ATTACHMENT B

Notice of Funding Availability (NOFA)
MULTIFAMILY HOUSING PROGRAM (MHP)
2010 FUNDING ROUND 1C-5

May 3, 2010

TIMETABLE FOR MHP APPLICATIONS	
NOFA Issued:	May 3, 2010
Workshops:	See Section E
Application Forms Available (on or about):	May 3, 2010
Applications Due:	July 23, 2010
Loan and Grant Committee Meeting:	November 2010

State of California
Department of Housing and
Community Development

2010 FUNDING ROUND 1C-5
NOTICE OF FUNDING AVAILABILITY
MULTIFAMILY HOUSING PROGRAM
May 3, 2010

Table of Contents

<u>ATTACHMENTS</u>

DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT
DIVISION OF FINANCIAL ASSISTANCE
1800 Third Street, Suite 390
P. O. Box 952054
Sacramento, CA 94252-2054
(916) 322-1560
FAX (916) 327-6660

2010 FUNDING ROUND 1C-5
NOTICE OF FUNDING AVAILABILITY (NOFA)
MULTIFAMILY HOUSING PROGRAM (MHP)
May 3, 2010

Multifamily Housing Program Funding: $35 million
Multifamily Housing Program Homeless Youth Housing Component: $23 million

PROGRAM DESCRIPTION

A. Introduction

The California Department of Housing and Community Development (hereinafter "HCD" or "Department") is announcing the availability of approximately $35 million in funding for the Multifamily Housing Program (MHP) and approximately $23 million for MHP Homeless Youth Housing. Funding for this Notice of Funding Availability (NOFA) is provided under the Housing and Emergency Shelter Trust Fund Act of 2006 (Proposition 1C). The funds awarded under this NOFA will be allocated to projects that are eligible for funding under the following two categories:

1. MHP funds of approximately $35 million are available as permanent financing for affordable multifamily rental and transitional new construction, acquisition/rehabilitation and conversion housing developments.

2. MHP Homeless Youth funds of approximately $23 million are available as permanent financing for projects which include units for homeless youth.

Projects that meet MHP Homeless Youth requirements, including containing at least five units reserved for Homeless Youth, may apply and compete for funding under this MHP NOFA. Projects with units set aside for Homeless Youth as Special Needs units will also be allowed to request elevated loan limits (see Section L) for those units, as well as request the standard MHP General loan award for the affordable non-Homeless Youth units. These applications will be subject to competitive rating and ranking (see Section V).

At this time, the Department does not anticipate releasing a separate NOFA for Homeless Youth funds.

B. Application Packaging and Submittal

Applications must be submitted on forms provided or approved by HCD. Application forms must not be modified. A complete original application, plus one copy, must be received by the Department no later than **5:00 p.m. on Friday, July 23, 2010**. No facsimiles, late applications, incomplete applications, or application revisions will be accepted. Applications must meet all eligibility requirements upon submission. Applications having material internal inconsistencies will not be rated and ranked. HCD expects to issue awards in November 2010.

The Universal Application will be utilized by the MHP under this NOFA. For projects requesting only MHP General funds, the application includes an addendum specific to the requirements of the MHP General program. For projects requesting MHP Homeless Youth funds, the application includes an addendum specific to the requirements of the MHP Homeless Youth Program. Application forms will be available on or about May 3, 2010. In order to receive an application package, please visit HCD's MHP website after this date.

MHP General projects only: www.hcd.ca.gov/fa/mhp/

MHP Homeless Youth: www.hcd.ca.gov/fa/mhp/SupportiveHousing.html

You may also contact MHP Staff at (916) 323-3178. Applications must be delivered to one of the following addresses:

U.S. Mail
Multifamily Housing Program
Department of Housing and Community Development
Division of Financial Assistance
P.O. Box 952054
Sacramento, CA 94252-2054

Private Carrier
Multifamily Housing Program
Department of Housing and Community Development
Division of Financial Assistance
1800 Third Street, Room 460
Sacramento, CA 95811

It is the applicant's responsibility to ensure that the application is clear, complete and accurate. After the application deadline, MHP staff may request clarifying information provided that such information does not affect the competitive rating of the application. No information will be solicited or accepted if this information would result in a competitive advantage to an applicant. No applicant may appeal HCD staff's evaluation of another applicant's application.

C. Program Changes

Significant changes applicable to this MHP NOFA include:

- To encourage the development of new housing units and the preservation of rental housing which is most in need of rehabilitation, the Department will closely scrutinize the scope of work proposed on a project involving rehabilitation to ensure that all major building systems are included in the rehabilitation work and that the post-rehabilitation project will have an expected remaining useful life for the term of the MHP loan. The Department reserves the right to reject applications for Projects with a Development Budget and scope of work which do not qualify as substantial rehabilitation in favor of a Project with substantial rehabilitation needs.

- The Department is offering MHP Homeless Youth funds along with MHP General funds under this MHP NOFA. Information regarding elevated loan limits for Homeless Youth projects is located in Section L. The requirements for Homeless Youth projects are also located in Attachment 2.

- Changes to the point score are located in Section V.

- For purposes of obtaining readiness points for loan commitments with respect to United States Department of Agriculture Rural Development (USDA RD) loans, the Sponsor must submit at a minimum documentation from the USDA RD that a loan application for the project has been received and that the local USDA RD has reviewed the application's eligibility and feasibility and will make an approval recommendation to the national USDA RD office.

- The following italicized clarifying information has been added to the application addenda Item D3: The Sponsor must also receive the majority of the developer fee for the Project, *unless all other partners (except for the investor limited partner) have developed and completed a minimum of three affordable housing developments in the past five years. This same principle will be applied to limited liability companies as well.*

Significant changes applicable to this NOFA carried over from the prior 1C-4 NOFA include:

- Clarifying information on funding sources that may not be counted for increasing Developer Fees, and uses of funds that will be counted toward Developer Fee limits, is located in Section O. The threshold for "Substantial Rehab" work is $32,001 per unit. Meeting the threshold dollar amount alone for substantial rehab may not be sufficient. Rehabilitation projects must fully address the physical needs of the project for the term of the MHP loan.

- Changes were made to the required minimum replacement reserve deposit amounts for rehabilitation projects as shown in the chart below.

Type of Project	Minimum Required Initial Annual Deposit to Replacement Reserve
New Construction or Conversion	0.6% of the structure construction cost, up to $600 per unit (or $500 per unit if the project is receiving permanent financing from CalHFA). "Structure construction cost" does not include construction contingency, general contractor profit, overhead, or general requirements.
Rehabilitation	The deposit amount required will be determined by HCD based on a third-party physical needs assessment (PNA). At time of application, prior to completion of the PNA, HCD will base its underwriting on a preliminary estimate. This preliminary estimate is $515 per unit.

- Beginning with NOFA round 1C-3 issued January 31, 2008, a percentage of MHP funds shall be distributed for senior housing developments. Please refer to Section R for details.

- The Adaptive Reuse/Infill/Proximity to Amenities scoring section of the MHP application addendum has been changed to include priority points for projects which utilize sustainable building methods.

- In an effort to encourage all projects to implement as many environmental friendly options as possible, the MHP application will require a narrative describing how the project will implement and encourage project-based recycling programs.

- The ballot measure for Proposition 1C contains language that indicates that its programs will be serving several identified targeted populations. Most of the identified populations are either targeted by specific programs or easily identified through specific programs by the nature of the facility funded. Accordingly, the Department is requiring grant and loan recipients, for its multifamily programs, obtain this information as part of the tenant application process and to report this statistical information in its annual reporting. Should the Department find that its multifamily programs are inadequately serving these populations it reserves the right to make adjustments to the competitive process as needed.

D. Timetable for NOFA, Applications, Workshops and Award Notification

TIMETABLE FOR MHP APPLICATIONS	
NOFA Issued:	May 3, 2010
Workshops:	See Section E
Application Forms Available (on or about):	May 3, 2010
Applications Due:	July 23, 2010
Loan and Grant Committee Meeting:	November 2010

E. Application Workshops

To assist applicants in preparing their applications, the Department will conduct application workshops (see table, below). The Department may announce additional web-based workshops at a later date. During the workshops, the Department will review the "Universal Application" which is common to the MHP, other Department programs, the California Housing Finance Agency (CalHFA), and the California Tax Credit Allocation Committee (TCAC). The application includes an addendum that is specific to the requirements of either the MHP General or the MHP Supportive Housing including Homeless Youth. **There will be a review of changes to the MHP addendum which affect the application scoring requirements.** There will also be time for answering individual applicant questions. If you are unable to attend the workshop and have questions about the application process, please contact MHP staff.

Date	Workshop Location	Time
May 19, 2010	Department of Housing & Community Development 1800 Third Street, Room 183 **Sacramento, CA 95811**	10 a.m. to 2 p.m.
May 20, 2010	Elihu Harris State Building 1515 Clay Street, Room 11 **Oakland, CA 94612**	10 a.m. to 2 p.m.
May 25, 2010	California Tower 3737 Main Street, Room 206 **Riverside, CA 92501**	10 a.m. to 2 p.m.
May 26, 2010	Junipero Serra State Building 320 West 4th Street, Seventh floor conference room **Los Angeles, CA 90013**	10 a.m. to 2 p.m.

ADVANCE REGISTRATION FOR THE WORKSHOPS IS REQUESTED. Please complete the attached registration form and return via email to bstolk@hcd.ca.gov or fax to (916) 445-0117, attention Barbara Stolk, at least 24 hours before the workshop. Printed materials will not be provided at the workshop. Materials will be made available for download and printing from the Department's website, or via e-mail by request.

F. Program Summary

The MHP provides low-interest loans to developers of affordable housing. MHP General funds, and Homeless Youth funds available under this NOFA may be used for multifamily rental and transitional housing projects involving new construction, rehabilitation, acquisition and rehabilitation, or conversion of nonresidential structures.

HCD expects MHP funds to be leveraged with other resources, including local government funds, the federal Continuum of Care programs, four percent low-income housing tax credits, tax-exempt bond financing and private debt financing.

MHP General projects using nine percent tax credits are ineligible (see Section J). Projects wherein 100 percent of the restricted units are for Homeless Youth may utilize nine percent tax credits. However, the per-unit maximum loan amount for projects using nine percent tax credits is lower than the per-unit limit for projects not using nine percent tax credits.

G. Program Regulations and Legal Authority

MHP was established by Chapter 637, Statutes of 1999 (SB 1121, Alarcón), which created Chapter 6.7 of Part 2 of Division 31 commencing with Section 50675, of the Health and Safety Code. Applications submitted under this NOFA shall be subject to two sets of regulations: the MHP specific regulations, Title 25 California Code of Regulations (CCR) 7300, *et seq.*, and the Uniform Multifamily Regulations (UMR), 25 CCR 8300, *et seq.* Applications submitted under this NOFA are also subject to the applicable statutory requirements, including those of Proposition 1C and Chapter 27, Statutes of 2006 (SB 1689, Perata) and the requirements specified in this NOFA.

Applications submitted under this NOFA containing Homeless Youth Housing units are also subject to Article 6 'Supportive Housing Loans' of the MHP specific regulations, as modified by the provisions of this NOFA.

All section references in this NOFA refer to the MHP regulations unless otherwise noted. The regulations and NOFAs are available on the HCD website at: http://www.hcd.ca.gov/fa/mhp/

H. Eligible Project Sponsors

Sponsors and borrowing entities may be organized on a for-profit or not-for-profit basis. Any individual, public agency or private entity capable of entering into a contract is eligible to apply, provided that they, or their staff, have successfully developed at least one affordable housing project. The Department will evaluate all Sponsor entities, including the roles of any general partner(s) in a limited partnership, to determine if the Sponsor's roles, responsibilities, and benefits in the project development and operations are commensurate with activities normally undertaken or controlled by project developers and owners.

The Sponsor organization will be reviewed to determine if adequate staffing levels exist to undertake and complete the project. The same criteria will be applied to evaluate sponsor experience for the purpose of awarding points. **The entity that submits information for the award of the experience points must be the named Sponsor on the application. A parent entity cannot submit an application through a single asset entity and count the experience of the parent entity.** If an applicant wishes to use the parent entity's development experience the parent entity must be the named as the Sponsor/applicant.

The Department will permit loan commitments to be transferred to single-asset entities provided the Sponsor entities maintain sufficient control of the borrowing entity to ensure that the Ultimate Borrower has the resources and experience to develop, own and manage the project. Sponsors will be required to demonstrate how the Sponsor identified in the application has full control of the Ultimate Borrower entity and development of the project. Documentation supporting the Sponsor's control of the borrowing entity must be submitted at the time the Ultimate Borrower is formed and in all cases, prior to the construction loan close. Where the requisite control cannot be shown, the Sponsor will have to change its organizational structure to achieve the requisite control in compliance with the applicable regulations and the loan commitment.

If the Borrower is an entity other than the Sponsor identified in the application, the Department may require the Sponsor to enter into a Sponsor Operating Guaranty as a condition of closing the MHP loan.

Sponsors must have site control in the name of the Sponsor or an entity controlled by the Sponsor as defined in UMR Section 8303.

Sponsors of projects where at least 70 percent of the units consist of Special Needs Population units (including Homeless Youth) may be exempt from the requirement for previous development experience under limited conditions per Section 7303(d).

I. Eligible Uses of Funds

MHP funds will be provided as permanent financing only, and may be used to take out construction loans used to cover normal project development (capital) costs, as detailed in Section 7304. MHP funds may be used to capitalize a project operating reserve account up to the limit required under UMR Section 8308. MHP funds may not be used for the cost of supportive services, although Department-approved costs of on-site supportive services coordination may be treated as a project operating expense, payable from operating income.

MHP funds must be attributable to the costs of "restricted" units (MHP units and units subject to a long-term regulatory agreement with occupancy and rent restrictions similar to those of

MHP) or to the costs of facilities used for childcare, after-school care and social services that are integrally linked to the restricted units.

Applications will be reviewed to ensure that development costs do not include payments for appreciated equity through transfers or syndication between related parties. The term "related parties" as used in this paragraph has the same meaning as TCAC Regulation 10302(gg). MHP funds must be used to fill financing gaps resulting from deep income targeting and affordability. Equity cash-out is not necessary to meet the goals of the program and thus is not an eligible use of MHP funds. Costs representing the cash out of existing equity will not be recognized (see Section 7304).

J. Eligible Projects

Projects must qualify as rental housing developments, as defined in UMR Section 8301, and meet the requirements of Section 7302. For example, projects must contain five or more dwelling units. MHP funded units may be operated as permanent or transitional housing.

Projects are ineligible if construction has commenced as of the application due date per Section 7302, or if the project is already fully funded. Demolition is considered part of the project if the expense is included in the Development Budget, therefore projects will be deemed ineligible if demolition has occurred and such expenses are included in the Development Budget as submitted in the application unless it is required to eliminate hazards or threats to health and safety. Projects must meet the underwriting standards described in UMR Section 8310.

MHP General projects receiving nine percent tax credits are ineligible and the Department will not hold MHP funds pending the outcome of a nine percent tax credit application. Therefore, projects that have a nine percent tax credit application pending at the time the MHP application is submitted will be disqualified from competing in this funding round. Furthermore, projects that receive a funding commitment and subsequently apply for nine percent tax credits will be deemed ineligible and the funding commitment will be immediately rescinded. Exceptions may be granted, at the discretion of the Department, after the Award of MHP funds pursuant to Management Memo 09-01. Contact MHP Staff for more information.

Projects wherein 100 percent of the Restricted units are reserved for Homeless Youth are exempt from this prohibition, however, the Department will re-underwrite Homeless Youth projects which switch from four percent to nine percent tax credits after the application is submitted, and due to the competitive nature of this NOFA, a reduction in the application point score occurring as a result of the re-underwriting may jeopardize the MHP Award.

K. Projects with Extraordinarily High Development Costs

The Department is concerned about the extremely high cost of a small but significant number of projects funded in the recent past, and the extraordinary level of public subsidy required by these projects. Of particular concern are projects with total development costs in excess of $350,000 per unit. The Department will require thorough justification for costs above that level. In this period of declining real estate values and development costs, it is important to encourage MHP funding of otherwise qualified projects that are able to minimize costs, without sacrificing design elements that are cost effective in the long run or meet vital needs of project residents.

In light of this concern, and consistent with UMR Section 8311, the Department reserves the right to reject an application if total development cost exceeds an amount that cannot be reasonably justified, in comparison to the costs for other similar developments of modest design in the general area. Projects may be required to justify the total development cost if the cost substantially exceeds the Department's historical project costs for similar projects.

In evaluating projects with high per unit costs, the Department will closely scrutinize the justification that costly design features were necessary to obtain local approvals or neighborhood acceptance. Similarly, the Department will be giving close scrutiny to projects with extraordinary site development costs (where they are not fully compensated for by a sharply discounted purchase price), or where the constraints of the site necessitate an especially expensive design. Although the Department appreciates that individual developers may experience great difficulty locating more appropriate sites, it has concluded that the interests of the Program are best served by avoiding excessive site and design-related costs.

Prior to closing construction financing, the Sponsor shall be required to submit an appraisal acceptable to the Department, from a qualified appraiser, which supports the acquisition cost identified in the Development Budget.

L. Maximum Loan Amounts

The maximum loan per project is $10,000,000. The maximum loan amount per "restricted" unit is a function of unit size, location, and affordability level per Section 7307. Maximum loan limits are available on the Department's website at:
http://www.hcd.ca.gov/fa/mhp/IncomeRentsLoanLimits.pdf

The maximum loan per restricted unit was increased in previous funding rounds by $15,000 per unit for the Central Valley and Southern California regions and will remain in effect. For the purpose of geographic distribution, Central Valley includes the counties of Fresno, Kern, Kings, Madera, Merced, San Joaquin, Stanislaus and Tulare counties.

Elevated loan limits are available for projects which set aside at least five units for Homeless Youth (see "Chart B" for elevated loan limits that apply only to the Homeless Youth units).

M. Loan Terms and Security

Loans will have 55-year terms, and bear simple interest at the rate of three percent per year. For the first 30 years, annual interest payments will be required in the amount of 0.42 percent of the outstanding principal loan balance. The annual payment amount for the next 25 years will be set by HCD in year 30, and will be the minimum amount necessary to cover HCD's monitoring costs. Unpaid principal and accrued/deferred interest will be due at the end of the loan term.

Cash flow remaining after payment of all debt service, Operating Expenses, required reserves and allowable deferred Developer Fee and Distributions per UMR Sections 8312 and 8314 shall be applied toward repayment of the MHP loan. If the terms of other public agencies' financing also require payments from remaining cash flow, the Department may agree to share the remaining cash flow with the public agencies in proportion to the respective loan amounts. Hard debt service on funding from local public agencies will not be permitted.

MHP loan documents will include a promissory note, deed of trust and regulatory agreement. The deed of trust and regulatory agreement may be subordinated to bond debt, and amortizing loans from institutional lenders and the federal government provided no balloon payments are due prior to the end of the MHP loan term. MHP loans may not be subordinated to local public agency loans or restrictions attached to these loans, unless the amount of the local agency loan is at least twice the amount of the Department's total assistance to the project, including both loans and grants per Section 7306(e) and UMR Section 8315.

The MHP loan must be secured by the fee or a leasehold interest in the property acceptable to the Department. The term of a leasehold interest must be at least 90 years (65 years where the lessor is a public entity) from the date the MHP loan closes, excluding any unexercised lease extensions. If the MHP loan is secured by leasehold, the owner of the fee and the borrower must sign the Department's standard form lease rider, unless the lessor will sign the MHP deed of trust secured by the fee (see UMR Section 8316 for other leasehold requirements).

N. Rent and Occupancy Limits and Related Reserve Requirements

MHP assisted unit rent and tenant incomes will be restricted in accordance with the rent and income limits proposed by the project Sponsor in their MHP application, with rents not exceeding 30 percent of the applicable income limit. The maximum possible income and rent limits are those set by the TCAC, using its calculation methods: 60 percent of Area Medium Income (AMI), adjusted by household size, and 30 percent of 60 percent of AMI, adjusted by bedroom size. These maximum limits are available on the TCAC website at: *http://www.treasurer.ca.gov/ctcac/*

Projects will be underwritten at the rent limits for the income levels proposed in the application. The Program's maximum 1.20 debt coverage ratio limit will be applied using the maximum rents allowable.

Assisted unit rent increases will be limited in accordance with the rules governing tax credit units and Sections 7311 and 7312. Where the project receives Section 8 or other rental assistance subsidies, "rent" is defined as the tenant's contribution, rather than the contract rent level. Sponsors of this type of project will be required to continue the rental assistance as long as it is available. Projects with rental subsidies must also be feasible with 50 percent of AMI rents for units at rent levels which garner income-targeting points in the event the rental assistance is terminated. Projects receiving project-based rental assistance shall be required to fund a transition reserve in accordance with Section 7312(f)(2).

In addition to the transition reserve requirement, Homeless Youth projects relying on rent or operating subsidy contracts which are necessary to maintain project feasibility, may be required to fund an additional Operating Reserve in an amount determined by the Department to be sufficient to ensure the long-term feasibility of the project as a Homeless Youth project.

O. Developer Fees and Distribution Limitations

Developer Fees mean the same as the definition of that term in the CCR, Title 4, Section 10302 and includes Financial Consulting Costs. The Developer Fees are further limited in accordance with UMR Sections 8312 and 8314, and Distributions to the Sponsor out of operating income are also limited in accordance with UMR Sections 8312 and 8314.

The value of land donations received from city and/or county jurisdictions, master developers or other entities which are not the Sponsor or an affiliate of the Sponsor will not be counted as a capital contribution to increase Developer Fee limits as described in UMR Section 8312(d).

Furthermore, cash contributions or grants received by the Sponsor or an affiliate of the Sponsor from master developers or other entities that are not controlled by the project Sponsor or co-Sponsor, or where such cash contributions are contingent upon the development of the affordable housing project, may not be counted as a capital contribution to increase Developer Fee limits.

Developer Fees are all funds paid at any time as compensation for developing the proposed project to include all development consulting fees, processing agent fees, developer overhead and profit, construction management oversight fees if provided by the developer, personal guarantee fees, syndication consulting fees, and reserves in excess of those customarily required by multifamily housing lenders. The Department has interpreted this definition to include any lease-up fees, incentive fees, or other property management fees, in excess of those customarily charged by property management firms for lease-up activities, which are paid to the Sponsor or co-Sponsor, or a management company affiliated with the Sponsor or co-Sponsor.

P. Projects for Populations with Special Needs

Sponsors of Special Needs Populations' projects must submit a specific, feasible plan for delivery and funding of tenant services for Department approval and will be required to meet minimum threshold criteria for experience and the provision of services. MHP funds may not be used to fund tenant services. Sponsors must not violate laws barring housing discrimination. HCD will review proposed tenant selection criteria for potential violations of these laws. HCD may condition funding on the elimination of restrictions that it believes to be impermissible, or reject an application where it determines that compliance with applicable law is not feasible.

Fair Housing is a very complex, and in many ways, unsettled area of law. Sponsors are encouraged to seek professional advice if there is any doubt that their proposal may run afoul of non-discrimination and fair housing laws. A useful resource is "Between the Lines: A Question and Answer Guide on Legal Issues in Supportive Housing" published by the Corporation for Supportive Housing. This document is available online at www.csh.org or by calling the publisher at (510) 251-1910.

In evaluating tenant selection criteria for Special Needs Populations applications, HCD will first examine whether the criteria resulted from federal or state funding, as an indicator of legislative authorization. It will then review other aspects of the selection criteria, the services and facilities proposed to meet the needs of the targeted group and the proposed sources of other funding. If an applicant disagrees with HCD's determination, it may seek an alternate opinion from the California Department of Fair Employment and Housing (DFEH). HCD will defer to DFEH's opinion. Please be advised that a proposal may have substantial discrimination problems even though it targets a group specifically listed in the definition of Special Needs Populations in Section 7301.

Q. Funding Compatibility

Sponsors typically anticipate using an array of funding sources for the construction and permanent financing of their projects. The Sponsor should determine, prior to applying for the MHP funds, that the requirements of the non-MHP funding sources are compatible with the requirements of the MHP. For example, compatibility issues have arisen with local and federal funding sources related to:

- The required terms of the MHP security when the security for the MHP loan is in a leasehold interest (UMR Section 8316);
- The MHP prohibition of senior debt that has a provision for a "balloon" payment. Often bond financing provisions include interest rate resets with potential calls prior to the full amortization term of the loan. Any interest rate resets or similar provisions governing senior debt shall contain a specified interest rate cap, subject to the approval of the Department and shall not jeopardize the feasibility of the project. Details of this issue and the Department's policy may be found on the Department's website at: http://www.hcd.ca.gov/fa/mhp/MHP-LoanClosing/ManagementMemo07-01.doc;
- Under MHP, senior debt with a variable interest rate is underwritten at the ceiling interest rate;

- The mandatory payment to HCD of the 0.42 percent debt service;
- The MHP requirement to target some of the project rents to extremely low income households that are below the federal income eligibility standard;
- The state statutory requirement that projects financed with MHP pay no less than the state prevailing wage rate;
- Terms of other public agencies' financing requiring hard debt service; and
- An identity of interest between affiliated parties providing project financing. Details of this issue and the Department's policy may be found on the Department's website at: http://www.hcd.ca.gov/fa/mhp/MHP-LoanClosing/ManagementMemo09-03.doc.

R. Senior Housing Distribution

Health and Safety Code 50675, as amended by AB 927, requires that "MHP funds be expended for senior rental housing developments proportional to the percentage of lower-income renter households in the state that are lower-income elderly renter households in the state, as reported by the federal Department of Housing and Urban Development". Therefore, under this NOFA, sufficient funds will be allocated so that approximately 15.9% of the total units funded will be reserved for units that are lawfully restricted to senior citizens in projects that meet the threshold eligibility and point score requirements.

Occupancy restrictions must be carried out in a manner which does not violate state or federal fair housing laws. Due to the complexity of the law, applicants are encouraged to consult with qualified professionals to determine a project's ability to legally restrict occupancy to seniors.

Applicants seeking to participate in the senior housing set-aside must submit an attorney's opinion acceptable to the Department describing the intended occupancy rules and how they comply with the Unruh Civil Rights Act in the California Civil Code and the Fair Employment and Housing Act in the California Government Code.

S. Geographic Distribution

The MHP's enabling statute requires the program to "ensure a reasonable geographic distribution of funds." To prevent an extreme imbalance in funding, no less than approximately 45 percent of the total funds awarded under this NOFA will be awarded to projects in Southern California, 30 percent will be awarded to projects in Northern California and 10 percent will be awarded to projects in rural areas. In its sole discretion, the Department may determine the geographic distribution targets have been met based either on individual program funding components, or on the amount of total funds made available under this NOFA.

For the purpose of geographic distribution, Southern California includes the counties of Kern, San Bernardino, San Luis Obispo and all counties to the south. Northern California includes all other counties of the state. "Rural" is defined to be consistent with the definition used by the TCAC for the tax credit program. A list of rural areas as well as the methodology to determine Rural or Non-Rural status, can be found at the TCAC's website: *www.treasurer.ca.gov/ctcac/*

T. Prevailing Wage Requirements

Pursuant to Health & Safety Code Section 50675.4(c)(2), projects receiving assistance under this NOFA are subject to State prevailing wage law, as set forth in Labor Code Section 1720 et seq.

U. Important Legal Matters

HCD reserves the right, at its sole discretion, to suspend or amend the provisions of this NOFA. If such an action occurs, HCD will notify all interested parties.

Article XXXIV of the California Constitution requires advance voter approval of certain publicly funded and regulated low-income housing projects. Projects funded by MHP must either have Article XXXIV approval or be exempt from the need for this approval.

All applications are subject to the considerations discussed in Section P regarding compliance with laws barring housing discrimination.

This NOFA provides a partial summary of the MHP statute and regulations and the Supportive Housing or Homeless Youth Requirements (Attachment 2). In the interest of brevity, it does not cover many aspects of those governing documents, some of which may be of critical importance to individual projects. For this reason, applicants are urged to carefully review the regulations, Attachment 2 and the information contained in this NOFA before submitting applications.

V. Application Point Scoring

The criteria that will be used to competitively score projects is summarized below and for MHP General projects as described in Section 7320 and for Supportive Housing and Homeless Youth projects as described in Sections 7320 and 7346. In assessing whether a project is "At-Risk," MHP will use the same standards as the TCAC. TCAC regulations first mandate that to be considered "at-risk" housing, the project must meet the requirements of the California Revenue and Taxation Code, Subsection 10758(C)(4) except as further defined in TCAC regulations at Section 10325(g)(5)(B)(i), as well as meet additional TCAC requirements.

Homeless Youth units will be funded from the MHP Homeless Youth allocation and non-homeless youth units will be funded from the MHP General allocation. HCD reserves the right, at its sole discretion, to augment the funds announced in this NOFA in order to fully allocate both the MHP General and MHP Homeless Youth funds. In the event a funding allocation of one source (MHP General or MHP Homeless Youth) is exhausted and the next project in line is not eligible to receive the funds from the remaining source, HCD may fund the next project in line requesting funds from the available source. If that eligible project contains both homeless youth and non-homeless youth units (mixed project), HCD may augment either or both funding allocations in order to fully fund that eligible project.

Sponsors requesting Readiness points in scoring category A of Item D6 of the application (construction financing commitments) by including Low Income Housing Tax Credits (LIHTC or Tax Credits) as a funding source during the project's construction period will be required to submit documentation, satisfactory to the Department, as to the availability of those funds for construction. For determining both the award of points in the Readiness category and in determining project feasibility, the Department will closely scrutinize projects with 15 percent or more of the total Tax Credits paid during construction, or LIHTC pricing over 75 cents per dollar of credit.

Criterion	Max. Points	Notes
Extent Project Serves the Lowest Income Levels	35	The income levels referenced in the regulations are posted on the Department website.
Extent the Project Addresses the Most Serious Local Housing Needs	15	If a market study is submitted, it must be performed by a qualified third party in accordance with the Department's application of TCAC Market Study Guidelines, as specified in the MHP Application form.
Development and Ownership Experience of the Sponsor	20	Sponsors using alternative scoring methods in this category are advised to communicate with the Department in order to receive technical assistance. ***70% or more Homeless Youth projects only:*** *Experience for the prior ten years is considered.*
Percentage of Units for Families or Special Needs Populations and "At-Risk" Rental Housing Developments	35	"At-risk" projects receive full points in this category.
Leverage of Other Funds	20	Sponsors of projects containing commercial space are advised to communicate with the Department in order to receive technical assistance. ***75% or more Homeless Youth projects only:*** *Projects demonstrating collaboration and focus on measurable outcomes and service utilization will receive a competitive advantage in the leverage category. See application and Section 7346(c) for specific requirements.*
Project Readiness	15	Projects must have all construction financing and all soft financing committed (exceptions are noted in Sections 7320(b)(6)(A)1-6 in order to receive full points in this category).
Adaptive Reuse/Infill/Proximity to Amenities/Sustainable Building	10	Projects demonstrating compliance with the conditions of any subcategory will receive full points in this category. **Projects with at least 35% Homeless Youth units will receive 10 points in this category.**
Local commitment of at least five years for services or rental subsidy	*5*	***35% or more Homeless Youth projects only:*** *Bonus Points awarded only for Homeless Youth projects.*
Total Maximum Points	150	***Homeless Youth only:*** *Although mathematically possible to score 155 points, maximum reportable score shall be 150 points.*

Tiebreaker: In the event of tied point scores, the Department shall rank tied applications based on the lowest weighted average affordability of restricted units per Section 7320.

Projects must receive a minimum point score of 125, as determined by HCD staff, in order to be considered for a funding award. Furthermore, projects must receive a minimum of 4 points in the Development and Ownership Experience of the Sponsor category, and a minimum of 5 points in the Project Readiness category.

W. Disclosure of Application

Information provided in the application will become a public record available for review by the public pursuant to the Public Records Act. As such, any materials provided may be disclosed to any person making a public records request. As such, applicants are cautioned to use discretion in providing the Department with information that is not specifically requested, including but not limited to, bank account numbers, personal phone numbers and home addresses. By providing this information to the Department, the Sponsor is waiving any claim of confidentiality and consents to the disclosure of all submitted material upon request.

Do not hesitate to contact the Department if you should have any questions regarding the NOFA, the application, the application process, or necessary documents at any time during the application preparation period.

Questions should be directed to MHP staff at (916) 323-3178. Thank you for your interest in the Multifamily Housing Program.

Sincerely,

Chris Westlake
Deputy Director

Attachments

Attachment 1

Multifamily Housing Program Workshop
Round 1C-5, 2010 Registration Form

The Multifamily Housing Program (MHP) Workshop is designed to provide training on the MHP application and technical assistance for applicants. **It is strongly recommended that you attend.** If you plan to attend, please complete and submit this single page (no cover sheet needed) to the MHP staff.

- Please RSVP at least 24 hours before the workshop date by filling out this document and submitting it to *bstolk@hcd.ca.gov* or FAX (916) 445-0117.
- Refer registration questions and forms to HCD Staff at (916) 323-3178.

Name of Attendee(s):	
Organization's Name:	
Address:	
City, Zip Code:	
E-mail:	
Phone Number:	
Fax:	

Please check the location of the workshop you plan to attend:

____ Sacramento – May 19, 2010

____ Oakland – May 20, 2010

____ Riverside – May 25, 2010

____ Los Angeles – May 26, 2010

The Department may announce additional workshops at a later date.

Attachment 2

MULTIFAMILY HOUSING PROGRAM
HOMELESS YOUTH HOUSING

A. Legal Authority

MHP was established by SB 1121, Statutes of 1999 (Alarcón), which created Chapter 6.7, commencing with Section 50675, of the Health and Safety Code. Section 53545(a)(1)(A)(ii) of the Health and Safety, added by Proposition 1C, appropriated funds specifically for housing for homeless youth. As authorized by Section 50675.11, the $50 million allocation for homeless youth housing will be operated initially under guidelines, rather than formally promulgated regulations. These guidelines will consist of the regulations governing the Supportive Housing component of MHP, as modified by the provisions of this NOFA. (The relevant regulations are the MHP Regulations and the Uniform Multifamily Regulations, available at http://www.hcd.ca.gov/fa/multifamilyregs.html.) Applications are also subject to the applicable statutory requirements (including those of Proposition 1C and SB 1689 of 2006).

All Section references in this Attachment refer to the MHP regulation text posted on the Department website, unless otherwise noted. UMR Section references refer to the Uniform Multifamily Regulations.

B. Program Summary

Under this NOFA, the loan amounts from the Homeless Youth funding component will be based on the number of Homeless Youth Units.

"Homeless Youth Units" means housing units linked to supportive services, where both:

1. occupancy is restricted to households that, upon move-in, include a "homeless youth", as defined in Paragraph D below; and
2. the limits on household income, duration of occupancy and rent set forth in Paragraph E apply.

D. Transitional Housing

1. Loan Limits Chart A shall be used for Homeless Youth Units in projects utilizing 9 percent tax credits and Loan Limits Chart B shall be used for Homeless Youth Units in projects not utilizing 9 percent tax credits.
    a. Projects serving At-Risk of Homelessness populations are not eligible to use elevated Loan Limits Chart B.

2. "Transitional housing program" means any program which is designed to assist homeless persons in obtaining skills necessary for independent living in permanent housing and which has all of the following components:
   a. Comprehensive social service programs which include regular individualized case management services and which may include alcohol and drug abuse counseling, self-improvement education, employment and training assistance services, and independent living skills development.
   b. Use of a program unit as a temporary housing unit in a structured living environment which use is conditioned upon compliance with the transitional housing program rules and regulations.
   c. A rule or regulation which specifies an occupancy period of not less than 30 days, but not more than 24 months.

3. "Housing for Homeless Youth" means emergency, transitional, or permanent housing tied to supportive services that assist homeless youth in stabilizing their lives and developing the skills and resource they need to make a successful transition to independent, self-sufficient adulthood.

4. On May 26, 2008, the 3rd Amendment to the January 31, 2007 NOFA was introduced, which acknowledged that Transitional Homeless Youth project characteristics may represent a departure from the Permanent Supportive Housing requirements of the MHP and Uniform Multifamily Regulations. Therefore, a new set of characteristics were established to address this type of project. These new characteristics are listed under Item B14, Part 2, Section 2a of the funding Application.

E. <u>Target Population / Eligible Households</u>

Households eligible to occupy assisted units must include a "homeless youth," which is defined in Government Code Section 11139.3(e)(2) as either:

(A) A person who is at least 18 years of age, but not older than 24 years of age, and meets one of the following conditions:
(i) Is homeless or at risk of becoming homeless.
(ii) Is no longer eligible for foster care on the basis of age.
(iii) Has run away from home.

(B) A person who is less than 18 years of age who is emancipated pursuant to Part 6 (commencing with Section 7000) of Division 1 of the Family Code and who is homeless or at risk of becoming homeless.

"At risk of becoming homeless" means "facing eviction or termination of one's current housing situation." This includes, for example, households who face imminent release from an institution (i.e. jail or hospital) where other housing placement resources are not available, households who reside in an overcrowded setting (more than two persons per living/sleeping area) in which the household does not hold a lease, and households who reside in substandard housing subject to a current official vacation notice.

"Homeless" means the same as that term is defined for MHP – Supportive Housing:

1. moving from an emergency shelter; or
2. moving from transitional housing; or
3. currently homeless, meaning:
   a. an individual who lacks a fixed, regular, and adequate nighttime residence; or
   b. an individual who has a primary nighttime residence that is:
      i. a supervised publicly or privately operated shelter designed to provide temporary living accommodations (including welfare hotels, congregate shelters, and transitional housing for the mentally ill); or
      ii. an institution that provides a temporary residence for individuals intended to be institutionalized; or
      iii. a public or private place not designed for, or ordinarily used as, a regular sleeping accommodation for human beings.

Eligible households need not be disabled, as is required under MHP-Supportive Housing.

F. Limits on Rent, Tenant Income and Duration of Occupancy

Generally, the maximum allowable income limit for Homeless Youth Units is the MHP "A" limit, as shown in the table to be posted on the Department website at http://www.hcd.ca.gov/fa/mhp/; this limit is approximately 40 percent of the Area Median Income (AMI) in high cost areas and 35 percent elsewhere. However, the Department will consider exceptions to this general rule where the Sponsor provides conclusive evidence that the youth who will likely occupy the project will be able to afford higher rents upon termination of a transitional subsidy for their unit.

Projects will be underwritten at the rent limits for the income levels proposed in the application. The Department's first year debt coverage ratio requirement of 1.1 to 1.2 will be applied using the maximum rents allowable, given all of the restrictions applicable to the project.

Sponsors must maintain the agreed-upon number of units occupied by eligible households including a homeless youth. Sponsors are now given the option of establishing units with transitional housing duration requirements and/or operating projects with units as permanent housing. Sponsors must still ensure the provision of services with the goal of helping the youth tenant make measurable gains in the areas of employment and education and assist homeless youth in stabilizing their lives and developing the skills and resources they need to make a successful transition to independent, self-sufficient adulthood.

As part of the application process, applicants must demonstrate that viable options are available for the placement of youth once they exit the Homeless Youth Units.

G. **Rent Subsidies**

The Department expects Homeless Youth Units to be occupied by youth with extremely limited income, at least when they move in. Accordingly, Sponsors will need to secure ongoing subsidies to cover the difference between rents affordable to homeless youth and the cost of operating the housing. These subsides may be reduced over time, based on how long a particular tenant has occupied their unit.

H. **Eligible Project Sponsors**

Sponsors must demonstrate a minimum of 24 months experience in the ownership or operation of at least one Special Needs Population housing project with five or more units, and provide a letter of support from a local services funding agency. See Section 7343.

I. **Eligible Projects**

Projects must also contain five or more Homeless Youth Units, as defined in Paragraph C.

Projects receiving 9 percent tax credits are eligible under this NOFA, provided they are not applying for elevated loan limits.

J. **Supportive Service and Property Management Requirements**

Sponsors will be expected to have a clear understanding of the service needs of the specific segment of the homeless youth population that will occupy their project, and a well-defined service plan that ensures that these needs will be met. Typically, this service plan will include relatively intense on-site supportive services, with high staff-to-client ratios, as well as firm linkages to other services available in the community.

The application will need to identify a primary service provider that is firmly committed to the project, has experience with the targeted population, and has a track record of securing services funding. It will also require preparation of a detailed service plan and line-item services budget and include commitments or letters of intent for a minimum of 25 percent of the total service budget – except where the Department may approve an exception based on documentation confirming a successful history of securing similar funding for supportive services for the intended tenant population. See Section 7345.

The primary service provider for the project must demonstrate a minimum of 24 months experience in the provision of services to the targeted population, and a successful history of securing funds for similar activities.

The property manager must have a minimum of 24 months experience in managing a Special Needs Population housing project that would qualify as a rental housing development pursuant to UMR Section 8301(o). For proposed projects with fewer than 10 units, the Department may approve a property management agent with experience managing projects that do not qualify as rental housing projects, provided the agent has at least 24 months experience managing housing for the specific population targeted by the proposed project.

K. Maximum Loan Amounts

The maximum loan per project is $10,000,000. The maximum loan amount per Homeless Youth Unit is a function of unit size, location, and affordability level. The per-unit maximum is calculated by adding a base amount to an amount intended to compensate for debt service payment capacity lost as a result of rent restrictions. The base loan amounts under this NOFA will be:

- In Southern California, $80,000 for units in projects not receiving 9 percent tax credits, and $65,000 for units in projects receiving 9 percent tax credits.

- In Northern California, $65,000 for units in projects not receiving 9 percent tax credits, and $50,000 for units in projects receiving 9 percent tax credits.

(Southern California includes San Luis Obispo, Kern and San Bernardino counties, and all counties further south.)

Tables listing per-unit loan limits and targeted income limits and rents are posted on the Department's website.(www.hcd.ca.gov)

L. Application Point Scoring

The criteria that will be used to score projects are those specified in Section 7346 and 7320 of the MHP regulations, except that the Adaptive Reuse/Infill/Proximity to Amenities criterion described in Section 7320(b)(7) will not be used for projects containing 35 percent or more Homeless Youth units.