conform with current Rental Housing Program policies. OH may change the income limits or affordability level for units within the project if required by the fund source used for the supplemental loan or to provide increased public benefit by serving lower income and/or special needs residents. A loan modification will not result in higher income or Rent limits for City-funded units, except where the Director determines that such a modification is required to sustainably operate the project and capital fund sources permit higher limits.

IX. MANAGEMENT AND OPERATIONS

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: referrals, 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. Involvement of tenants in project governance and house rules.
    d. Description of performance or outcome measures.

B. Tenant income and rent requirements

Housing units are restricted to tenants 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% 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.

Where an occupied housing project is acquired or rehabilitated with Program funds, and rehabilitation does not require that existing tenants move out of units, OH may waive the unit affordability and occupancy restrictions for an incidental number of units occupied by existing over-income tenants. The waiver will be limited to a specified period, generally two years, and OH will require an extension of the regulatory term for an equal period for the units occupied by over-income tenants. At or before the end of the waiver period, over-income tenants must be relocated.

To the extent consistent with the Yesler Terrace Cooperative Agreement, OH may waive the Median income and Rent restrictions for Yesler Terrace Replacement Housing units that are occupied, or to be occupied, by Yesler Terrace residents who must relocate due to public housing demolition and who are eligible to return pursuant to the Yesler Terrace Relocation Plan, provided that the income of the relocated tenant household does not exceed 80% of Median Income. Tenant Rents for all Replacement Housing units will not exceed those allowed by HUD's Low Income Public Housing rent regulations and policies for the housing unit in place at the time of the tenant's return to Yesler Terrace and as approved by OH. Because Replacement Housing units will be occupied by relocated Yesler Terrace residents whose incomes are predominantly below 30% of Median Income, or by other households with incomes at or below 30% of Median Income, OH may count Levy and other funds used for development of Yesler Terrace Replacement Housing as funding serving households at or below 30% of Median Income for the purposes of funding allocation policies.

C. Rent increases

Modest Rent increases are permitted as operating costs increase to avoid undue financial hardship on borrowers so long as sudden, sizeable Rent increases that could displace residents are avoided. During the loan term, borrowers may raise Rents for occupied units up to 1.5% per annum or up to the percent increase in the Housing Component of the Consumer Price Index, All Urban Consumers (CPI-U) for Rent of Primary Residences for the Seattle area, whichever is greater, provided that the adjusted Rent does not exceed the maximum Affordable Rent for the target income category specified in the project regulatory agreement. OH may provide an allowance for a borrower to raise Rents by larger percentages for projects that have experienced extraordinary expenses so long as the higher Rent remains consistent with the applicable affordability restrictions.

Loan terms will generally provide that upon unit turnover, Rents may be adjusted to the maximum allowable rent based on number of bedrooms and affordability level.

To avoid displacement of Low Income tenants, borrowers should not raise Rents for existing tenants immediately after rehabilitation or acquisition. Post-rehabilitation or post-acquisition Rent increases for existing tenants that exceed ordinary annual Rent adjustments will be considered only if necessary to ensure adequate project operating funds.

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.

E. Special populations

Borrowers who have committed to serve specific populations, and who sustain a loss of services funding that affects service delivery to such populations, shall consult with OH concerning alternatives.

X. PROJECT MONITORING

Borrowers must report annually on the status of their projects each year by June 30th, or on an alternative date specified by OH upon reasonable advance notice. OH coordinates its monitoring, site visits and inspections with other funders to help reduce administration time and disturbance to residents. Borrowers will submit written reports on a combined funders' annual report form, and OH supplemental reporting forms.

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 affordability requirements including tenant income determinations and rent levels.

4. Affirmative marketing and nondiscrimination: The housing must be affirmatively marketed; the population served is diverse; and the borrower can demonstrate nondiscriminatory treatment for all applicants and occupants.
5. Occupancy: The tenant family sizes must be appropriate for the unit sizes and projects designed for particular populations are appropriately serving that population with housing and, if applicable, services.
6. Unit Turnover and Vacancy: Vacant units are turned over quickly and vacancies are minimized.
7. Physical conditions: The property must be maintained in good and tenantable condition and repair that ensures safe, secure and sanitary conditions. The property must comply with the Seattle Housing and Building Maintenance Code and Housing Quality Standards. Spaces must be used for their intended purposes (housing units, common areas, storage, accessibility etc.). The project's sustainable 'green' features are maintained and operating as designed.
8. Capital needs assessments: Long-term replacement needs and capital improvements are adequately planned for and completed on schedule according to capital needs assessment (CNA) schedule of replacements. Preventive maintenance and repairs are completed according to maintenance plan and schedule.
9. Sound project fiscal management: The project is operated according to sound fiscal management practices, and all reserves, taxes, utilities and debt service including any amounts due to the City are paid on schedule and reported as required.
    a. Revenue management: The borrower collects rents in a timely manner and in a way that ensures adequate income to the property; ensures compliance with contracts for operating subsidy and rental assistance.
    b. Expense management: The borrower manages expenses by re-evaluating and re-procuring goods and services from time to time.
10. Community relations: The housing project is a good neighbor, which is measured by good maintenance, street appearance, and responsiveness to neighborhood concerns and complaints.

B. Annual performance letters; actions to resolve Findings

OH will provide performance letters each year to all borrowers specific to their projects that have at least one full year of operation. The performance letter will:

1. Summarize OH's review of compliance and performance in the project monitoring areas described above;
2. Identify any instances of major or chronic non-compliance with terms of the loan agreement, subsidy contract or other loan documents ("Findings");
3. Specify actions required to resolve Findings that must be performed and documented by the borrower by a certain deadline, and/or specify a date by which the borrower must submit a plan to resolve Findings for OH review and approval.

OH may accept, accept with conditions, or reject a proposed plan to resolve Findings. If a borrower's plan includes a proposal for City funding, the borrower must make a significant financial contribution and satisfy all other requirements of Section VIII.

A borrower that disputes a Finding may submit a written protest to OH within 30 days of receipt of the performance letter. A protest must state the reasons why OH's determination of Findings was unjustified, provide copies of any supporting documents, and include affidavits or declarations as to any facts rebutting the basis for the OH determination that are not established by other supporting documents. The Director or another OH employee designated by the Director shall make a written decision on a protest within 30 days of receipt. That decision shall be the final administrative decision of the City.

C. Good Standing

A borrower is in Good Standing if (a) the borrower has no Findings identified in its most recent performance letter; (b) OH determines that the borrower has remedied all Findings in its most recent performance letter; (c) the borrower is diligently pursuing a plan accepted by OH to remedy Findings as promptly as feasible; or (d) the borrower's timely protest of the Findings is upheld by OH. The borrower has the responsibility to provide timely documentation to OH to demonstrate that it has remedied Findings, or complied with the terms and conditions of the OH accepted plan.

In January of each year, the Director will notify borrowers that OH has determined are not in Good Standing. A notice that a borrower is not in Good Standing shall identify the Findings that the borrower has not demonstrated are remedied, and/or the actions or conditions in the OH accepted plan that the borrower has not diligently pursued or satisfied. Such notice shall also state that the borrower and its Affiliated Entities are ineligible to apply for Program funding until after a determination of Good Standing in the following year.

No determination of Good Standing, or failure to make a Finding, or acceptance of any plan to remedy Findings or actions thereunder, shall constitute a waiver or modification of any terms or requirements of loan documents or any other legal obligations of any borrower or other person, unless expressly so agreed in writing by OH. For example, OH may pursue remedies for any default under loan documents even though the default is not considered a Finding.

3. OPERATING & MAINTENANCE PROGRAM

The Operating & Maintenance (O&M) Program provides operating support for Levy funded housing affordable to households with incomes at or below 30% of the Median Income. O&M funds are used to fill the gap between eligible operating and enhanced property management costs, and project income from rent and any other subsidies. OH may make a contingent commitment of up to 20 years of operating support, which assists sponsors to secure project financing.

O & M Program Priorities

Priority will be given during the project review process to Levy funded projects for which significant non-City operating or service funds have been secured and that will serve homeless or other special needs populations requiring supportive services to maintain safe, stable living arrangements.

O & M Program Policies

These policies shall apply to all initial commitments of 2009 Housing Levy O&M funds and to subsidy agreements and annual renewals made under any of the housing levies, except to the extent that there is a binding contract in effect providing that the City will renew an agreement on specific terms, and except to the extent of any inconsistency with provisions of an ordinance proposing a levy measure to the voters that remain in effect. If there are terms still in effect governing renewals in a binding contract, renewals shall be based upon the terms of the contract, except to the extent that OH and the project sponsor agree to substitute different terms consistent with these policies.

A. Eligible projects; Project selection for initial commitments

New rental projects funded with 2009 Levy Rental Production and Preservation funds are eligible for 2009 Levy O&M Program funding. At least once per year, OH will issue a Notice of Funds Available (NOFA) for the O&M Program. Application requirements will be included in the NOFA.

The application review process considers the following project characteristics:

- The reasonableness of the proposed operating budget;
- The amount of operating and supportive service funds leveraged by the project;
- The experience and capacity of the sponsor in serving similar populations as well as the sponsor's general affordable housing development and management experience;
- The adequacy of the management plan for the proposed tenant population and building;

- The scope of any rehabilitation and whether the work minimizes operating expenses;
- The adequacy of the maintenance plan in maintaining the building and preventing long-term maintenance problems; and
- The commitment and reasonableness of support services, if necessary, for the proposed tenant population.

B. Eligible households

To be eligible for O&M subsidy, units must be occupied by Extremely Low Income households. Households must be income qualified prior to move in to the unit.

C. Funding limits and match target for initial commitments

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. Section 8 subsidy and O&M subsidy may be combined for the same project to maximize the number of Extremely Low Income units, but subsidies from the two programs may not be combined to support operating costs of the same unit.

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.

D. Rents

Eligible households generally shall be required to pay 30% of monthly income for Rent and any tenant-paid utilities associated with a project. OH shall allow adjustment of monthly income for certain allowable expenses for eligible tenants per HUD's Section 8 guidelines. Sponsors may request alternate Rent schedules to meet unique program objectives. For example, OH may permit exceptions if tenants are directing their income to other program goals such as education or saving for transition to permanent housing (e.g., first month rent, deposits). Specific program requirements will be outlined in subsidy contracts. Occupancy rates are expected to be maintained at 95% or better or a rate determined optimal for the specific project and housing program. Annual project budgets should reflect estimated rental income based on type of occupancy.

Income shall be reviewed annually and rental payments may be adjusted by the sponsor. If a household's income changes prior to the annual review (due to loss of a job, addition of a household member, death of a household member, etc.), rents can be adjusted.

Some households may have little or no income when first moving into O&M-subsidized housing. In these instances, OH may allow the minimum tenant share of income paid for Rent mentioned above to be

waived or reduced until the household qualifies for public assistance or becomes employed. Sponsors must include any plan to temporarily reduce the share of tenant income required for Rent in their application, and must demonstrate that the housing units will be financially viable.

E. Ineligible units

When a household in an O&M subsidized unit has a change in income or household composition that results in income greater than 30 percent of Median Income, the household is determined "over-income" and the unit is no longer eligible to receive subsidy. In such cases, the O&M subsidy amount would be adjusted from the date the unit was determined ineligible based upon a revised calculation of the gap between income and expenses for eligible units. The household may have an adjustment in Rent depending on the terms of the City regulatory agreement or conditions of other funding.

F. Management plan

A management plan is required for each application for O&M subsidy. The plan must be consistent with Rental Housing Program policies and local laws and regulations.

G. Maintenance plan

Each project must have a maintenance plan that describes how the building will be managed and maintained. It should describe the acceptable standard for each room, common space (hallways, stairs, lobby), building systems and exterior. The Plan should include a schedule for inspections and regular and preventive maintenance of the building. The plan must also describe how long-term replacements and maintenance will be accomplished.

H. Operating budget and use of funds

Each year, sponsors with O&M subsidy contracts will be invited to apply for an annual renewal of subsidy. Applicants will submit actual financial statement for the previous year and a proposed operating budget, in the required format, based on the actual expenses from the previous 12 month period plus a reasonable adjustment for inflation. The budget and the annual award follow the City's fiscal year, which begins January 1, unless OH allows an alternate subsidy period.

Eligible uses of O&M subsidy include operating expenses for:

- <u>On-Site Management:</u> Operations and maintenance costs directly associated with operating the building. This includes on-site management salaries, benefits and personnel costs; utilities; contracted building services such as elevator, pest control, landscaping, fire safety, security; repair and maintenance expenses such as materials, janitorial supplies, unit turnover costs and other repairs. Enhanced property management costs directly related to managing the Levy-funded units, including, to the extent they are reasonably necessary, costs of operating the housing in light of the population the sponsor has committed to serve (e.g. 24 hour resident manager).

- Off-Site Management: Property management and personnel costs directly associated with operating the building.

- Administration: Property taxes, insurance, legal, marketing, accounting, financial statements and audits, and other costs directly associated with administration in the building.

- Replacement and Operating Reserves: Replacement reserve deposits are an eligible operating expense. O&M funds can be used to fund replacement reserves to a maximum set by OH, with disbursements from reserves restricted to repairs and replacement of major building components as approved by OH. The amount added to the reserve will be based on OH loan conditions and periodic Capital Needs Assessments to be prepared by sponsors.

  Operating reserve deposits to cover unforeseen operating costs are an eligible expense. The operating reserve account is considered adequate when the balance is equal to 50% of a year's operating budget. The operating reserve may also be used to pay for building improvements that cannot be entirely funded by the replacement reserve. As part of the management plan, each sponsor must provide their policy and procedures for managing reserve accounts. The requirements and limits on replacement and operating reserves for specific projects may be adjusted periodically by the Office of Housing based on a review of the capital needs and operating risks of projects and of other public funder standards.

The program will not subsidize debt service. O&M subsidies may be provided to a portion of units in a larger mixed-income project that has debt service, provided that all debt service costs are carried by the income from the non-O&M supported portion of the building and the building owner also demonstrates a shortfall between income and expenses attributable to the O&M supported units. At no time will O&M subsidy be applied to a project for a shortfall on the non-O&M supported portion of the building.

I. Subsidy term

O&M awards have a maximum contract term of 20 years from the date that the O&M units are complete and occupied. Subsidy is subject to availability of funding and to annual reviews that may result in adjustments to subsidy amounts or discontinuance of subsidy, in the discretion of OH. For example, subsidies may be reduced or discontinued if increasing revenues from other housing units, commercial space, or alternative subsidy sources are available to a project, or if shortfalls in funding resources require OH to prioritize O&M-eligible projects.

O&M contracts may provide that if, during the term of commitment for O&M subsidy, the subsidy is discontinued or reduced, and if the sponsor therefore cannot meet operating expenses of the O&M units with rents affordable to Extremely Low Income households, the sponsor may rent the units to any Very Low Income households who can pay rents sufficient to cover operating costs of the units, but not to exceed Affordable Rents. The sponsor must prepare a plan acceptable to OH prior to any change in occupancy or program focus. The plan must give preference to the lowest income households who can pay such rents.

J. Expiring contracts

Most of the properties supported by the 1986 O&M subsidy program will have expiring contracts during the 2009 Housing Levy (2010-2016). OH may grant extensions to expiring O&M subsidy contracts beyond the initial 20 year term provided there are available funds in the 1986 Levy O&M program reserves. Projects will be required to demonstrate:

- Need for continued subsidy;
- Housing meets current City priorities; and
- Project meets performance measures and housing outcomes of the Levy Rental Preservation & Production Program.

K. Annual reviews

OH will conduct financial, management, operations, and maintenance reviews of projects receiving subsidy each year. OH will determine the subsidy amount on a year to year basis for the term of the contract.

For the annual review, the sponsor must provide:

- An annual report according to the terms of the OH loan agreement.
- Operating Budget projected for the next year based on current year 'actuals'.
- An actual financial statement for the project compared with the operating budget. The statement must include cumulative balances for replacement and operating reserves.
- Audit, if applicable, in a form acceptable to OH
- Tenant Rent Roll including household incomes and rents charged for each unit.
- Capital Needs Assessment updates and details on major repair and maintenance work planned for the next year, if any including an estimate of the work and source of funds.
- Examination of services outcomes and copies of service contracts.
- A narrative report explaining how the subsidy received in the prior year and the subsidy requested for the next year will allow the sponsor to meet its commitment to serve Extremely Low Income households.

L. Subsidy payments and adjustments

O&M subsidy will generally be paid to projects on a quarterly basis. The amount and the conditions for providing subsidy will be negotiated between OH and the sponsor, and established in an annual contract amendment. The amount of subsidy paid each quarter will depend on the operating budget and cumulatively cannot exceed the approved annual amount. Sponsors will be required to provide quarterly financial reports. Sponsors may request subsidy readjustment at any time; however, except for unusual circumstances, OH will review just one adjustment request per project annually.

Increases to the subsidy amounts prior to the annual review will only be made when it is determined by OH to be reasonable due to unforeseen circumstances and only if in the judgment of OH, there are sufficient uncommitted O&M funds to provide an increase.

A project that is showing a surplus at the end of the year may be (1) required to make repayment to OH or (2) make additional contributions to replacement reserves in the amount of the surplus, or (3) if reserve balances are deemed adequate, the surplus will be applied to the following year and reduce the O&M subsidy amount if OH deems that the need for additional subsidy is due to circumstances within the sponsor's control, such as low occupancy, then the sponsor may be required to provide a plan for corrective action before requesting a subsidy adjustment.

4. HOMEOWNERSHIP PROGRAM

The Office of Housing uses funds from various sources to help create affordable homeownership opportunities for Low Income homebuyers in the City of Seattle. The following program policies apply to funds awarded by OH for homeownership, including Housing Levy funds, federal HOME and CDBG funds, and other funds, subject to the limitations described in Section 1, Introduction.

Homeownership Program Objectives

The Homeownership Program is intended to assist low-income "first-time homebuyers" (as defined below) with limited resources to purchase homes in Seattle. Homeownership provides an opportunity for increased housing stability, independence, and economic advancement. Homebuyers assume ownership responsibilities, including loan payments and property maintenance, and in return can gain equity in their home. Providing this homebuyer assistance benefits the entire city by affording people with low incomes greater housing choice and opportunities to live closer employment centers, transit service, and community networks.

The following objectives guide the Homeownership Program:

- Assist Low Income "first-time homebuyers" to acquire homes at an affordable cost that will enable them to manage the costs of homeownership and to realize a reasonable share of any increase in home equity.
- Promote socioeconomic diversity in Seattle neighborhoods, and reduce commuting costs for homeowners, by enabling Low Income households to purchase a home in the city.
- Create an on-going resource to assist future Low Income "first-time home-buyers" through resale restrictions that will maintain an affordable home price and/or loan repayment terms that will generate funds to assist future home purchasers.
- Promote the expansion of programs that achieve long-term affordability through restrictions on resale, which may include land trusts, limited equity co-ops, co-housing, repurchase options, and lease-purchase arrangements with homes on leased land.
- Combine with other sources of homebuyer assistance funds (Washington State Housing Finance Commission, State Housing Trust Fund, Federal Home Loan Bank, etc.) to leverage City dollars and use existing service delivery systems for lending activities.
- Promote homebuyer education as a best practice by requiring households using City homebuyer assistance to complete a pre-purchase homebuyer education program.

Homeownership Program Policies

A. Eligible use of funds

Homeownership 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. Acquisition and/or Development Assistance: Funding for development site acquisition and/or development costs for a home or homes to be sold to eligible buyers, subject to resale restrictions.

Specific funding guidelines are detailed in subsections G and H.

B. Homebuyer eligibility

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

A "first-time homebuyer" is a 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 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. Purchase of tenant-occupied housing is not eligible except in cases where the tenant is purchasing the home.

E. Amount of assistance

The amount of Program assistance is limited as follows:

- For assistance to enable eligible homebuyers to purchase a home that will not be resale restricted (as described in Section G below), the amount of assistance will be limited to the amount of assistance needed to provide gap financing for homebuyers unable to qualify for sufficient private financing to purchase an eligible home, up to a maximum of $45,000 for any assisted household. Two exceptions to the maximum amount of assistance are:
    1. Homebuyers with incomes below 60% of Median Income are eligible for a maximum total of $55,000 in Program assistance.
    2. 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:
        a. 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.
        b. 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.
- For assistance to enable homebuyers to purchase resale restricted homes as described in Section G below, the maximum amount of assistance is $55,000 per assisted household. This maximum applies to the net amount of City assistance, not including any short-term acquisition and/or development loan that has been repaid. Because resale restricted homes are intended to

create long-term affordability for a period of at least 50 years, OH may provide the maximum loan amount of $55,000 per homebuyer.

F. Subordinate mortgage loan 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, which generally shall not exceed 3% simple interest; loan term; period of payment deferral; and any contingent interest or share of appreciation, 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.

G. Acquisition and/or Development Loan Terms

Program funds may be used to assist in the acquisition and/or development 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.

Assistance shall generally be in the form of short-term or long-term financing.

- Short-term financing shall be available through loans that accrue interest at no less than 3% simple interest, with a maximum term of 2 years. The OH Director may authorize a lower rate in order to leverage other funds to create a blended rate of 3%. The OH Director shall have the option to allow extensions. Any extensions may be conditioned on a sponsor submitting an updated proposal for approval by OH.
- Long-term assistance shall generally be made available through 0% interest loans with payments deferred for 50 years.

H. Additional policies

Development projects must also comply with the following policies contained in Section 6 below, where applicable:

- Neighborhood Notification and Community Relations (applies to projects with four or more units on one site)
- 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 are selling units to homebuyers)

5. HOME REPAIR AND WEATHERIZATION

HOME REPAIR PROGRAM

OH's Home Repair Program provides low-interest loans primarily for the purpose of addressing immediate health and safety issues and structural deficiencies of housing occupied by income-qualified homeowners. First priority is given to health and safety emergencies. Income limits for Home Repair Program loans vary by fund source, but in no case exceed 80% of Median Income. 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. 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.

HOMEWISE WEATHERIZATION SERVICES

OH's HomeWise program provides funding and project-management services in support of residential energy efficiency upgrades throughout the city of Seattle. The program actively supports preservation of existing affordable housing and reduces costs for both income-qualified homeowners and affordable rental housing residents and owners. Single-family homes and multi-family apartment buildings with income-qualified residents may receive weatherization services. Income limits vary by fund source, with most funds available only for residences occupied by households with incomes at or below 60 percent of the state median income, adjusted for household size, as published by the State of Washington based on data from the U.S. Department of Health and Human Services (which differs from Median Income as defined in this Plan). OH shall publish income limits in HomeWise application materials and on OH's website.

Policies governing HomeWise weatherization services are specified in individual grant agreements between the City and the entity providing funds. OH receives multiple grants from the Washington State Department of Commerce, which are subject to rules and regulations contained in the State's Weatherization Manual, including but not limited to income eligibility restrictions, project prioritization criteria, technical certifications, and restrictions on permissible weatherization, health and safety, and repair measures. HomeWise also receives funding from other sources, such as Seattle City Light, which are governed by separate memoranda of agreement. Generally these memoranda defer to Department of Commerce rules and regulations, but have separate and different rules and regulations for some program requirements.

6. GENERAL POLICIES FOR CAPITAL FUNDING

The following policies apply to all OH-funded affordable rental and homeownership projects except where a more limited class of projects is identified below, but not to projects involving only weatherization and home repair.

I. DEVELOPMENT SITING POLICY

A. General Policy

OH will not fund, or certify as consistent with the Consolidated Plan, a project not previously funded by the City if the proposed number of subsidized rental housing units for Extremely Low Income households would exceed the capacity for additional subsidized rental housing units for Extremely Low Income households in the Census block group where the proposed project is located, except as otherwise specified below. Capacity for additional subsidized rental housing units for Extremely Low Income households is defined as:

- Twenty percent of the sum of: the total number of housing units in the Census block group (according to the latest data available from the Department of Planning and Development, DPD, calculated based on Decennial Census data plus net new residential units), the total number of rental housing units in the proposed project, and any new rental housing units funded by OH but not yet captured in DPD's data;
- Less the number of existing subsidized rental housing units for Extremely Low Income households in the Census block group according to the latest data available from OH (projects with capital subsidies from public agencies, i.e., City-funded projects as well as non-City funded projects as reported periodically by county, state and federal agencies, including units that are funded by OH but not yet constructed or occupied).

This policy does not apply to Yesler Terrace Replacement Housing, or to projects located within the Downtown, Uptown and South Lake Union Urban Centers because of the special nature of these Urban Centers as high priority areas for affordable housing investment.

B. Alternative Conditions

A project may be consistent with the Consolidated Plan and may be funded despite exceeding capacity, as defined above, if the Director finds that one or more of the following conditions are met:

- Additional market-rate housing development is planned in the Census block group, and the proposed project would not result in more than 20% of total housing units in the block group being subsidized rental housing for Extremely Low Income households, based on an adjusted estimate of total housing units that includes units for which building permits have been issued

(based on the Department of Planning & Development's latest report of building permit data) or other such documentation as deemed appropriate by OH.

- Natural or manmade barriers (e.g. a bluff, waterway, or freeway) physically separate the proposed project from existing concentrations of subsidized rental housing for Extremely Low Income households.

The Director will make a determination of available capacity under this policy ("Siting Determination") in advance of an overall determination of consistency with the Plan, when a request is made by a project sponsor. The request must specify a project location, a maximum number of rental housing units for Extremely Low Income households and, if applicable, a minimum number of other proposed housing units. The sponsor may not have a current Siting Determination for a project at a different location for which the sponsor has not submitted an application for funding. The siting determination shall be in effect for up to one year, during which time any request for a certification of the project's consistency with this Plan and any application to OH for funding may rely on the determination, provided that the parameters of the proposed project remain consistent with the project description at the time of the determination, even if the number of housing units or other subsidized units in the Census Block Group has changed. Sponsors may withdraw a siting determination prior to its expiration and request a determination for a new or revised project proposal.

The Analysis of Impediments to Fair Housing prepared for the City of Seattle, which is available on OH's website, includes a thorough overview of federal, state and local fair housing law. OH's Development Siting Policy is a tool for addressing barriers to fair housing. One goal is to ensure that housing for Seattle's lowest-income and most vulnerable populations is available throughout the City, including in our most amenity-rich neighborhoods in terms of transit, schools, parks and retail.

In accordance with the Fair Housing Act, Title 42, Chapter 45, Subchapter I, Section 3604, the Director may make reasonable accommodations specific to the Development Siting Policy when such accommodations may be necessary to afford people with disabilities equal opportunity to use and enjoy a dwelling.

II. NEIGHBORHOOD NOTIFICATION & COMMUNITY RELATIONS POLICY

Prior to application for OH funding (either permanent or bridge financing) for production or preservation of affordable rental housing or development or acquisition of four or more units of housing for sale to Low Income homebuyers on one site, applicants are required to prepare and begin implementing a community relations plan, including neighborhood notification activities. The community relations plan is needed whether the application is for funding for new construction or renovation of an existing building, regardless of whether there is a change in ownership.

A successful notification effort leads to open, ongoing communication between developers and neighbors. This requires cooperation by developers, the City, and neighborhood residents. A positive, open relationship between housing developers and neighbors can prevent misunderstandings, facilitate

prompt resolution of any inadvertent misunderstandings, and provide a fair, thoughtful, dependable means of ironing out differences.

It is the policy of The City of Seattle that OH funding of affordable housing not be refused solely on the basis of concerns expressed by neighbors; the City supports and is committed to promoting diversity in Seattle neighborhoods. Consistent with local, State and Federal law, housing may not be excluded from a neighborhood based on any of the following characteristics of the persons who will live there: age, ancestry, color, creed, disability, gender identity, marital status, honorably discharged veteran or military status, national origin, parental status, political ideology, race, religion, sex, sexual orientation, possession or use of a Section 8 voucher, or use of a service animal by a disabled person.

The City supports affordable housing projects that will preserve and enhance the strengths of Seattle's neighborhoods. Housing developers and neighbors should keep OH informed of any issues or concerns throughout the community notification process and operation of the project.

A. Minimum notification requirements for affordable housing developers

The steps outlined below describe minimum notification requirements, although OH may make exceptions to these requirements due to the unique circumstances of a proposed project (e.g., housing for victims of domestic violence). Any outreach and communication activities shown in parentheses after each requirement are shown as examples only. Applicants should tailor notification efforts to best serve each individual project and neighborhood.

1. Prior to releasing purchase and sale agreement contingencies:
   - Consult with OH. OH will help identify developers of other affordable housing in the neighborhood(s) being considered and suggest neighborhood organizations to contact.
   - Contact other affordable housing owners to learn about a neighborhood's historical and current housing- and development-related concerns.

2. Prior to submitting an application for funding:
   - Notify neighbors within at least 500 feet of the site using a written notice, letter or flyer. Include basic information about the sponsor organization and proposed project (e.g., estimated schedule, contact person, and neighborhood organizations that have also been notified about the project).
   - Identify neighborhood and community organizations by contacting the Neighborhood District Council. Contact those organizations and take steps to provide them with updated information about the project, including final site selection, schedule, and proposal for ongoing communication with the neighborhood.

3. Every application must include a plan for maintaining ongoing communication with immediate neighbors and the neighborhood and community organizations throughout the project's pre-development, design and construction phases. (For example, the ongoing community relations plan may include presentations at regularly scheduled neighborhood organization meetings,

invitation to a meeting hosted by the housing developer, formation of an advisory committee, and/or regular project updates in neighborhood organization publications or posted at local libraries, community centers, etc.) Information the housing developer should consider sharing at meetings includes the following, to the extent that it does not compromise the safety, confidentiality or well-being of the residents:

- Experience as a housing developer and manager; provide names and addresses of other affordable housing projects;
- Description of targeted population of the housing;
- Information about property management and support services, if applicable;
- Mechanisms for communication between the housing developer and neighbors, including 24-hour contact person and number if possible;
- Estimated schedule for construction and completion; and
- Opportunities for neighbors to provide input on the project (e.g., names of interested neighborhood organizations and how to contact them; community advisory committee).

4. For rental housing developments, once the housing is operational:
   - Invite neighborhood and community organizations and neighbors to project open houses.
   - Establish ongoing communication with neighborhood organizations and neighboring residents and businesses. Promptly address emerging issues and share successes.
   - Keep the City appraised of any issues.

B. Guidelines for neighbors

1. Encourage housing developers and residents to be active members of the community. Invite them to neighborhood meetings and events. Build a foundation for long-lasting, positive relationship.
2. Communicate concerns about design, operation and management of a project. Work collaboratively with housing developers and/or residents to identify ways to address those concerns.
3. Neighbors may want to consider negotiating a community relations plan with the housing developer if it turns out that clarity of understanding is difficult to reach verbally.
4. Make sure housing developers and/or residents know what is working well.

III. RELOCATION, DISPLACEMENT, AND REAL PROPERTY ACQUISITION

Development of affordable rental and homeownership housing, and acquisition of property for such development, must minimize displacement of households. Any temporary relocation or permanent displacement of households must comply with all applicable provisions of law and fund source requirements, including without limitation (a) Seattle Municipal Code 20.84–Relocation Assistance; (b) the City's Just Cause Eviction Ordinance; and (c) for projects using federal funds, the federal Uniform Relocation Act (URA), section 104(d) of the Housing and Community Development Act of 1974, the City's

Residential Anti-displacement and Relocation Assistance Plan (RARAP), and any other relocation regulations and handbooks applicable to the particular funding program. This policy does not apply to acquisition of owner-occupied or vacant homes by homebuyers using Homeownership Program assistance, unless required by applicable laws or regulations.

These policies, laws and regulations contain, among other requirements, different timelines under which households must be given various notices and provided financial assistance under certain circumstances. Consultation with OH staff prior to submission of applications for funding is required for any applicant whose project will involve acquisition, demolition, rehabilitation, or temporary or permanent relocation activities. In order to reduce the risk of impairing eligibility for funding, applicants should not take any action regarding these activities prior to consultation with OH staff. Applicants are responsible for assuring and documenting compliance.

IV. AFFIRMATIVE MARKETING

Sponsors are required to affirmatively market vacant units. Sponsors must use marketing methods designed to reach persons from all segments of the community, including minorities, persons of color and persons with disabilities. In addition, sponsors of rental housing projects are strongly encouraged to inform providers of emergency shelters and transitional housing about their projects and to promote access to households ready to move into permanent housing. Sponsors will be required to maintain records of their affirmative marketing efforts and to report annually to OH on those efforts. Sponsors of funding for transitional housing will be required to develop processes to assure that homeless individuals or families coming out of emergency shelters have equal access to transitional housing projects as people coming from other places.

V. FAIR CONTRACTING PRACTICES, WMBE UTILIZATION, SECTION 3

Sponsors must comply with the City's Fair Contracting Practices Ordinance. Sponsors and their general contractors shall be encouraged to take actions, consistent with that ordinance, which would increase opportunities for women and minority business enterprises (WMBE). A combined WMBE aspirational goal of 14% of the total construction and other contracted services contracts shall apply for all affordable rental housing capital projects funded by OH. OH shall encourage additional efforts to increase WMBE participation including mentoring programs and participation in apprenticeship and other training opportunities.

In addition, projects that are awarded federal funds must comply with applicable regulations under Section 3 of the Housing and Urban Development Act of 1968, as amended, which is intended to ensure that employment and other economic opportunities generated by certain HUD financial assistance shall, to the greatest extent feasible, and consistent with existing Federal, State and local laws and regulations, be directed to low- and very low-income persons, particularly those who are recipients of government assistance for housing, and to business concerns that provide opportunities to low-income

persons. Borrowers and their contractors on projects covered under Section 3 regulations must develop a Section 3 plan stating numerical goals for contracting and hiring that meet federal targets as well as a description of the efforts they will make to achieve these goals. OH will provide connections to agencies serving Section 3 businesses and workers to assist in these efforts.

7. DEFINITIONS

In the Housing Levy Administrative & Financial Plan and Office of Housing Funding Policies, the following terms, when capitalized, shall have the following meanings unless the context otherwise clearly suggests a different meaning:

"Affiliated Entity" of a person means any organization that, directly or indirectly, is controlling, controlled by, or under common control with, that person. In this definition, "organization" includes, without limitation, any type of legal entity and any partnership, joint venture, unincorporated association, or sole proprietorship; "person" includes any natural person or organization.

"Affordable Rent" for Low-income tenants means annual Rent not exceeding 30% of 80% of Median income; Affordable Rent for tenants with income not exceeding 60% of Median income means annual Rent not exceeding 30% of 60% of Median income; Affordable Rent for Very low-income tenants means an annual Rent not exceeding 30% of 50% of Median income; and Affordable Rent for Extremely low-income tenants means annual Rent not exceeding 30% of 30% of Median income.

"Director" means the Director of the Seattle Office of Housing.

"Equitable Transit Oriented Development Loan" means short-term bridge financing available through the Rental Housing Program to assist with purchase of vacant properties near light rail stations for mixed-use projects that include affordable and market-rate housing, and commercial space to accommodate small businesses and community facilities.

"Extremely low-income" means Income not exceeding 30% of Median income.

"Income" means household income computed in conformity with requirements of the federal HOME program, unless the OH Director shall permit another method of computation for a particular project or class of projects.

"Low-income" means income not exceeding 80% of Median income.

"Median income" means annual median family income for the Seattle-Bellevue, WA HUD Metro FMR Area, as published from time to time by the U.S. Department of Housing and Urban Development (HUD) for the Section 8 or successor program, with adjustments according to household size in a manner determined by the Director, which adjustments shall be based upon a method used by HUD to adjust income limits in subsidized housing, and which adjustments for purposes of determining affordability of rents or sale prices shall be based on the average size of household considered to correspond to the size of the housing unit (one (1) person for studio units and one and a half (1.5) persons per bedroom for other units).

“Program income” means funds received by the City as payments on or with respect to a loan, or recovery from loan collateral, and may include interest and share of appreciation, as required under the terms of the loan.

"Rent" means all amounts charged for the use or occupancy of the project (whether or not denominated as rent or constituting rent under state law), plus a utility allowance for heat, gas, electricity, water, sewer, and refuse collection (to the extent such items are not paid for tenants by the owner).

“Site acquisition” includes the acquisition of interests in land or in improvements to land, or both, and may include repayment of fund sources initially used for acquisition.

"Very low-income" means income not exceeding 50% of median income.

“Yesler Terrace Cooperative Agreement” means Exhibit A to C.B. 117536 as approved by the City Council on September 4, 2012, as it may be amended.

“Yesler Terrace Redevelopment Area” is as defined in Exhibit A to C.B. 117536 as approved by the City Council on September 4, 2012.

“Yesler Terrace Relocation Plan” is as defined in Exhibit A to C.B. 117536 as approved by the City Council on September 4, 2012.

“Yesler Terrace Replacement Housing” means one or more of the first 561 housing units constructed or rehabilitated in the Yesler Terrace Redevelopment Area that are restricted to occupancy solely by residents who must relocate due to demolition and construction or households with incomes no higher than 30 percent of Median income, and that satisfy the additional requirements of the Yesler Terrace Cooperative Agreement.

The OH Director may adopt further refinements or interpretations of the above definitions, consistent with the intent of the ordinance adopting these Policies.