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Amendment 1 Version 1 to CB 121218 - OH Housing Funding Policies and A&F Plan ORD

Sponsor: Councilmember Foster

Provide additional details to the supplemental funding section of the Housing Funding Policies regarding debt restructure stabilization loans and funding adjustments

Effect: The Housing Funding Policies currently contain a section on supplemental funding for projects funded by the Office of Housing. This amendment provides more detail on debt restructure stabilization loans, which OH made in 2025 for the first time as part of their 2025 Notice of Funding Availability awards. It also clarifies that OH may make supplemental funding adjustments to facilitate construction finance closing or conversion from construction to permanent financing and provides discretion to OH as to when to require such funding adjustments to be made administratively versus going through a competitive process.

Amend Chapter II, Section 2.G of Attachment B (Housing Funding Policies) to CB 121218 as follows and renumber subsequent sections as appropriate:

G. Supplemental Funding

For over 30 years the City has been funding affordable housing development with a strategy that included the acquisition of older buildings. As these buildings have aged, OH has encouraged owners to prepare detailed capital needs assessments of their housing portfolio, strengthen replacement reserves, and identify available fund sources for necessary upgrades. City funds may be used to assist with capital improvement projects which will improve living environments for residents, reduce building operating costs, and achieve energy savings. City funds may also be used to improve the financial performance of a building by resizing existing debt. Both types of investment will extend the useful life of the asset, either through improving the physical condition of the building or by improving long-term operations and financial conditions. **Unless otherwise stated in this Section, Rental Housing Program policies will apply.**

i. Notice of Funds Available

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

Consistent with Section D, above, OH will issue a NOFA at least once a year, which will be the primary opportunity for project owners to apply for supplemental funding. **In deciding how to allocate supplemental funding within NOFA availability, OH will prioritize new production of affordable rental developments and balance remaining funds between preservation activities and supplemental funding for debt restructuring based on need in competitive NOFA applications.**

The Director may approve a supplemental funding award outside of the ~~annual regular~~ NOFA process to address emergency or time-sensitive needs where the health and wellbeing of the residents are at risk or to protect the City's collateral. After a project receives its original award, supplemental funding adjustments may also be considered outside of the regular NOFA process to facilitate construction finance closing or conversion from construction financing to permanent loan financing. OH may require that such supplemental funding adjustments go through a competitive NOFA process if the adjustments would exceed \$3 million or 20% of the original award, whichever is less.

ii. Project Selection

Consistent with Section E, above, project owners must demonstrate that they have operated the housing in compliance with their loan and regulatory agreements, and either that they have the ability to complete ~~the-any~~ rehabilitation work and effectively manage the housing or that they propose an appropriate relationship with an entity that will provide the necessary support.

Project sponsors must demonstrate that the ~~housing has capital needs that cannot be addressed through the~~ project's cash flow, reserves, or other available resources are insufficient to cover ongoing operational expenses, including debt service, or to address documented capital needs. OH will give priority to proposals that meet at least one of the following additional criteria:

- Projects that are at or near the end of their existing City loan terms if the owner is considering discontinuation of the project's use as affordable housing, unless the project can be rehabilitated.
- Proposals that present leverage opportunities that would allow a substantial rehabilitation of an existing project.
- Proposals whose scope of work includes items that, in addition to extending the useful life of the building by 20 years or more, will also improve the operational efficiency of the building.
- Proposals that resize existing debt through reasonable investment of additional public funds in a refinance transaction to account for increased interest rates, construction costs, or operating expenses, decreased income, or a balloon payment due within 24 months that put the building at significant immediate risk of foreclosure, sale, or adverse impact to the sponsor's other properties in OH's portfolio.

- Proposals that address elevated vacancy levels (10% or more) by revising market rent assumptions, changing staffing structure, or making other changes that address the underlying reasons for high vacancy.

OH may work with the sponsor of the project regarding the distribution of excess cash flow resulting from supplemental funding, to strategically and equitably balance the needs of the project, the sponsor, and the broader OH portfolio. Supplemental funding is not intended to protect or increase the returns of any other parties, such as lenders and investors. If supplemental funding is needed due to lender, investor, or transaction-related charges, the sponsor must show that those parties have taken proportional steps to reduce the resulting funding gap.