



City of Bellingham

2018 Housing Levy

Administrative & Financial Plan

Program Years: 2019-2028

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TABLE OF CONTENTS

| | |
|--|-----------|
| TABLE OF CONTENTS | 2 |
| INTRODUCTION | 3 |
| PROGRAM FUNDING PLAN | 4 |
| REPORTING | 7 |
| HOUSING LEVY FUND PRIORITIES | 8 |
| PREFERENCES | 8 |
| GOALS & PRIORITIES | 9 |
| PROJECT FUNDING SIGN | 12 |
| PRODUCTION & PRESERVATION OF HOMES PROGRAM | 13 |
| PROGRAM OBJECTIVES | 13 |
| PROGRAM POLICIES | 14 |
| PROJECT REQUIREMENTS | 18 |
| LOAN CONDITIONS..... | 24 |
| RENTAL ASSISTANCE AND SUPPORTIVE SERVICES PROGRAM | 32 |
| PROGRAM OBJECTIVES | 33 |
| PROGRAM POLICIES..... | 34 |
| HOMEBUYER PROGRAM | 36 |
| PROGRAM OBJECTIVES | 36 |
| PROGRAM POLICIES..... | 37 |
| ACQUISITION & OPPORTUNITY AND BRIDGE LOANS | 41 |
| PROGRAM OBJECTIVES | 41 |
| PROGRAM PRIORITIES | 41 |
| PROGRAM POLICIES..... | 42 |
| PROGRAM DEFINITIONS | 43 |

INTRODUCTION

The 2018 Bellingham Housing Levy authorizes \$40 million over a 10-year period to provide, produce, and/or preserve affordable housing in Bellingham and to assist low-income tenants and those experiencing homelessness in Bellingham. The Housing Levy funds four programs:

1. Production and Preservation of Homes
2. Rental Assistance and Support Services
3. Low-income Homebuyer Assistance
4. Acquisition & Opportunity Loans

The 2018 Housing Levy was approved by Bellingham voters in November 2018 and includes property tax levies authorized for ten years, from 2019 through 2028. The Planning and Community Development Department, Housing and Services program, administers the 2018 Bellingham Housing Levy programs.

Resolution 2018-09, passed by City Council on June 4, 2018, placed the Levy proposition on the November ballot and directed Planning and Community Development (PCD) to prepare a new or revised Levy Administrative and Financial Plan (A & F Plan) covering the period from 2019 through 2028. This replaced the previous 7-year levy, passed by City Council in 2012, and levying funds beginning in 2013. The final year (2019) of that levy was forgone in favor of a new replacement levy beginning that same year. This A & F Plan includes the funding plan for the levy and policies governing administration of each levy program.

The Levy A & F Plan must be approved by City Council, with such modifications as the City Council may require. The A & F Plan is developed by PCD with input and assistance of working groups that include housing provider representatives, the Bellingham Housing Authority, business groups, groups addressing homelessness and other human service issues, and other interested community members. The Community Development Advisory Board reviews the draft and makes recommendations to the Mayor and City Council.

PROGRAM FUNDING PLAN

All revenues collected from the taxes levied for housing shall be deposited in the Low-Income Housing Fund in subfunds or accounts created by the Finance Director or as needed to implement the purposes of the 2018 Levy, and as authorized in a Budget Ordinance. Expenditures shall not exceed receipt of levy proceeds.

Levy revenues in the Low-Income Housing Fund shall fund the Production and Preservation of Homes, Rental Assistance and Supportive Services, and Homebuyer programs. The Acquisition and Opportunity Loan program is an additional program area but does not have a separate budget line item. This program uses unspent funds allocated to other programs or carried over from prior years. Table 1 below shows fund totals for the budgeted programs based on projected amounts of taxes levied for low-income housing. Total annual amounts available for administration of these Levy programs are also shown in Table 1.

Program income from the 2018 Levy shall be used to fund programs from which the program income is derived, which are predominantly the Production & Preservation of Homes, Homebuyer, and Acquisition and Opportunity Loan programs.

Table 1, 10-year Program Funding Plan

| | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 10 year total | |
|--------------------------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|-------------------|--------------|
| Revenue | 4,000,000 | 4,000,000 | 4,000,000 | 4,000,000 | 4,000,000 | 4,000,000 | 4,000,000 | 4,000,000 | 4,000,000 | 4,000,000 | 40,000,000 | |
| Expenses: | | | | | | | | | | | | |
| Production & Preservation of Homes | 2,400,000 | 2,400,000 | 2,400,000 | 2,220,000 | 2,220,000 | 2,220,000 | 2,220,000 | 2,040,000 | 2,040,000 | 2,040,000 | 22,200,000 | 55.5% |
| Rental Assistance & Support Services | 1,180,000 | 1,180,000 | 1,180,000 | 1,360,000 | 1,360,000 | 1,360,000 | 1,360,000 | 1,540,000 | 1,540,000 | 1,540,000 | 13,600,000 | 34.0% |
| Low Income Homebuyer Assistance | 180,000 | 180,000 | 180,000 | 180,000 | 180,000 | 180,000 | 180,000 | 180,000 | 180,000 | 180,000 | 1,800,000 | 4.5% |
| Program Expenditures | 3,760,000 | 3,760,000 | 3,760,000 | 3,760,000 | 3,760,000 | 3,760,000 | 3,760,000 | 3,760,000 | 3,760,000 | 3,760,000 | 37,600,000 | 94.0% |
| Total Administrative | 240,000 | 240,000 | 240,000 | 240,000 | 240,000 | 240,000 | 240,000 | 240,000 | 240,000 | 240,000 | 2,400,000 | 6.0% |
| Total Expenditures | 4,000,000 | 4,000,000 | 4,000,000 | 4,000,000 | 4,000,000 | 4,000,000 | 4,000,000 | 4,000,000 | 4,000,000 | 4,000,000 | 40,000,000 | 100% |

Table 2, 2019 - 2020 Budget

Low Income Housing Fund

A low-income housing fund to be used as set forth in Resolution No. 2018-09 and authorized by voters on November 6, 2018.

| Low Income Housing Fund Revenues and Sources Expenditures and Uses | 2019 Budget | 2020 Budget | TOTAL |
|---|------------------------|------------------------|-------------------|
| Prior Year Uncommitted Funds | 2,300,000 | 0 | 2,300,000 |
| Revenues: | | | |
| Very Low-Income Levy | 2,668,000 | 2,668,000 | 5,336,000 |
| Low-Income Levy | 1,332,000 | 1,332,000 | 2,664,000 |
| Program Income | 0 | 0 | 0 |
| Subtotal of Revenues | 4,000,000 | 4,000,000 | 8,000,000 |
| Fund Total Sources | 6,300,000 | 4,000,000 | 10,300,000 |
| Expenditures: | | | |
| <i>Production & Preservation of Homes</i> | | | |
| Home Production Loans | 2,898,000 | 1,848,000 | 4,696,000 |
| Home Preservation Loans | 552,000 | 552,000 | 1,104,000 |
| <i>Rental Assistance & Support Services</i> | | | |
| Contractual Services | 1,180,000 | 1,180,000 | 2,360,000 |
| <i>Low-income Homebuyer Assistance</i> | | | |
| Loans | 180,000 | 180,000 | 360,000 |
| <i>Acquisition & Opportunity Loans</i> | | | |
| Loans | 1,300,000 | 0 | 1,300,000 |
| <i>Administration</i> | | | |
| Salaries and Benefits | 98,458 | 98,458 | 196,916 |
| Misc. Expenses | 24,850 | 24,850 | 49,700 |
| Interfund | 116,692 | 116,692 | 233,384 |
| Subtotal of Expenditures | 6,300,000 | 4,000,000 | 10,300,000 |
| Ending Reserves | 0 | 0 | 0 |
| Fund Total Uses | 6,300,000 | 4,000,000 | 10,300,000 |

REPORTING

The Planning and Community Development Department will provide a consolidated annual performance and evaluation report (CAPER) to the Mayor and City Council each year. Draft and final reports will be widely circulated to citizens and stakeholders interested in affordable housing and use of the housing levy proceeds, including the Community Development Advisory Board (CDAB).

The CAPER will be coordinated with HUD reporting, no later than September 30th of each year, covering activity for the previous year. The CAPER will include, but not be limited to, the following:

- Accomplishments/Production for each Levy program, including actual unit production compared to goals:
 - Production & Preservation of Homes -- units funded and funding reserved for those units, location of funded projects; income targets and length of affordability ensured; units completed and occupied.
 - Rental Assistance and Support Services -- number of households/persons provided housing assistance and success at stabilizing households; accomplishments and performance for supportive services.
 - Homebuyer -- units funded and funding reserved for those units, location of funded projects; income targets and length of affordability ensured; units completed and occupied.
 - Acquisition & Opportunity Loans – loans approved along with loan amounts and due dates, loans repaid, and projected units assisted.
- Financial information -- funding received and committed; loans approved, including terms and anticipated revenues; grants approved; financial leverage achieved for each Levy program;
- Demographic and income characteristics of households and persons benefitted from each Levy program, including affordability levels served and associated annual goals and Levy funding requirements;
- Any additional information that the Community Development Advisory Board, Mayor or City Council believes should be included.

HOUSING LEVY FUND PRIORITIES

PREFERENCES

Implementing the Housing Levy requires an ability to have effective priorities and goals, but also requires an understanding that there are preferences when it comes time for allocation of resources. Preferences should be based on the Priorities outlined below, together with the other administrative and leveraging preferences. The City would give preference for activities that are based on some or all of the criteria below.

1. **City Legacies and Strategic Commitments** -- projects or activities that implement one or more of the City Legacies and Strategic Commitments.
2. **Demonstrated Need and Gap** -- projects or activities that demonstrate there is a gap in services needed to address the priority needs in the Consolidated Plan.
3. **Collaboration** -- projects or activities showing high degree of volunteers or collaboration with partners.
4. **Mobility** -- projects or activities that are located with access to transit.
5. **Geographic** -- projects or activities that address the need for geographic housing equity throughout the City, including needs of neighborhoods with disproportionate burdens.
6. **Equity & Social Justice** -- projects or activities that address the disproportionate burden of minority racial and ethnic populations regarding income and housing in the City.
7. **Children and Poverty** -- projects or activities that address adverse childhood experiences, and projects or activities that work to end intergenerational poverty.
8. **Leveraging** -- projects or activities that leverage other funds.
9. **Probability of Success** -- projects or activities that demonstrate the ability, stability and resources needed to implement the project. This preference will not discourage new, innovative strategies from being proposed.
10. **Sustainability** -- Projects that implement city infill and sustainability objectives.

GOALS & PRIORITIES

The City's Consolidated Plan sets priorities for the limited federal resources (Community Development Block Grant and HOME Investment Partnerships Act) available from HUD. The Housing Levy must be consistent with the City's comprehensive housing affordability strategy (Consolidated Plan) required under the Cranston-Gonzalez national affordable housing act. The goals and priorities of the Consolidated Plan are incorporated by reference, and set forth below for easy reference.

GOAL 1. INCREASE AFFORDABLE HOUSING SUPPLY

The greatest need in our community is to assist those with the lowest incomes to obtain stable and secure housing. At least 63% of all households earning less than 50% AMI are paying more than half their income towards housing. With the ability to pay between \$0 and \$641 per month for a 1-bedroom unit, the private market is unable to meet this demand without assistance. The rise in housing costs, together with historically low vacancy rates and stagnant wages, makes it very difficult to find affordable housing.

The majority of the city's land is currently zoned for single-family development, which is the most expensive type of housing. Allowing more forms of housing that meets the community's needs is one way to boost supply. In addition to adding new affordable housing stock, it will also be important to look for opportunities to acquire 'naturally occurring' affordable rental units that already exist in lower-income neighborhoods. This strategy can prevent displacement that comes with gentrification, and is less expensive than new construction.

Priorities:

- Support the acquisition and development of housing units affordable for low-income residents.
- Allow for infill, multifamily, and group housing in more neighborhoods.
- Increase the City's proactive role in affordable housing development.
- Support homeownership development and down payment assistance for low to moderate income households, especially for minority households and households with young children.

GOAL 2. ADDRESS AND PREVENT HOMELESSNESS

Many people in Bellingham, and throughout Whatcom County, experience homelessness or face the prospect of losing their homes. The increasing cost of housing has placed new hardships on some families, while others face loss of their homes for reasons including chemical dependency, mental health, and domestic violence.

Priorities:

- Support the development of emergency shelter in a safe, permanent location.

- Support programs to prevent chronic homelessness through intervention services like diversion (from housing waiting lists) and light touch case management.
- Offer rental assistance for vulnerable households, prioritizing homeless families, adults, and seniors, as well as severely cost burdened families with young children.
- Support intensive case management for those experiencing chronic homelessness.
- Support social inclusion programs for those reentering housing from homelessness.
- Support basic needs and supportive services to help prevent low-income households from ever experiencing homelessness.
- Support additional services to those experiencing unsheltered homelessness like storage and sanitation facilities.

GOAL 3. PRESERVE EXISTING HOUSING

Bellingham's housing stock is aging. Older buildings requires costly maintenance – such as roofs, electrical, plumbing, weatherization, and lead-based paint stabilization – in order to preserve the unit for continued use.

The owners of the non-profit affordable housing inventory have been successful in attracting private tax credit financing to undertake significant rehabilitation work of their properties, but some financial assistance from the City has been needed. The City should ensure that new projects include strategies to address funding repair and maintenance needs.

Owner-occupied housing is also aging and in need of rehabilitation. Lower interest rates in recent years have allowed more homeowners to refinance existing mortgages to complete needed repairs, which lessened the demand for financial assistance from the City – although this is beginning to change. Senior households can benefit from the assistance the City provides in project scoping, contractor oversight, and deferred loan repayment.

Private rental housing in Bellingham provides non-subsidized housing options. The City should look at opportunities to assist, if possible, private multi-family rental projects that need assistance to meet minimum housing standards, as well as the increased standards required to house those with TBRA or other vouchers. The number of rental properties is significant to meeting the affordable housing needs of the community, and the City should ensure its continued viability.

Mobile or manufactured housing accounts for 5% of the city's owner-occupied housing stock, the majority of which are occupied by low-income households. Older homes require repair, which is difficult to obtain when occupying leased ground in a park.

The City should continue to offer rehabilitation assistance to low-income owner-occupied housing. Preference should be given to the following populations: seniors, disabled, single-parent households, very low-income, and veterans.

Priorities:

- Offer home rehabilitation loans with favorable terms for low income homeowners – especially for those who are elderly or disabled, or for those who will offer elderly or disabled care in adult family homes.
- Support owners of rental housing that offer units to residence who pay some or all of their rent with a voucher or subsidy by pursuing a rehabilitation loan program that offers favorable terms to owners or a damage mitigation fund for owners who rent to these households.

GOAL 4. PROMOTE NEIGHBORHOOD EQUITY

Concentrating any single type of housing in a neighborhood limits economic diversity and housing choice. For families to achieve financial stability and economic independence, they need to have access to good schools and affordable housing, located near their place of work or convenient transportation corridors. In keeping with HUD’s goal to provide affordable housing that is accessible to job opportunities and the City’s strategic commitment to equity and social justice, the City should look for ways to promote affordable housing options within all neighborhoods. This will work toward building more socioeconomically diverse communities, something that is also supported by the City’s Comprehensive Plan. We will also look for opportunities to serve priority special needs populations through community facilities.

Priorities:

- Address community and public infrastructure needs in underserved neighborhoods, and/or for special needs populations.
- Conduct a housing equity audit by neighborhood.
- Diversify urban villages and higher income neighborhoods by adding affordable housing for low income residents in areas where it is lacking.

GOAL 5. COORDINATE EFFECTIVE DELIVERY OF SERVICES

Numerous public, non-profit and private agencies provide housing and other services to low-income persons and households. Applicants, funding agencies and the recipients of housing and services would benefit from greater coordination. The City should work with other agencies and providers to coordinate the funding and delivery of services in order to be more effective and efficient, and work together to foster greater understanding among the public about housing and related issues, and the programs in place to address them.

Priorities:

- Involve partner agencies, tenants, landlords, and the broader community in education and advocacy efforts involving homelessness, fair housing, cost burdened households, and neighborhood equity.
- Coordinate local strategies with partners to assist those experiencing and at risk of homelessness.

- Raise awareness with upstream funding and finance agencies about local needs and priorities.
- Support the coordination and expansion of mobile health and peer health services that serve special needs populations.
- Address the “benefits cliff”: pursue opportunities to ease the transition off housing assistance to encourage more households using assistance to embrace upward mobility.
- Support local economic development: especially job training for those who are exiting homelessness, and microenterprise development.
- Improve disaster preparedness and response efforts, particularly for special needs populations.

PROJECT FUNDING SIGN

All projects receiving funding from the Bellingham Housing Levy shall post a Project Funding Sign at the project construction site(s). Sign graphics shall be in accordance with the Funding Agreement approved by the Mayor and PCD Director, and shall be installed at the commencement of work on the site through project completion and occupancy.

PRODUCTION & PRESERVATION OF HOMES PROGRAM

| Housing Levy Funds | TOTAL 2019-2028 | YEARS 2019-2020 |
|--------------------|-----------------|-----------------|
| Amount | \$22,200,000 | \$4,800,000 |
| Goal | 600 units | 120 units |

The Production and Preservation of Homes Program funds the development and preservation of affordable rental housing in Bellingham, as well as the preservation or rehabilitation of owner-occupied housing.

The following program objectives and policies apply to the Production and Preservation of Homes Program.

PROGRAM OBJECTIVES

The following objectives will guide the Production and Preservation of Homes Program:

- Provide a mix of affordable rental housing, consistent with Levy affordability policies, 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.
- Promote cost-effective sustainable design, construction, rehabilitation, and operations of affordable housing.
- Promote the development of housing that is sited in already urbanized areas and close to basic services.
- Promote the development and preservation of housing that is designed to serve special needs populations experiencing a lack of appropriate housing and services.
- Promote the development and preservation of housing that is energy efficient, resulting in the reduction of resources and costs to low-income households.
- 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 transit, giving low-income residents access to transportation, services and economic opportunity.
- Promote the preservation of owner-occupied housing, allowing seniors to age in place and the disabled to improve mobility and accessibility.

PROGRAM POLICIES

I. Housing Levy Affordability Requirements

I.A. Program Funding Allocation

Housing Levy funds for the Program are subject to the following affordability policy:

- At least 67% of funds shall be used for housing serving households with incomes at or below 50% of median income;
- The balance of funds shall be used for housing serving households with incomes below 80% of median income.

Program funding allocation based on affordability is applied Levy-wide during the term of this A & F Plan, not on a project-by-project basis, or yearly basis. All Levy Production and Preservation of Homes Program funding awarded during the term of this A & F Plan will be included in calculating the affordability policy performance. Annual reporting of funds awarded and implemented will be used to monitor performance with this funding allocation requirement.

I.B. Consistency with City Housing Policies

Projects must comply with the following requirements in the City’s Consolidated Plan: relocation, displacement, real property acquisition, fair housing, housing property standards and affirmative marketing.

I.C. Period of Affordability

Rental housing production projects require a minimum period of affordability of fifty (50) years from the date of project completion. Multifamily and shelter housing preservation projects must comply with HOME Investment Partnership affordability periods; owner-occupied housing rehabilitation projects require affordability through the current owner, subject to the City's recapture of loan proceeds and interest, as applicable.

II. Eligible and Ineligible Activities and Costs

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

II.A. Eligible costs

Eligible costs include, but are not limited to:

- Appraisals
- Architectural/engineering/environmental/geotechnical fees
- Capitalized Operating Reserves
- Capitalized Replacement Reserves
- Closing costs
- Construction, including sales tax
- Contingency (budget only, must be supported by eligible costs)
- Developer and Public Funder fees
- Inspections & Surveys
- Insurance
- Interest
- Option costs
- Permits
- Reimbursement of authorized pre-development costs*
- Professional Fees
- Environmental Assessment
- Financing fees
- Hazardous materials abatement
- Purchase price
- Relocation
- Title insurance
- Project Funding Sign

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

II.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

Examples of where program funds cannot be used include:

- Lawns or landscaping, except as needed to repair grounds following construction or rehabilitation
- Fireplaces and/or wood stoves
- Furniture
- Detached greenhouses
- Central vacuum systems
- Hot tubs or spas
- Portable appliances
- Housing located more than ½ mile from a public transportation route

II.C. Non-residential portions of mixed-income or mixed-use developments

Program funds can be used for projects that combine affordable rental housing with market-rate units and/or commercial spaces. However, costs associated with market-rate units or commercial spaces are not eligible for Program funding.

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 project, the PCD Director or designee 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, PCD 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-Rental Housing Program funds for such spaces.

II.D. Leases

Site control through 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. Exceptions that meet the intent of the program would be preservation of manufactured housing on leased land.

Projects involving a borrower that is a lessee where the lessor and lessee do not both accept these terms and conditions will be permitted under the following conditions:

1. Loans should be structured to provide for repayment over the life of the lease.
2. Where leases might be less than one year in length, e.g. manufactured home parks, then loans should not exceed \$9,000 unless the lessee (fee interest) agrees to loan conditions and security.

II.E. Replacement housing obligations

Program funds shall not be used to finance development of replacement housing developed as a condition to any land use, zoning or other regulatory requirement.

III. Financing Methods

The following are eligible methods of financing for Program funds.

III.A. Acquisition and bridge loans as described in Acquisition & Opportunity Loan program section of this A & F Plan.

III.B. Loans as described in Section VII, Loan Conditions.

III.C. Supplemental funding for projects previously funded by the City

The City may provide financing to meet the capital needs of existing City-funded projects that meet at least two of the following criteria: a) the property has a critical capital need or code violation that cannot be addressed through the property's cash flow, reserves or other available resources, b) no other funding is available within the time frame required for the project, c) a public benefit will be realized as a result of the additional City funds, and d) the Borrower will make a significant financial contribution. All such financing is dependent upon the borrower's ability to meet the goals and requirements of the program and demonstrate a plan for capable management and fiscal operations of the property. Such funds may be provided as shorter-term loans or added to existing long-term City loans, as the City may determine based on the circumstances of the project.

In cases where the City has determined a project eligible for supplemental funding, original loan terms and conditions may be changed to the terms and conditions applicable at the time of refinancing.

III.D. 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 City. The City 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.

III.E. Conduit financing

To take advantage of opportunities to respond to requirements of particular projects, the City may provide Levy 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 the City's regulatory terms and must provide a deed of trust for the benefit of the City or assigned to the City.

PROJECT REQUIREMENTS

IV. Project Requirements

IV.A. Eligible Borrowers

Through the City selection process, priority will be given to applicants that have demonstrated ability to develop, own, and/or manage affordable housing. Applicants that do not have previous experience in these areas will be expected to propose an appropriate relationship with an entity that does have this experience. The City will evaluate the experience of an applicant's development team, management team, Executive Director, staff, and Board of Directors to determine there is sufficient capacity to develop, own and operate housing on a long-term basis.

Eligible borrowers are:

1. **Nonprofit agencies:** Eligible nonprofits must have a charitable purpose. The City's preference is to provide funding to nonprofit borrowers that have established housing as a primary mission. 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 the City.
3. Public Development Authorities.
4. Bellingham Housing Authority (BHA).
5. **Private for-profit firms:** Eligible for-profits must have experience developing, owning, and managing multifamily rental housing. Private for-profit firms can include partnerships

between one or more firms, such as a building contractor and a property manager. Private for-profit firms may also partner with nonprofit or public agencies as needed to provide sufficient capacity to develop, own and operate housing on a long-term basis.

6. Homeowners. Low-income homeowners where projects are managed and overseen through a housing and/or weatherization program operated by the City of Bellingham, Opportunity Council or Habitat for Humanity, or other program as approved by the PCD Director.

IV.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 represent a competitive market price.
2. Design must clearly promote efficient use of space and utilities.
3. Per-square foot and per-unit costs should 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.

IV.C. Maximizing production and preservation

The City strives to leverage non-City resources for capital, operating, and supportive services to the greatest extent possible. The City works collaboratively with other funders of affordable housing including, but not limited to: the Washington State Housing Trust Fund, Whatcom County's Health Department, the Washington State Housing Finance Commission, equity syndicators and investors, and private lenders. The Planning and Community Development Department 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 affordability requirements for the Housing Levy and other housing fund sources.

Levy funds should not be used to replace housing for 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 low-income housing units.

IV.D. Leveraging and maximum percentage of capital funds (rental development projects)

For purposes of this section, "project" is defined as those housing units that are City funded and rent-regulated and the common areas to the extent they serve those housing units. In general, the City will provide a maximum of 40% of total development costs (TDC) of a rental

development project. Funds are awarded competitively, and the actual City percentage is generally no more than 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 Housing Levy funds and other City capital funds including, but not limited to: Housing Levy, Community Development Block Grant, HOME, and Multifamily Tax Exemption. The City's maximum percentage of project financing also includes document recording fees awarded by Whatcom County. Bridge loans, Acquisition & Opportunity Loans and Section 108 loans are not included in computing the percentage.

The PCD Director may allow for exceptions to the residential TDC limit paid by City funds if and only if projects 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 are unlikely to invest or have made their maximum award, and the project is a housing priority as described in this A & F Plan or the City's Consolidated Plan.

V. Construction Requirements

The City strives to ensure fair contracting methods and competitive pricing in the construction of affordable housing. Borrowers shall meet the following minimum construction requirements. The City reserves the right to review and approve all bid documents. Borrowers remain responsible for the compliance of all documents, plans and procedures with all applicable laws, regulations, codes, contracts and funding requirements.

V.A. Competitive selection of contractors

Borrowers must competitively select their contractors. Borrowers must propose a competitive process. The borrower shall submit a summary of their proposed competitive selection process. The City reserves the right to review and approve the process prior to implementation.

V.B. Contracting types & 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 to the City in their applications. The City reserves the right to review and approve contract type and construction delivery methods. The

construction contract with the general contractor and any amendments to the contract shall also be submitted to the City prior to execution.

V.C. Construction management

If applicants do not have sufficient in-house construction management capacity, they will be required to contract for this service. Applicants proposing to manage their own construction projects must demonstrate capacity to the City. Such applicants 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 agency's construction management experience and staff expertise.

V.D. Wages

State Residential Prevailing Wage Rates shall be the minimum rates applicable to all projects funded by the Production and Preservation of Homes Program, unless a higher minimum rate applies or an exception is made concurrent with a determination of non-requirement by the Washington State Department of Labor and Industries or as allowed in this paragraph. When federal funds trigger prevailing wages determined under the Davis-Bacon Act in a project, 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 PCD 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 Levy-funded units in mixed income and/or mixed-use buildings. In cases where Davis Bacon wages are triggered, Davis Bacon monitoring procedures are followed instead of City monitoring procedures.

V.E. Apprenticeship programs

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

V.F. Project labor agreements

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

V.G. Washington State Evergreen Sustainability requirements

All City-funded Production and Preservation of Homes Program projects must follow the Washington State requirements for Evergreen Sustainable Development Standards, where applicable. Details are available through the Washington State Department of Commerce (<http://www.commerce.wa.gov/Programs/housing/TrustFund/Pages/EvergreenSustainableDevelopment.aspx>).

VI. Project Selection

VI.A. Notice of Funds Available

At least once per year, the City will issue a Notice of Funds Available (NOFA) for the Production and Preservation of Homes Program. The NOFA will provide application requirements, details on specific fund sources available, application forms, and deadlines. Minor deficiencies and clarifications may be corrected during the review process. Incomplete applications will be withdrawn from competition. The City may directly allocate funds to programs that provide rehabilitation and/or weatherization of owner-occupied homes for low-income owners.

VI.B. Application components

At a minimum, applications must contain the following:

1. Project description: location, number of units, rent levels, need, and special characteristics.
2. 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, household size, estimate and source of tenant income.
4. Evidence of site control: In addition to fee simple ownership, an option to purchase, an earnest money agreement, a lease (or option to lease) with a minimum term of 50 years, will constitute site control. The City 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 City loan or if there is adequate provision for the applicant to discharge the underlying contract and obtain fee title. The City may solicit proposals and reserve funding for projects prior to site control, but evidence of site control must be established prior to City funding of any activities. Exceptions to this paragraph may be granted by the PCD Director on a case-by-case basis for small predevelopment commitments only.
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.
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 Planning and Community Development Department;
7. Project schedule
8. Zoning: Zoning must permit 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 consultation — description of results of community notification process and any results at time of application and plans for additional notification activities. Proposal must describe how community issues or concerns raised will be addressed.
15. Consistency with Consolidated Plan and Plan to End Homelessness — demonstration for how the project meets the needs, priorities, goals, strategies and outcomes in the Bellingham Consolidated Plan, and if applicable, the Whatcom County Plan to End Homelessness.

VI.C. Proposal review

Funding applications are reviewed and evaluated in detail by PCD staff based on the requirements listed in this section and additional criteria published in the NOFA. PCD 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 all projects have been evaluated, staff makes funding recommendations in the following order:

1. Community Development Advisory Board (CDAB). CDAB will review the merits of the proposed projects, whether the project meets the priorities, goals and strategies of the City's Consolidated Plan, this A & F Plan and the NOFA, and the overall mix of projects funded by the City.
2. Loan Review Board. This Board serves as advisors with expertise in affordable housing financing. The Loan Review Board will review the financing proposed for the projects, including the capital funds and operating budget. The Loan Review Board will review the funding terms requested, and determine whether they are reasonable and necessary to complete the project.
3. Mayor. The Mayor will consider the recommendations of CDAB and the Loan Review Board, award projects for funding, and enter or authorize contracts or agreements to be executed as needed. Results are reported to the City Council, Community Development Advisory Board and made public.

VI.D. Fund reservation

The PCD Director reserves funds for each project selected by the Mayor after the applicant 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 negotiated and signed by both the Mayor and the owner.

After fund reservations are announced, 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; or failure to the applicant to agree to loan conditions. If a project continues to be eligible for City funding throughout the development process, the City 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 Mayor may also 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.

LOAN CONDITIONS

VII. Loan Conditions

All financing under the Production and Preservation of Homes Program is made available as a loan, secured by the property unless otherwise allowed herein. Loan conditions are meant to promote and encourage long-term use of properties for low- income housing. The City may deviate from the loan terms and conditions contained in this Plan in the following cases:

1. For tax credit entities, where such loan terms may impair the availability of tax benefits; or
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 grants.

VII.A. Loan terms

Loan terms will vary based on the financial needs of the project. The City may authorize deferred payment loans for those projects with inadequate sources to repay the loans. Deferred payment loans shall still be secured in a manner to ensure that if the project no longer provides the benefits of affordable housing as approved by the City, that the loan (with interest) would become due and payable.

Permanent loan terms will be a maximum of 50 years, unless the loan terms are deferred with a covenant ensuring ongoing housing affordability. The City 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.

VII.B. Interest rate

The interest rate for projects not using low-income housing tax credits will generally be 1% for nonprofit-sponsored projects and 3% for private for-profit-sponsored projects. 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 on the project's projected capacity for repayment. The actual interest rate for projects using low-income housing tax credits will generally range from 1-3% 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. The purpose of establishing a range for the interest rate on Production and Preservation of Homes Program funds is to provide flexibility in financial structuring to maximize tax credit equity contributions and to help preserve long-term affordability. Interest on program loans will accrue annually as simple interest.

VII.C. Repayment

The City 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 will be required if project budgets can afford repayment and meet required rent levels. Terms of repayment required will be established as each project is reviewed. The City will develop policies to address replacement reserve levels in buildings that have been funded with Levy Production and Preservation of Homes Program funds.

VII.D. Transfer and assumption

The PCD Director 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, 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.

VII.E. Refinancing of private debt

The City 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. The City shall review the proposed new financing terms; proposed transaction costs; a capital needs assessment; and the adequacy of reserve accounts. The City may define additional submittal requirements.

VII.F. Covenant

A covenant will be recorded against the property that requires continued use of the property for low-income housing for the Period of Affordability as outlined in Section I.C. above, 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.

VII.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 the City determines that it is not feasible or appropriate, the City may allow for a population of a specific income to be served.

VII.H. Contingent interest

City participation in project equity (contingent interest) shall be required for all Production and Preservation of Homes Program projects 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 the City.

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).

VII.I. Prepayment premium

Prepayment of loans under the Production and Preservation of Homes Program will be subject to City 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, except as outlined below.

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. Prepayment premiums shall not be due where prepayment occurs after the end of the Period of Affordability as outlined in I.C. above, or for owner-occupied housing preservation projects.

VII.J. Loan term extension

Any unpaid principal balance and accrued, but unpaid interest on City loans will be due and payable at the end of the 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 City requirements.

VII.K. Debt satisfaction through extended affordability

As an inducement to serve extremely low-income households, the PCD Director 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 City 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 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 PCD 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.

VII.L. Use of funds owing to the City

Sale of projects during the loan term requires City consent. Loan payments to the City will be deposited in the Low-Income Housing Fund. Payments will be reallocated by the City to low-income housing projects according to priorities established in the current Administrative and Financial Plan or appropriate City policy plans as determined by the City.

VII.M. Non-recourse

Loans shall generally 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 PCD Director to justify recourse against the borrower. The City may require recourse to the borrower or a guarantor for a specific amount of time or until certain conditions are satisfied when the City's security in the property may be inadequate.

VIII. Management and Operations

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

VIII.A. Management plan

Management plans should include the following:

1. Occupancy standard (# of persons per unit) that is consistent with Federal, State or 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 and protected classes. Borrowers serving homeless and diverse populations 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. Management of tenant files and records

- d. Work order and repair process
 - e. Unit turnaround: filling vacancies
 - f. Building security and emergency plan
 - g. 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.

VIII.B. Tenant income and rent requirements

Housing units funded by the Production and Preservation of Homes Program are restricted to tenants whose income does not exceed 80% of median income. In most cases, rental housing units are 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 existing, occupied project is acquired or rehabilitated with Production and Preservation of Homes Program funds, the City may waive the unit affordability restrictions for existing over-income tenants for up to two years of the date of the agreement between the City and the borrower. However, the City may require as a funding condition that units occupied by such tenants will be rent-regulated under a City Regulatory Agreement when occupancy changes. In such cases, the regulatory term would be established for a fifty- two year period. After the end of the initial two-year period, over-income tenants must be relocated.

The City will use the Washington State Housing Finance Commission schedule of maximum rents and income level served for Whatcom County, available on its website at <http://www.wshfc.org/limits/map.asp>. If the project includes federal HOME funds, then those units must follow HOME income and rent restrictions which may differ slightly.

VIII.C. Rent increases

Housing levy units must be rented to income-qualified households as set forth in the regulatory agreements *and* the rent on the unit must be restricted to ensure affordability. If rent limits rise, the rent may be increased depending on the terms of the lease and/or applicable landlord-tenant law. The City may provide an allowance for a borrower to raise rents above rent limits for projects that have experienced extraordinary expenses so long as the higher rent remains consistent with the applicable affordability restrictions.

Tenants who are income-eligible at the time of their initial occupancy or the time of City funding, whichever is later, are not generally required to be relocated when their incomes exceed the restrictions of their unit. 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 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 at the following year's income certification, regardless of the maximum restricted rent. Upon unit turnover, rents may be adjusted to the maximum allowable rent based on number of bedrooms and affordability level.

All rent increases are subject to other funder restrictions, and State and local law. If the project includes federal HOME funds, then those units must follow HOME rent restrictions which may differ slightly.

VIII.D. Floating units

The City 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.

VIII.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 the City concerning alternatives.

IX. Project Monitoring

Borrowers must report annually on the status of their projects each year by March 1st, or on an alternative date upon reasonable advance notice. The City 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.

The City ensures quality management of the City's investment by evaluating the following: (Project- specific requirements will be included in loan documents.)

1. Sound borrower fiscal health: The project borrower and its managing member when applicable are in sound fiscal health.
2. Management Plan: The project is operated according to the agency's original or amended management plan.
3. Affordability: borrower must be in compliance with affordability requirements including tenant income determinations and rent levels.

4. Affirmative marketing and nondiscrimination: The housing is being 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 is maintained in good and tenantable condition and repair that ensures safe, secure and sanitary conditions. The property must comply with the Bellingham 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. 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.

The City will provide a performance letter each year to all borrowers specific to their projects that have at least one full year of operation. The performance letter will summarize the City's review of compliance and performance in the areas described above, and identify any findings or concerns that require action by the borrower, including a timeline for response. Borrowers are expected to respond and resolve outstanding issues in order to maintain good standing on their City loans. Failure to satisfy the requirements outlined in the performance letter may result in a determination by the PCD Director that the borrower is not in good standing and affect future City funding awards.

RENTAL ASSISTANCE AND SUPPORTIVE SERVICES PROGRAM

| | TOTAL 2019-2028 | YEARS 2019-2020 |
|-----------------|------------------|-----------------|
| Program funding | \$13,600,000 | \$2,360,000 |
| Goal | 3,000 households | 600 households |

The Rental Assistance and Supportive Services Program serves vulnerable families and individuals who are experiencing homelessness or at imminent risk of homelessness.

The first priority of this program is to provide the necessary supportive services and rental assistance for the housing units produced by the Levy. In order to achieve housing stability, particularly for the chronically homeless, specialized housing with integrated supportive services is known to be more successful in reducing return to homelessness.

Supportive services might include intensive housing case management, primary and behavioral health care services integrated with housing assistance services, and/or assistance diverting households from the housing pool waiting list through light touch case management. Integration of these supportive services with specific new housing units will help ensure success with ending chronic homelessness. Rental assistance for the housing units produced by this levy may include: rental subsidies, security and/or utility deposits, and move in costs.

Housing projects proposed for funding under this Levy are expected to integrate their request for rental assistance and supportive services funding into their project proposal. This integration is an essential part of ensuring success in new housing projects, both financially and operationally. The City may make a multi-year commitment to assist a project with rental subsidies and supportive services to ensure success.

The Rental Assistance and Supportive Services Program funds may also be used to provide housing stabilization services in the form of financial assistance to homeless people not within housing units produced by this Levy and for those most at risk of homelessness. Financial assistance may include: rent assistance, security and/or utility deposits, move in costs, and rental and utility arrears. Housing stabilization support services (case management) include: landlord negotiations, financial and tenancy skills, housing search and placement, and referrals to mainstream benefits and to resources such as utility assistance. A case manager assessment is required to determine the level of need and assistance required to maintain or obtain permanent housing for people at imminent risk of homelessness.

This rental assistance program is structured to be flexible to meet the different financial and service needs of the homeless and those at risk of homelessness. Any funds used for homeless prevention assistance will practice a targeted prevention approach that employs a standardized risk assessment. This is consistent with current best practices and local experience that point to the need for a more holistic and flexible approach to reducing and ending homelessness.

PROGRAM OBJECTIVES

Consistent with the goals and strategies of the Ten-Year Plan to End Homelessness in Whatcom County, the Rental Assistance and Supportive Services Program focuses resources to immediately house those who experience homelessness and/or prevent homelessness. Program activity and performance (housing stability evaluation after 6 months) will be monitored with Whatcom County's Homelessness Management Information System.

Program objectives are based on the strategies to end homelessness identified in the Whatcom County Plan to End Homelessness and the Consolidated Plan. A priority is to sustain the existing coordinated point of entry into homeless housing and prevention services, and to:

1. *Move people who are homeless rapidly into permanent housing whenever possible.*
2. *Provide permanent supportive housing designed to meet the long term needs of homeless individuals and families who have been chronically homeless using the housing first approach.*
3. *Increase the supply of affordable housing units.*
4. *Prevent individuals and families from becoming homeless.*
5. *Provide interim housing and supportive services for those who are temporarily homeless and waiting for permanent housing.*
6. *Increase economic security and reduce financial vulnerability.*
7. *Provide and strengthen collaborative leadership and partnerships at all levels of government and across all sectors, organized around preventing and ending homelessness.*
8. *Develop and/or improve systems to support efficient and effective plan implementation.*
9. *Support emergency shelter(s).*

A. Eligible households

To be eligible to apply for Rental Assistance and Supportive Services Program funds, households must meet all the following requirements:

- reside in Bellingham City limits
- 50% of area median income or below
- homeless or at risk of homelessness
- inadequate financial resources to maintain stable housing

B. Eligible use of funds

Financial assistance is available for:

- Case management services or operational staff for security associated with homeless housing projects
- Rent payments
- Move in costs (background check fees, first and last month's rent)
- Security and/or utility deposits
- Limited rent or utility arrears needed to obtain or retain secure, stable housing
- Reasonable administrative costs to agencies that provide case management services and/or financial assistance

C. Program requirements

Levy funds will be administered by contractors, selected via a competitive process. Priority will be given to those activities that demonstrate ability to do the following:

- Provide long-term housing stability
- Provide decent, safe and sanitary housing consistent with the city's housing property standards adopted under the HOME Investment Partnerships Program
- Support diversion from homelessness through rapid rehousing with supportive services
- Provide case management services for people who have been homeless and are placed in City-funded permanent supportive housing
- Monitor housing stability outcomes for participants 6 months after all program assistance has ended
- Enter data directly into the region's Homelessness Management Information System

Levy funds may also be used to provide interim housing and supportive services for those who are temporarily homeless and waiting for permanent housing.

D. Leveraging and maximum percentage of program funds

For purposes of this section, "program" is defined as those housing services that are City funded and income-regulated. In general, the City will provide a maximum of 25% of total program costs, through competitively-awarded funds. Total program costs are all components of typical

program budgets, including administrative costs, program staffing and professional services, transportation, supplies and other costs. The City's maximum percentage includes all Housing Levy funds and other City funds including, but not limited to: Housing Levy, Community Development Block Grant, and General Funds.

The PCD Director may allow for exceptions to the limit on City funds if and only if projects meet one or more of the following criteria:

- Programs that are a priority as described in this A & F Plan or the City's Consolidated Plan, and where other funders are unlikely to invest or have made their maximum award.
- Programs targeted to underserved populations as described in the City's Consolidated Plan, or documented through a more current needs assessment.
- New programs in the startup or early years of implementation where other funding is likely to bring additional leverage over time.

HOMEBUYER PROGRAM

| | TOTAL 2019-2028 | YEARS 2019-20 |
|-----------------|-----------------|---------------|
| Program funding | \$1,800,000 | \$360,000 |
| Goal | 55 homebuyers | 11 homebuyers |

Levy Homebuyer Program funds assist low-income homebuyers purchase homes in the City of Bellingham. Levy funding can be used for direct homebuyer assistance, or for site acquisition and development costs for affordable for-sale homes that will be sold to eligible first-time homebuyers, displaced homemakers and homeowners in default or distress.

PROGRAM OBJECTIVES

The Homebuyer Program is intended to provide an ongoing resource to enable low-income households to purchase a home in Bellingham. Homeownership provides housing stability, independence, and an opportunity for economic advancement. The homeowner takes on the responsibilities of repaying loans and maintaining property, and in return gains an economic resource that can help the family invest in education, weather financial crises, and pass on wealth to succeeding generations. Providing homebuyer assistance benefits the entire city by enabling people with moderate wages to live close to their workplace and to contribute to the vitality of local community life.

The following general program objectives guide the Homebuyer Program:

- Assist homebuyers to acquire their home 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 value so they can purchase other housing when the household's needs change.
- Create an on-going resource to assist future low-income 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 programs that achieve long-term affordability through restrictions on resale, which may include community land trusts, limited equity co-ops, co-housing, repurchase options held by nonprofit organizations, and lease-purchase arrangements with homes on leased land.

- Combine with other sources of homebuyer and housing rehabilitation assistance funds (e.g. Washington State Housing Finance Commission, State Housing Trust Fund, Federal Home Loan Bank, CDBG, HOME, etc.) to leverage the available Levy dollars.
- Use existing service delivery systems for lending activities.
- Promote pre-purchase homebuyer education as a best practice by requiring households using City of Bellingham homebuyer assistance to complete a pre-purchase homebuyer education program sponsored by the Washington State Housing Finance Commission, U.S. Department of Housing and Urban Development, or other education program for first-time buyers approved by the City.

PROGRAM POLICIES

A. Funding allocation policy

All funds will assist homebuyers with incomes at or below 80% of area median income and be located within the City of Bellingham. Homebuyers must contribute no less than 25% of their income towards mortgage costs or 30% of their income to all housing costs, including taxes, insurance, utilities, fees, etc.

B. Eligible use of funds

Levy funds may only be used for (1) subordinate mortgages to assist eligible homebuyers, (2) site acquisition and/or development costs for a home or homes to be sold to eligible buyers, or (3) loans or recoverable grants to nonprofit entities to assist eligible homebuyers purchase resale-restricted homes.

Eligible buyer households must purchase a home in Bellingham and use it as their principal residence. 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. Purchases of investment properties 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 any type of residential property, whether currently owner- or renter-occupied or vacant. If tenants are displaced as a result of a sale to a buyer who will become an owner-occupant under this program, tenant relocation assistance is required if the tenant was low-income.¹ Relocation assistance is not an eligible use of Levy funds.

¹ If federal funds are used, acquisition and relocation must follow federal requirements, which does not limit relocation assistance to only low-income tenants.

All homes assisted under this program must meet Housing Property Standards adopted by the City to ensure decent, safe and sanitary housing. Property Standards can also be set to ensure energy efficiency of the homes. Homebuyer assistance may be used in conjunction with other City funds, including Housing Preservation funds, to meet Housing Property and/or energy efficiency standards.

C. Ineligible use of funds

Levy funds may not be used for the following activities:

- Housing located outside the City of Bellingham
- New housing construction located more than ½ mile from a public transportation route
- Payment of relocation assistance
- Moving costs

D. Homebuyer eligibility

Households benefited by the program must have gross incomes at or below 80% of area median income but greater than 50% of area median income, adjusted for household size. The PCD Director may waive the minimum requirement of 50% AMI if the homebuyer demonstrates adequate equity and financial reserves to address potential future income reductions and major housing maintenance requirements.

"Homebuyer" is defined as any individual, or individual and his or her spouse/partner who currently do not own a home prior to the household's purchase of the home. The term homebuyer also includes an individual who is a displaced homemaker, distressed household, or single parent, as defined in 24 CFR Part 92 HOME Investment Partnership Program, Section 92.2 Definitions, as follows:

Displaced homemaker means an individual who:

1. Is an adult;
2. Has not worked full-time full-year in the labor force for a number of years but has, during such years, worked primarily without remuneration to care for the home and family; and
3. Is unemployed or underemployed and is experiencing difficulty in obtaining or upgrading employment.

Distressed household means:

1. Is an adult;
2. Currently owns a home within the City of Bellingham;
3. Currently is in default with their lender; and
4. Is eligible for loan modification and/or refinance with additional funds to make the home affordable.

Single parent means an individual who:

1. Is unmarried or legally separated from a spouse; and
2. Has one or more minor children of whom the individual has custody or joint custody, or is pregnant.

The City may expand the definition of “homebuyer” in order to ensure equitable treatment between married and non-married persons, or to offer the opportunity to allow existing homeowners to convert their homes into permanent affordability through a Community Land Trust. The City may also expand the “single parent” eligibility category.

Eligible buyer households must successfully complete a pre-purchase homebuyer education program approved by the City. Borrowers must be able to financially qualify for a first mortgage approved by the City.

E. Homebuyer funding guidelines

Homebuyer assistance will be limited to the amount needed for each buyer household, providing gap financing for low-income borrowers unable to qualify for sufficient private financing to purchase a home.

Non-resale restricted homes: Eligible buyers purchasing non-resale restricted homes may receive homebuyer assistance up to a maximum of \$30,000 per assisted household, including Levy funds and other City-administered funds. The price of homes purchased can be no greater than the median sales price of housing within the City of Bellingham. All non-resale restricted homes are available only as loans with shared appreciation of any resale proceeds as set forth in the loan documents.

Resale restricted homes: Homebuyers purchasing properties subject to resale restrictions may receive homebuyer assistance up to a maximum of \$40,000 per assisted household, including levy funds and other City-administered funds. To be eligible for this level of assistance, the resale of the home must be restricted to homebuyers for a period of at least 50 years and the resale price must be restricted to an amount affordable to a buyer at 80% of area median income. Resale restrictions must be in the form of a ground lease, covenant, or other recorded document approved by the City. The price of homes purchased can be no greater than the median sales price of housing within the City of Bellingham, unless otherwise excepted for the resale incentive program outlined below.

General Guidelines:

Homebuyer assistance may be used for first or subordinate mortgages, closing costs, and/or first mortgage loan interest rate write down, as approved by the City.

Funding assistance for all non-resale restricted homes is available through loans. Loans will generally be 30-year deferred loans. Loans may include provisions for payment of a share of appreciation. Any share of appreciation payable may be reduced and/or eliminated over time. 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.

Funding assistance for resale restricted homes is available as either a loan or a recoverable grant. A recoverable grant may be provided to a qualified nonprofit housing provider that will enforce resale restrictions to qualified low-income households through ground lease, covenant, or other recorded document approved by the City. Recoverable grants may include provisions for payment of a share of appreciation. Any share of appreciation payable may be reduced and/or eliminated over time. Recoverable grant repayment terms shall specify the interest rate, which generally shall not exceed 3% simple interest; term; period of payment deferral; and any contingent interest or share of appreciation.

Eligible buyers must provide a minimum of \$2,500 or 1% of the purchase price, whichever is greater, of their own funds toward the home purchase as a condition to any homebuyer assistance loan. Homebuyers may receive gifts of funds towards their portion of the downpayment; however, gifts must not exceed 25% of the homebuyer's total downpayment requirement. Borrowers with incomes 60% of median income or less may provide a lower contribution as follows: (1) for eligible buyers participating in a City-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 downpayment requirement.

The terms of each homebuyer assistance loan, except loans or grants to community land trusts, shall provide that the entire principal balance is due upon sale or refinancing of the home, at the lender's option, to the extent permitted by applicable law. However, the City may permit assumption of the loan by another eligible buyer household in lieu of repayment.

Borrowers may use any first mortgage product approved by the City, 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.

ACQUISITION & OPPORTUNITY AND BRIDGE LOANS

Acquisition & Opportunity (A & O) Loans are made with Housing Levy funds that are not yet needed for other levy programs. Rather than dedicate funding to the program, Acquisition and Opportunity loans can be delivered by using unspent funds allocated to other programs. The total value of A & O funding loaned at any given time will not exceed 10% of the overall levy budget. These loans are intended as only short-term uses of other program funds, and repayments are included in the amounts shown available for other levy programs.

Bridge Loans

The City may use any funds derived from the Housing Levy, alone or together with other funds, to make bridge loans to assist in the development of low-income housing. Housing projects consistent with the objectives and priorities of the Levy Production and Preservation of Homes and Homebuyer Programs are eligible for bridge loans. The City may also access funds to help secure strategic sites in partnership with agencies who are planning a viable affordable housing development.

PROGRAM OBJECTIVES

A & O Loans are intended to provide short-term funding to permit strategic acquisition of sites for low-income housing development. These loans are expected to be repaid with permanent project financing, which may be from either City or non-City funding sources. Loans are intended to facilitate development of rental or homeownership housing consistent with the objectives and priorities of the Levy Production and Preservation of Homes and Homebuyer programs. The Planning and Community Development Department is encouraged to work with other funder organizations to implement the A & O Loan program.

PROGRAM PRIORITIES

The City will give priority when selecting projects to receive A & O Loans to proposals that meet the following criteria:

- The applicant demonstrates that the project takes advantage of a low acquisition cost, and that short-term acquisition financing is critical to achieving cost savings, and/or
- The project leverages or demonstrates a high likelihood of leveraging significant funding for housing development, operations, and/or services, or project-related

infrastructure investments, which may be lost without the availability of short-term acquisition financing.

In addition, the program will give preference to:

- Projects that produce or preserve low-income housing located in a high-frequency transit service area, and/or
- Projects that develop affordable housing through acquisition and rehabilitation of existing buildings.

PROGRAM POLICIES

The A & O Loans must be used for site acquisition, which includes the acquisition of improved or unimproved property, or both, to assist in the development of low-income rental or homeownership housing. Once completed, the housing development must provide affordable housing consistent with affordability and other guidelines for the Production and Preservation of Homes or Homebuyer Assistance program.

A. Notice of Funds Available

Due to the limited amount of funding available, a Notice of Funds Available (NOFA) for A & O Loans, is not required. Agencies interested in an A & O Loan should contact the City's Planning and Community Development Department to identify whether funds are available. The Mayor has the discretion to award funding subject to the program policies and Levy requirements. A & O Loans may be made only when, in the judgment of the City, there is a high likelihood that permanent financing for eligible low-income housing will be available on acceptable terms before the loan maturity date.

B. Eligible Borrowers

To be eligible for an A & O loan, the borrower must meet all eligibility requirements for the City Production and Preservation of Homes or Homebuyer program, as applicable. In addition, the borrower must have successfully developed and operated at least three affordable housing projects; be in good standing on any City loans; and have demonstrated capacity to secure permanent financing for the proposed project before the loan maturity date.

C. Loan Rate and Term

- The interest rate on A & O Loans shall be no less than 1% simple interest. Accrued interest shall be paid in full when the loan is repaid.
- The maximum term of an A & O Loan shall be 5 years.

PROGRAM DEFINITIONS

In general, the following terms shall have the following meanings unless the context otherwise clearly suggests a different meaning:

"Affordable rent" means annual rent and tenant-paid utilities on an affordable unit cannot exceed 30 percent of the imputed limit under which the household would qualify. Rents are based upon the number of bedrooms in the unit and an assumption of 1.5 persons per bedroom, regardless of the number of persons renting the unit. Rents are based on the income level committed to the affordable unit and are not calculated on the actual income of the household. The City updates rent schedules annually based on changes to the Area Median Income (AMI) as determined by HUD.

Example: An affordable unit is designed to serve households at or below 50% AMI. A prospective tenant's anticipated income is 45% AMI. The maximum rent charged for the tenant's unit is based on 50% AMI, the targeted income level. This ensures the project owner that rental income will be stable and not change with the income of each new tenant.

While an Owner may charge rents lower than the maximum allowed, actual rents, including utility allowances, can never exceed the maximum allowed Affordable Rent.

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

"Extremely low-income household" means a household with income less than or equal to 30 percent of median income.

"Homebuyer" is defined as any individual, or individual and his or her spouse/partner who currently do not own a home within the City of Bellingham prior to the household's purchase of the home. The term homebuyer also includes an individual who is a displaced homemaker, distressed household, or single parent, as defined in 24 CFR Part 92 HOME Investment Partnership Program, Section 92.2 Definitions, as follows:

Displaced homemaker means an individual who:

4. Is an adult;
5. Has not worked full-time full-year in the labor force for a number of years but has, during such years, worked primarily without remuneration to care for the home and family; and
6. Is unemployed or underemployed and is experiencing difficulty in obtaining or upgrading employment.

Distressed household means:

5. Is an adult;
6. Currently owns a home within the City of Bellingham;
7. Currently is in default with their lender; and
8. Is eligible for loan modification and/or refinance with additional funds to make the home affordable.

Single parent means an individual who:

3. Is unmarried or legally separated from a spouse; and
4. Has one or more minor children of whom the individual has custody or joint custody, or is pregnant.

"Household" means a single person, family or unrelated persons living together.

"High frequency transit service area" means an area within one-quarter mile of bus, with service characterized by headways of 30 minute or less, during at least 6 days each week. The Planning and Community Development Department will work with the Whatcom Transportation Authority (WTA) to map high frequency transit service areas, and may adjust the definition and map when appropriate to reflect changes in transit service or add locations where transit service is sufficient to serve potential housing residents.

"Income" means household income computed in conformity with requirements of the federal HOME program, unless the PCD Director shall permit another method of computation for a particular project or class of projects. To the extent permitted by applicable State law, income determinations may take into account such exclusions, adjustments and rules of computation as may be prescribed or used under federal housing laws, regulations or policies for purposes of establishing income limits, or as may be established in City housing and community development plan documents consistent with federal laws, regulations or policies.

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

"Low-income household" means a household with income less than or equal to eighty percent (80%) of median income.

"Low-income housing" means housing that will serve "low-income households."

"Median income" means annual median family income for the Bellingham, WA HUD Metro FMR Area, as published from time to time by the U.S. Department of Housing and Urban Development (HUD), 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.

"Very low-income household" means a household with income less than or equal to 50 percent of median income.

The PCD Director may adopt further refinements or interpretations of the above definitions, consistent with the intent of Resolution 2018-09 and Consolidated Plan Housing Policies.