ALAMEDA AFFORDABLE HOUSING TRUST FUND

Administrative Guidelines

Alameda Affordable Housing Corporation
701 Atlantic Avenue
Alameda, CA 94501

As adopted by the Board of Directors on April 19, 2023
# TABLE OF CONTENTS

<table>
<thead>
<tr>
<th>CHAPTER</th>
<th>PAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>CHAPTER 1 - STATEMENT OF PURPOSE</td>
<td>3</td>
</tr>
<tr>
<td>CHAPTER 2 - DEFINITIONS</td>
<td>3</td>
</tr>
<tr>
<td>CHAPTER 3 - AFFORDABLE HOUSING TRUST FUND ESTABLISHED</td>
<td>4</td>
</tr>
<tr>
<td>CHAPTER 4 - MANAGEMENT</td>
<td>4</td>
</tr>
<tr>
<td>CHAPTER 5 DISTRIBUTION &amp; USE OF AFFORDABLE HOUSING TRUST FUND ASSETS</td>
<td>5</td>
</tr>
<tr>
<td>ATTACHMENT I: AAHTF LOAN AND UNDERWRITING GUIDELINES AND PROCEDURES</td>
<td></td>
</tr>
<tr>
<td>ATTACHMENT II: AAHTF TERM SHEET</td>
<td></td>
</tr>
</tbody>
</table>
Chapter 1: Statement of Purpose

The purpose of the Alameda Affordable Housing Trust Fund, (AAHTF), is to assist in the creation and preservation of affordable housing in the City of Alameda for the benefit of low-income households.

Chapter 2: Definitions

1. “Area median income” or “AMI” is established for metropolitan areas or non-metropolitan counties by the U.S. Department of Housing and Urban Development (HUD), pursuant to 42 U. S. C. Chapter 1437 et seq., to establish local income classification levels. These classifications are also used in California housing law with respect to income eligibility limits.

2. “Affordable Housing” for purposes of these Guidelines shall mean rental housing that is affordable to low and/or very-low income households.

3. “Extremely low-income household” shall mean a household having an income not exceeding thirty (30) percent of AMI adjusted for household size.

4. “Very low income household” shall mean a household having an income not exceeding fifty (50) percent of AMI adjusted for household size.

5. “Low income household” shall mean a household having an income not exceeding eighty (80) percent of the AMI adjusted for household size.

6. “Moderate income household” shall mean a household having an income between eighty (80) percent to one-hundred-twenty (120) percent of the AMI adjusted for household size.

7. “State of California Local Housing Trust Fund Program” shall mean the Local Housing Trust (LHTF) Program, funded by the Veterans and Affordable Housing Bond Act of 2018 (Proposition 1) and administered by the California Department of Housing and Community Development (HCD).
## Chapter 3: Housing Trust Fund Established.

1. On July 21, 2021, the Alameda Affordable Housing Corporation (AAHC) established a trust fund for a special revenue account under the name of the “Alameda Affordable Housing Trust Fund”.

2. Grants from the Housing Authority of the City of Alameda shall become AAHTF property and shall be deposited directly into the AAHTF. Other private and public funding may also be deposited, from time to time, for use as part of the AAHTF.

3. The AAHTF may accept donations from individuals or organizations. Such donations may be designated for a specific project or purpose and may carry additional terms, so long as it is not in conflict with these guidelines, or with the guidelines of the Local Housing Trust Fund Program (Housing and Safety Code (HSC) Section 50843.5, as may be updated and amended.

4. Any funds specifically awarded utilizing a match from the State of California LHTF Program must meet the current guidelines of that program for both the local and State match.

5. The AAHTF may accept land as a donation, with the understanding that the property will be utilized subject to a subsidized ground lease for projects subject to a LHTF match application or award.

6. All monies remaining in the AAHTF at the end of any fiscal year, whether or not expended, remain AAHTF property. All repayments of principal and interest from an AAHTF loan remain AAHTF property.

7. Initial Grant – An initial grant shall be made through a legally binding commitment from the Housing Authority of the City of Alameda and shall be used for purposes of the AAHTF to create affordable housing.

8. Dedicated ongoing funding source – On an ongoing basis, for a period of up to 5 years, the Housing Authority of the City of Alameda has committed a share of its unrestricted general funds/annual operating revenue. Estimated at $60,000/year for a period of five years, these funds will be deposited by 9/15 of each year and used to offset costs of operating the AAHTF. Conditioned on an award from the State of California Local Housing Trust Fund Program, the Housing Authority will commit to an additional 5 years of ongoing deposits, with a 10% increase, estimated at $66,000/year.

## Chapter 4: Management

1. The Housing Authority of the City of Alameda shall serve as the Manager of the Affordable Housing Trust Fund. The responsibilities of the Manager shall include:
   a. Maintaining all records of the AAHTF.
   b. Assisting prospective applicants requesting AAHTF support in the preparation and presentation of their applications.
c. Monitoring the use of monies distributed to successful applicants for AAHTF support to assure ongoing compliance with the purposes of the AAHTF and the conditions under which these monies were granted or loaned.

d. Reporting annually to the AAHC Board of Directors regarding the operation and activity of the AAHTF.

e. Submittal of any required reports or documentation to the Local Housing Trust Fund from the California Department of Housing and Community Development Department.

2. The Manager shall be responsible for the following:
   a. Disbursing and collecting AAHTF monies.
   b. Maintaining and managing a separate account or accounts for AAHTF monies.
   c. Maintaining financial records for the AAHTF.

Chapter 5: Distribution and Use of Housing Trust Fund Assets

1. Distributions may be made to private or public, profit or non-for-profit entities.

2. The types of investments the fund may make must be development, construction and permanent loans or other similar disbursements deemed necessary and appropriate to fulfill the purposes of the AAHTF, if in compliance with Health and Safety Code (HSC) Section 50843.5. For loan terms, see Term Sheet below.

3. Organizations or individuals bestowing a gift or grant to the AAHTF may specify how such a gift or grant may be used. If the gift or grant has not been used for such purpose within a reasonable amount of time, or a time period specified as a condition of the gift or grant, the gift or grant shall be returned upon the request of the donor. Such requests must be in compliance with Health and Safety Code (HSC) Section 50843.5.

4. Types of Eligible Projects and Eligible Costs in which the AAHTF shall invest include:
   a. Creation of new affordable units through new construction or adaptive reuse.
   b. Preservation of existing affordable units through rehabilitation.
   c. Conversion of market rate units to affordable housing units, only if the units are less than three years old.
   d. Predevelopment loans/grants to assist non-profit and for-profit developers with project feasibility studies, site acquisition and preliminary design studies for potential affordable housing projects.
   e. Administrative costs for the AAHTF for up to 5% of each AAHTF loan.

5. Spending of AAHTF funds on preservation projects, shall not exceed 25% of all funds available per LHTF application cycle.

6. First priority in all disbursements shall be given to new construction and adaptive
reuse developments that are on land owned by the Housing Authority of the City of Alameda or one of its affiliates and, if a Low Income Housing Tax Credit (LIHTC) project, that provide a right of first refusal (ROFR) to the Alameda Affordable Housing Corporation, or its designee, after the initial tax credit compliance has been met. The General Partner of this development must actively facilitate the use of the ROFR, through language in the limited partnership agreement.

7. Priority in all disbursement shall be given to preservation developments that are on land owned by the Housing Authority of the City of Alameda or one of its affiliates and, if a LIHTC project, that provide a ROFR to the Alameda Affordable Housing Corporation, or its designee, after the initial tax credit compliance has been met. The General Partner of this development must actively facilitate the use of the ROFR, through language in the limited partnership agreement.

8. Priority in all disbursements shall be given first to housing projects that guarantee a term of affordability of at least 55 years together with full repayment of the AAHTF investment.

9. Priority in all disbursements shall also be given to developments that provide at least 25% of units that are permanent supportive housing opportunities.

10. Priority for developments in Moderate to Highest Opportunity Areas of the City of Alameda, per the California Tax Credit Allocation Committee methodology.

11. The term sheet identifies income groups that the AAHTF will serve. The percentages shown are minimum target amounts or maximum allowed amounts of funding that will be expended in each category, depending on the type of project. Administrative costs shall be deducted from these calculations. Regulatory Agreement affordability and income targets are in the Term Sheet below.

12. After the initial priorities have been met (#5-11 above), projects will be evaluated with respect to criteria that are consistent with AAHTF goals and policies. In addition, projects must demonstrate the following attributes:
   a. At least one other funding source, which may include a subsidized ground lease, has been identified and committed and the project has received site plan approval for the proposed development.
   b. Rental projects which benefit the highest percentage of very low- and low-income persons, provide the lowest rents, include a greater percentage of affordable units, or will maintain longer periods of affordability.
   c. Rental projects that use program funds as a match or leveraging tool to stimulate the use of conventional and below-market resources, including tax credits, state, and federal funding programs, and/or other funding sources.
   d. Rental projects proposed by an applicant with a successful history of project development and/or property management, as appropriate. Any new construction or adaptive reuse development must have a general partner/sponsor that can meet the minimum requirement of two 100% affordable new construction developments in the City of Alameda, in full compliance with all City of Alameda
or Housing Authority of the City of Alameda loans and contracts. In the case of a preservation project, the general partner/sponsor must meet the minimum requirement of owning two affordable developments in the City of Alameda.

e. A Nonprofit Community or Government Organization receiving an AAHTF grant and/or loan must be a legally established tax-exempt nonprofit community organization recognized by the Internal Revenue Service and the Franchise Tax Board, a public agency, or other governmental agency.

f. Security and equity requirements are in the Term Sheet below.

13. Loan and Underwriting Guidelines for the AAHTF are provided as an attachment to these Program Guidelines: The AAHTF Term Sheet is also included.

14. Private or public, profit or non-for-profit entities may contribute funds to AAHTF. Such funds may be used for their specific projects, and matched with State Local Housing Trust Fund funding, if successfully awarded. Entities looking to contribute funds and submit a project for consideration for submittal to the State shall submit to the AAHTF at least 90 days before the AAHC Board of Directors holds the Public Hearing on the AAHTF Guidelines (estimated as mid-April of every year). The proposal shall outline how the project meets State Local Housing Trust Fund Program’s eligibility and fund commitment requirements, and the AAHTF adopted guidelines and priorities. Where there are competing projects for any one-year LHTF cycle, projects developed on AHA-owned land will be the highest priority although other projects can be considered in the application so long as the leverage is the same or exceeds that of the project developed on AHA-owned land.
ATTACHMENT I

Alameda Affordable Housing Trust Fund Loan and Underwriting Guidelines and Procedures

For purpose of the Alameda Affordable Housing Trust Fund (AAHTF), underwriting involves the analysis of project assumptions and risks to determine if the public investment is reasonable and the project can be expected to meet all applicable program requirements. The following are core components of the AAHC’s underwriting and subsidy layering review of an AAHTF project. Required actions/procedures are noted at the end of each section. It is anticipated that the guidelines and review will occur at the application stage, within 90 days of loan funding and/or at construction loan closing.

I. AAHTF LOAN AND UNDERWRITING GUIDELINES FOR NEW CONSTRUCTION AND ADAPTIVE REUSE PROJECTS
   A. Sources and Uses Statement and Pro Forma – There will be an examination of the sources and uses of funds for the proposed project and a determination that all project costs are reasonable. Before committing AAHTF funds the AAHC shall evaluate a proposed new construction or adaptive reuse projects to ensure that funds are invested such that the project is likely to succeed over time. The AAHC may assess all of the assistance that has been, or is expected to be, made available to that project, and take into account all the factors relevant to project feasibility, which may include, but are not limited to total development costs and available funds; impacts of restrictions from AAHTF and/or other sources of funding such as eligible costs, maximum subsidy limits, cost allocation, and rent/utility allowance limitations; rates of return to owners, developers, sponsors, or investors; and the long-term needs of rental projects and tenants.

   DOCUMENTATION: The following elements may be reviewed and analyzed in forecasting project success:

   1. Sources and Uses Statement – the sources and uses document shall include the following:

      a. Sources - all sources, both private and public, of funds with dollar amounts and timing of availability for each source must be identified. Commitment letters or awards for all sources must be submitted at least 90 days before disbursement.

      b. Required Debt Coverage ratio/Positive Cash Flow requirement – debt coverage ratio and cash flow requirements are described in the Term Sheet below.

      c. Senior Lender/Junior Lender loan types – See Term Sheet below.
ACTION TO BE TAKEN: The Board of Directors shall determine whether funding sources are adequate and timely in their availability to cover costs at all phases of the project at least 90 days before disbursement.

B. Uses - All uses of funds (acquisition costs, site preparation and infrastructure costs, rehabilitation/or construction costs, financing costs, professional fees, developer fees and other soft costs) associated with the project and their costs. All costs must be necessary and reasonable.

DOCUMENTATION: The following documentation shall be required 90 days before disbursement:

1. Acquisition documentation such as purchase agreement, option or closing statement and appraisal or other documentation of value.
2. Construction cost must be substantiated by a construction cost review by the permanent lender, or the proposed tax credit investor. Contingency requirements are in the Term Sheet below.
3. If low-income housing tax credits are utilized, a third-party appraisal to substantiate the value of the land and the value of the property after rehabilitation or the structure being built.
4. If low-income housing tax credits are utilized, documentation on the syndication costs (legal, accounting, tax opinion, etc.) from the organization/individual who will syndicate and sell the offering to ensure that the project can support the fees necessary to syndicate/fund the project.
5. Project schedule.

ACTION TO BE TAKEN: The AAHC shall determine that all the proposed costs for the project are necessary and reasonable by considering costs of comparable projects in the same geographical area and costs published by recognized industry cost index services or affordable housing development comparable benchmarks published by the California Tax Credit Allocation Committee.

C. Operating Pro Forma

DOCUMENTATION: Developer shall submit an operating pro forma (project income and expense statement) for the length of the Affordability Period pertaining to the project at least 90 days before disbursement.

ACTION TO BE TAKEN: The AAHC shall evaluate the pro forma for the following:

1. Minimum projected operating expense will meet the published annual schedule of the California Tax Credit Allocation Committee for the project type, size, and age.
2. Reasonableness of the financial assumptions of the project to establish minimum total per unit operating costs.
3. Sufficiency of specific line item and total operating costs.
4. Determination that long-term operating projections over the Affordability Period are based on reasonable assumptions.
5. Demonstration that project can cover expenses and debt service throughout the affordability period.

6. Ensuring that cash flow projections are realistic in light of economic conditions.
7. Determination that long-term operating projections are based on reasonable assumptions about how revenues and operating costs are expected to change over time.
8. Determination that long-term operating projections over the affordability period are based on reasonable assumptions.

9. That non-residential revenue from fees/late charges, commercial income, interest, laundry/vending are projected conservatively.
10. That vacancy projections reflect local market conditions and account for physical vacancies and collections loss. Vacancy terms are in the Term Sheet below.
11. That the rate of projected growth for rental income and other revenues are appropriate and that in projects with deeply targeted rents, lower than average rate of revenue increases are used for comparison when possible.

ACTION TO BE TAKEN: The AAHC shall determine that Projected Income assumptions as provided in the pro forma are reasonable based on the following that:

1. Non-residential revenue from fees/late charges, commercial income, interest, laundry/vending are projected conservatively.
2. Vacancy projections reflect local market conditions and account for physical vacancies and collections loss.
3. The rate of projected growth for rental income and other revenues are appropriate.
4. For projects with deeply targeted rents, lower than average rate of revenue increases are used.
5. Net operating income is sufficient to cover debt service obligations and mandatory replacement reserve funding.
6. Reasonable but not excessive cash flow is generated throughout the affordability period.
7. The rate of annual increase in project income is reasonable.
8. The operations meet requirements for positive cash flow, as indicated above in the Sources section.

ACTION TO BE TAKEN: The AAHC shall determine that Projected Expenses are reasonable as provided in the pro forma submittals, including:
1. Operating costs given the scope and size of the project.
2. Management fees and other fees to the owner.
3. Replacement deposits and use – See Term Sheet below.

D. Market Assessment

DOCUMENTATION: At least 90 days before disbursement, the Developer shall provide data that supports unit absorption rates used in the Operating Pro Forma. Data submitted to the AAHC in support of the project market assessment shall be no more than one year old.

ACTION TO BE TAKEN: The AAHC shall assess the current market demand in the area to confirm the need for the project considering the type and number of units in the project. Given the housing shortage in the City of Alameda, it is assumed that there will be high demand for housing in general. The goal is to encourage the projects that prioritize current community needs for size, price, and other factors affecting the projects’ marketability.

1. Identify recent real estate trends that indicate demand for types and sizes of units.
2. Estimate the absorption period by determining how many units can be successfully leased each month and how long it will take to achieve initial occupancy of the AAHTF units and stabilized occupancy for the project as a whole.

E. Renovation Work Plan (Adaptive Reuse Projects)

DOCUMENTATION: For projects including renovation, the Developer shall provide a narrative overview of the planned scope, how renovation will be implemented, a timeline, and the proposed project’s Capital or Physical Needs Assessment.

ACTION TO BE TAKEN: The AAHC shall determine that the planned renovations and timeline are reasonable considering the property’s needs.

F. Developer Capacity Assessment: There are two elements of underwriting analysis related to the developer: 1) the experience and the capacity of the developer (including the staff and project team) to implement the project and 2) the fiscal soundness of the developer to meet its financial obligations and risks of the project. The AAHC shall use the following procedures shall determine what constitutes acceptable experience and financial capacity of the developer based on the size, scope, and complexity of the project.

1. Experience

DOCUMENTATION: The Developer is required to provide information on their experience and provide references in the funding application including:

   a. Corporate or organizational experience of the developer.
b. Experience of the staff assigned to the project and overall quality of the development team.
c. Prior experience of the developer’s team members compared to their roles in the proposed project.
d. Skills and capacity including property management, asset management, service provision (as applicable), and financing.
e. Demonstration that the developer has successfully completed a minimum of two new construction 100% affordable developments in the City of Alameda.

**ACTION TO BE TAKEN:** The AAHC shall consider prior experience and the current capacity of the developer and determine if the developer has the technical and managerial experience, knowledge, and skills to successfully complete the development.

2. **Developer Financial Capacity** – The following elements shall be analyzed to determine developer financial capacity:

**ACTION TO BE TAKEN:** The AAHC will review the following information taken from the developer’s operating pro forma and information provided in the funding application (audit, references, prior projects) to determine that the developer’s experience and financial capacity are adequate to implement the project and meet financial obligations and risks of the project. The following information will be analyzed for this purpose:

a. Financial management systems and practices.
b. Sufficient financial resources to carry the project to completion.
c. Financial statements and audits to determine the developer’s net worth, portfolio risk, pre-development funding, and liquidity.

G. **Developer Profit & Return**

**ACTION TO BE TAKEN:** The AAHC shall require that any profits or returns on the owner’s or developer’s investment are not excessive. At least 90 days before disbursement, the AAHC shall conduct an analysis that reviews profit expected to flow to the developer as operating cash flow from rental projects and any other professional fees being paid to the developer or related entities. The analysis shall focus on the following areas to determine that developer fees, cash flow, equity appreciation, asset management fees, and profit associated with the project are reasonable: Developer fees and developer cash flow are also described in the Term Sheet below.

H. **Identity of Interest Roles**
1. If the developer owns a construction company that will be working on the project, the AAHC shall determine that the profit and overhead of the contractor is reasonable.
2. If the owner of a rental property assisted with AAHTF funds also operates a property management company contracted to service the property, the AAHC shall determine that the management fees are reasonable.

II. AAHTF LOAN AND UNDERWRITING GUIDELINES FOR PRESERVATION PROJECTS

A. Renovation Work Plan (Adaptive Reuse and Preservation Projects)

**DOCUMENTATION:** For projects including renovation, the Developer shall provide a narrative overview of the planned scope, how it will be implemented, a timeline, and the proposed project’s Capital or Physical Needs Assessment.

**ACTION TO BE TAKEN:** The AAHC shall determine that the planned renovations and timeline are reasonable considering the property’s needs.

B. Market Assessment

**DOCUMENTATION:** At least 90 days before disbursement, the Developer shall provide the latest rent roll and evidence of property waitlist.

**ACTION TO BE TAKEN:** The AAHC shall assess the current market demand in the area to confirm the need for the project considering the type and number of units in the project. Given the housing shortage in the City of Alameda, it is assumed that there will be high demand for housing in general. The goal is to encourage the projects that prioritizes current community needs for size, price, and other factors affecting the projects marketability.

C. Property Operations

**DOCUMENTATION:** For preservation projects, Developer shall submit a current year operating budget and the audited annual financial statements for the prior three years.

**ACTION TO BE TAKEN:** The AAHC shall determine that operations at the property are reasonable as provided.

D. Availability of Reserves

**DOCUMENTATION:** For preservation projects, Developers shall provide documentation of all replacement reserves at the proposed property.

**ACTION TO BE TAKEN:** The AAHC shall determine that existing property reserves are not sufficient to cover planned renovations and are sufficient enough to maintain the property through operations post-renovation. The
AAHC shall also confirm that the requirement minimum replacement reserve is deposited in the project accounts prior to loan closing, if not already existing. Please see Guidelines for replacement reserve requirements.

E. **Developer Capacity Assessment:** There are two elements of underwriting analysis related to the developer: 1) the experience and the capacity of the developer (including the staff and project team) to implement the project and 2) the fiscal soundness of the developer to meet its financial obligations and risks of the project. The AAHC shall use the following procedures shall determine what constitutes acceptable experience and financial capacity of the developer based on the size, scope, and complexity of the project.

1. **Experience**

   **DOCUMENTATION:** The Developer is required to provide information on their experience and provide references in the funding application including:

   f. Corporate or organizational experience of the developer.
   g. Experience of the staff assigned to the project and overall quality of the development team.
   h. Prior experience of the developer’s team members compared to their roles in the proposed project.
   i. Skills and capacity including property management, asset management, service provision (as applicable), and financing.
   j. Demonstration that the developer owns/operates a minimum of two 100% affordable developments in the City of Alameda.

   **ACTION TO BE TAKEN:** The AAHC shall consider prior experience and the current capacity of the developer and determine if the developer has the technical and managerial experience, knowledge, and skills to successfully complete the development.

2. **Developer Financial Capacity** – The following elements shall be analyzed to determine developer financial capacity:

   **ACTION TO BE TAKEN:** The AAHC will review the following information taken from the developer’s operating pro forma and information provided in the funding application (audit, references, prior projects) to determine that the developer’s experience and financial capacity are adequate to implement the project and meet financial obligations and risks of the project. The following information will be analyzed for this purpose:

   a. Financial management systems and practices.
b. Sufficient financial resources to carry the project to completion.
c. Financial statements and audits to determine the developer’s net worth, portfolio risk, pre-development funding, and liquidity.

F. Developer Profit & Return

**ACTION TO BE TAKEN:** The AAHC shall require that any profits or returns on the owner’s or developer’s investment are not excessive. At least 90 days before disbursement, the AAHC shall conduct an analysis that reviews profit expected to flow to the developer as operating cash flow from rental projects and any other professional fees being paid to the developer or related entities. The analysis shall focus on the following areas to determine that developer fees, cash flow, asset management fees, and profit associated with the project are reasonable: Developer fees and developer cash flow are also described in the Term Sheet below.

G. Identity of Interest Roles

1. If the developer owns a construction company that will be working on the project, the AAHC shall determine that the profit and overhead of the contractor is reasonable.
2. If the owner of a rental property assisted with AAHTF funds also operates a property management company contracted to service the property, the AAHC shall determine that the management fees are reasonable.
ATTACHMENT
II
Alameda Affordable Housing Trust Fund Term Sheet

I. Loan Terms -
   a. AAHTF funds used to provide construction loans and/or deferred payment
      permanent financing loans shall be at simple interest rates of no higher than 3
      percent per annum, for payment of predevelopment costs, acquisition, or
      construction of Eligible Projects.

   b. AAHTF funds shall be repaid from 75% of residual receipts, or as shared pro
      rata with other soft lenders as agreed upon at the time of construction loan close.

   c. AAHTF funds shall be provided on a minimum 55-year term.

II. Regulatory Agreement - Target set aside amounts and other restrictions are as
    follows:

   a. Initial loans (up to $10,000,000 as approved on 7/21/21, including the Letters
      of Intent for future/potential LHTF match funding)

      i. Extremely low-income (at or below 30% of AMI): Minimum target is 30%
         of AAHTF funds.

      ii. Lower income (no more than 60% of AMI): Up to 70% of AAHTF funds.

      iii. Each project and each AAHTF loan must serve these affordability
           restrictions on its own.

   b. Future loans/Projects - Each new construction and adaptive reuse project must
      serve these affordability restrictions on its own.

      i. Extremely low-income (at or below 30% of AMI): minimum target is 30%
         of AAHTF funds.

      ii. Moderate-income (between 80%-120% of AMI) – No more than 20% of
          AAHTF funds or units, whichever is lower.

      iii. All other units must be lower income – income restrictions at or below
           80% of AMI.

      iv. New construction and adaptive reuse projects with AAHTF loans over
          $2.5 million must commit all units to AAHTF affordability restrictions.

   c. Future loans/Projects - Each preservation project must serve these affordability
      restrictions on its own.

      i. All funded units must be lower income – income restrictions at or below
         80% of AMI.

      ii. Preservation projects shall have one deed-restricted unit at 80% AMI for
          every $500,000 in AAHTF loan funds committed to the project. Restricted
units shall be evenly distributed across all unit sizes and calculated by regulating the smallest units first. These AAHTF units shall be permitted to float to similar unit sizes.

iii. AAHTF Staff shall annually track the amount of funds going towards each of the income levels to ensure compliance with State HCD LHTF Program. Availability of funds for preservation projects will be subject to these requirements and the amount of matching funds AAHTF is able to provide.

III. **Security and Equity requirements** - Permanent financing shall be secured by a deed of trust against the land or a security agreement against physical improvements. A promissory note may be used for pre-development costs for up to 100% of the local portion of the loan. There must be at least 10% equity in the property after completion of a project. This value may be established by AAHTF staff and/or an appraiser. Exceptions may be approved by the Board of Directors.

IV. **AAHTF Loan Fees** - The AAHTF will charge tax credit projects a legal closing cost fee of $25,000 and reserves the right to charge additional fees for financial review (up to $5,000) and construction cost review ($5,000). For non-tax credit syndication projects, the AAHTF will charge a legal closing fee of $10,000. In addition, the AAHTF will charge a loan fee of up to 5% of total loan proceeds, payable at construction loan closing.

V. **Debt Coverage and Cash Flow requirements** - Tax credit and adaptive reuse projects should demonstrate a debt service coverage ratio for any amortizing debt of no more than 1.15 unless a greater ratio is needed to demonstrate positive cash flow through year 15 (this alternative is only available to supportive housing projects). At its sole discretion, the Board of Directors may require that the development show positive cash flow through year 20.

VI. **Senior and Junior loan types** - The development may have only one senior lender, unless it has a project based housing voucher contract that is funding a Tranche B loan, which may also be senior to the AAHTF loan. The senior lender should be an experienced affordable housing lender. The senior loan must have a term longer than or coterminous with the initial tax credit period. Any junior lender must be a soft lender whose loans have terms similar to the AAHTF, i.e., 3% soft interest and minimum 55-year term, unless they agree to be completely subordinate to the AAHTF loan. The AAHTF loan may share lien priority with other soft lenders, at the sole discretion of the AAHTF, and may share residual receipts pari passu with other soft lenders.

VII. **Contingency requirements** –

a. New construction projects must have no more than 10% contingency at construction loan closing, although they may carry additional contingency during the predevelopment phase (not to exceed 12%).
b. Preservation and adaptive reuse projects must have no more than 15% contingency at construction loan closing, although, they may carry additional contingency during the predevelopment phase (not to exceed 18%).

VIII. **Vacancy terms** - In general, all projects should show a 5% vacancy rate, and supportive housing and special needs developments should use a 10% vacancy rate. A blended rate is possible for developments that have a mix of units.

IX. **Reserve deposits and uses** –
   a. Adequate replacement reserve deposits. For tax credit projects, the minimum required replacement reserve deposits will align with the published reserve requirements of either the California Tax Credit Allocation Committee or California Housing and Community Development as applicable. For non-tax credit projects with existing mortgages, pending staff review and approval that existing reserves are sufficient, no additional reserves will be required. Non-tax credit projects, without existing mortgages, shall demonstrate a replacement reserve in the amount of $10,000 per unit at the time of funding. Reserve use in excess of $50,000 in occurrence or per year requires prior written approval by the AAHTF.

   b. Required capitalized operating reserve. For new construction, adaptive reuse, and preservation projects exceeding $5 million in total development costs, the minimum required capitalized operating reserve will align with the published operating reserve requirements of either the California Tax Credit Allocation Committee or California Housing and Community Development as applicable. Reserve use in excess of $50,000 in occurrence or per year requires prior written approval by the AAHTF.

X. **Developer Fees and developer cash flow** –
   a. For LIHTC projects, the developer fee may not exceed the limits established by the awarding state or federal agencies. The developer fees must reflect the local market and shall be reviewed with respect to the following:
      1. The scope and complexity of the project.
      2. The size of the project.
      3. The relative risk the developer is taking.
      4. The fees that are regularly and customarily allowed in similar programs and projects.
      5. Other fees the project is generating for the developer and its related entities.
      6. Cash-Flow – Reasonableness of net cash flow assumptions and distribution of same to developer/owner and lenders

   b. For non-LIHTC projects, the developer fee may not exceed 10% of total development costs.

XI. **Minimum loan size** –
a. The smallest loan that may be requested is $250,000.
b. Loans less than $500,000 shall still have one restricted per Section II.c.ii.