

Development Partnership Criteria

The Housing Authority of the County of San Bernardino (HACSB) is willing to consider proposals by for-profit and not-for-profit developers of affordable housing who wish to form collaborative ventures with HACSB for the new construction or rehabilitation of affordable housing within the County. It is HACSB's intent to be flexible to respond to -- or initiate -- joint venture offers in an efficient and timely manner. HACSB staff is required to bring to the Board of Commissioners any joint venture proposal for approval. However, we want to be able to proceed with potential partners in as timely a manner as possible if the proposed partnership and/or housing development align with key criteria.

The criteria by which HACSB will evaluate development joint venture partnerships include: ***partner experience, site & location analysis, development characteristics, financing, operations, and alignment of goals to the HACSB mission.*** Please note that there has been no "weighting" of these criteria; however, we believe that some are of greater importance than others. Therefore, by way of example only, if a potential partner has less experience, but whose market study and development characteristics are superior, we may wish to consider those items more carefully.

A. Partner experience

Experience with Product:

1. At least ten years experience in multifamily housing.
2. At least two other completed and successful affordable multifamily housing projects.
3. Review of partner net worth

Experience with Construction and Construction Management:

1. At least ten years experience in multifamily housing.
2. At least two other completed and successful affordable multifamily housing projects.
3. Expertise in negotiating and managing changes to construction contract.
4. Previous relevant experience in managing production timelines and costs.
5. Experience in San Bernardino County.

B. Site and location analysis

New Construction

1. A third-party Market Study or staff market analysis must be completed that supports the demand for the type and number of units, the target population, the proposed rent levels, the proposed amenities.
2. The project must have easy access to transportation, employment, schools, retail, and recreation.

3. A study reporting any potential environmental or hazardous conditions must be completed.

Acquisition / Rehabilitation

1. Financial reports, occupancy reports, rent rolls, and operating history that support the viability of the property.
2. Third-party market study considered important, but not critical.
3. Review of access to transportation, employment, schools, retail, and recreational opportunities.
4. A study reporting any potential environmental or hazardous conditions must be completed.
5. Property must be in conformance to all current building codes, or provide necessary steps during renovation to bring property to code.
6. Property must meet all federal fair housing regulations

C. Development Characteristics

1. Project Size: minimum of 40 units
2. Total Development Cost: to be evaluated on a case-by-case basis to ensure comparability to relevant market conditions and/or HACSB experience.
3. Developer Fee: Total developer fee must be in line with current tax credit guidelines, with no more than 50% of the fee deferred. Deferred portion must be demonstrably re-payable within 7 years. For non-tax credit financed developments, fee shall be negotiable (subject to the requirements of the financing source).
4. Portion to be paid to HACSB to be negotiated on case-by-case basis, commensurate with level of risk and involvement of HACSB in the up-front development
5. HACSB portion of developer fee to be deferred only in proportion to the amount of the total deferred fee. HACSB will not assume all re-payment risk of deferred fees.

D. Financing

1. Debt: must be non-recourse to HACSB or any subsequently created subsidiary.
2. Interest Rate: Pro-forma interest rates must be at least 50 basis points over current loan rates.
3. Construction and/or bridge loans must have identified sources for takeout financing.
4. Debt Coverage Ratio: A minimum 1.15 DCR must be used for permanent financing.
5. Financial Guarantees: to be determined on a case-by-case basis. These guarantees may relate to construction completion, construction loan repayment, permanent financing, operating deficit, and/or tax credit losses to investor. It is our intent to limit both the term and the potential monetary risk to HACSB on all of these.

6. Reserves:
 - Operating Reserve: At least three months of operating costs, and must stay with property.
 - Replacement Reserve: must conform to, or exceed, current LIHTC guidelines for new construction and acquisition / rehab projects. Must stay with property.
 - Lease-Up Reserve: Must be sufficiently conservative to cover absorption costs.
 - Debt Service Reserve: At least three months of debt service. May be combined with operating reserve.
7. Tax Credits
 - HACSB must review and approve potential investor, and all terms and conditions.
 - Tax credit pricing must exceed the current LIHTC minimum, and be congruent with the current market pricing.
 - Adjustors to credit must be nominal, if at all.
 - HACSB must have an option to purchase the property at a calculated or defined price at end of the 15-year compliance period.

E. Operations

1. Per Unit Per Annum Operating Budget
 - Must conform or exceed LIHTC guidelines, and be in-line with other comparable HACSB properties, reflecting similar fixed and variable costs
 - Minimum Management Fee (if HACSB-managed) of at least \$40 /unit/month.
 - Pro-forma must assume minimum annual expense inflation of 1% higher than revenue increases
2. Cash Flow
 - Must cash flow at a minimum of 1.15 to 1.00 after first full year of property operations.
 - Must demonstrate increased cash flow for minimum of 15 years.
3. Vacancy
 - Must conform or exceed LIHTC guidelines
 - Pro-forma must use greater of LIHTC guidelines or information from Market Study
 - If acquisition, must use historic figures or provide detailed reasoning for using another rate.
 - If new, absorption rate must meet or exceed Market Study estimates.
4. Resident Relocation (acquisition/rehab)
 - Must have adequate costs for tenant relocation if necessary

F. Alignment with HACSB Mission

1. Mission Alignment

- (Tax Credit developments) At least 40% of any rental project must serve households earning less than 60% of the Area Median Income. Additional consideration will be given to those projects with units serving households earning 30%-50% of AMI.
 - (Conventional or Housing Authority bond-financed developments) At least 20% of any rental project must serve households earning less than 80% of the Area Median Income (10% at or less than 50% AMI, and 10% at or less than 80% AMI).
 - At least 60% of any homeownership project must serve households earning less than 80% of AMI. Additional consideration will be given to those projects with units serving households less than 60% of AMI.
 - Long-term affordability: 40 years for rental projects and 20 years for homeownership
 - Additional consideration will be given to those projects with supportive services for residents.
 - Additional consideration will be given to those projects designed to serve special needs populations.
2. Financial Support of HACSB
- a. Real Estate Tax Exemption
 - The monetary value of the real estate tax exemption may come to HACSB in the form of increased developer fees or in the form of a present value of the potential savings. It is important to be both serious and flexible on this point.
 - b. Sales Tax Exemption (new construction)
 - HACSB would seek a rebate of a portion of the sales tax exemption monies of 25%.
 - c. Property Management
 - Additional consideration will be given to those partners that offer HACSB the opportunity for property management at a reasonable management fee.

Review Process

The Housing Authority will have a three-step review process: Preliminary Review, Conditional Commitment, and Firm Commitment. At any of these three stages, the HACSB staff and Board will review submitted information and make recommendations for further study, for cessation, or for commitment. The three-stage process will also allow the potential partner time to refine their proposals, as well as provide the Board with greater opportunities to review potential partnerships.

A. Preliminary Review

Developers who submit a proposal will be asked to provide a Letter of Intent for Preliminary Review that includes, but is not limited to:

1. Developer name, address, phone number, fax number and e-mail address
2. Developer Capacity including history of completed comparable projects
3. Brief description of the proposed partnership resources requested of HACSB, role of HACSB, and financial benefit to HACSB
4. Project information demonstrating ability to meet criteria discussed above
5. Project Schedule

Based upon this information, Staff will review the information provided and forward the request with its recommendation to the Board for preliminary approval. If this Board review is unfavorable, the Executive Director will issue a letter to the Developer outlining the Board's decision.

B. Conditional Commitment

If the Board recommends approval, the Executive Director will issue a Preliminary Approval letter that details the requirements that must be met for the partnership to be formed and requesting additional information, including but not limited to:

1. Detailed project description including:
 - number of units
 - unit mix
 - income mix
 - income restrictions
 - proposed site plan and conceptual design of project
2. Market Study, with lease-up projections
3. Appraisal
4. Development Sources and Uses budget
5. Overview of financial components, including Debt and Equity projections
6. Operating Budget
7. Detailed Financial Pro-forma
8. Developer's financials
9. Developer and HACSB compensation outline
10. Statement regarding whether Developer, or its related entities, are involved or have reason to believe they will be involved in litigation
11. Written narrative explaining the proposed partnership structure that includes HACSB and a diagram detailing benefit derived from HACSB participation
12. Development Schedule
13. By-laws and Articles of Incorporation
14. Detailed information regarding partners, investors, and development team members involved in the development, and Identity-of-Interest statements for all ownership members

15. For Homeownership Projects: Sales Price, PITI analysis, and resale/recapture analysis.

Staff will review information provided and will submit a recommendation to the Board for approval or denial. If the Board recommends denial, the Executive Director will issue a letter to the Developer clarifying the Board's decision. If the Board recommends approval, the Executive Director will issue a Conditional Commitment letter to the Developer that authorizes the Executive Director to take all necessary steps to enter into partnership documents for the transaction.

C. Firm Commitment

After the issuance of a Conditional Commitment, the potential partner will be invited to make a presentation to the HACSB Board of Commissioners. Based upon the information previously submitted and the thorough review and analysis by the Board, the Board will make its final approval or denial of the project. If the Board recommends denial, the Executive Director will issue a letter to the Developer clarifying the Board's decision. Upon Board approval, the Executive Director will issue a Board Resolution and will also issue a Firm Commitment letter to the Developer that authorizes the Executive Director to take all necessary steps to close on the transaction.

Partnership Commitments

Prior to entering into a partnership, HACSB legal counsel will review a potential partner's financial statements, and provide assurance to the Board regarding liability issues. The partner's legal counsel will be responsible for document preparation, and HACSB legal counsel will review. All partnerships will require that regular and pertinent information be provided to HACSB, including but not limited to:

- Monthly construction status reports (new construction)
- Monthly property operating and income reports
- Monthly marketing reports (new construction)
- All property inspection reports by compliance monitoring agencies
- Annual audited financial statements for property
- Annual audited financial statement of partner

Owner's Representative

All inquiries related to proposed joint venture partnerships w/ HACSB shall be directed to:

*Gustav Joslin, Director, Real Estate Devt & Cap. Improvements
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