NO LONGER ACCEPTING APLICATIONS

SPECIAL NEEDS HOUSING PROGRAM
TERM SHEET FOR PARTICIPATING AGENCIES & DEVELOPERS

The California Housing Finance Agency ("CalHFA"), on behalf of jurisdictions throughout California, operates the Local Government Special Needs Housing Program ("SNHP"). The SNHP allows local governments ("LG") to use Mental Health Services Act (MHSA) funds with other local funds (collectively "SNHP Funds"), to provide financing for the development of permanent supportive rental housing ("Project") that includes units restricted for occupancy by individuals with serious mental illness (and their families) who are homeless or at risk of homelessness ("MHSA Clients"). To participate, an LG must enter into a SNHP Participation Agreement with CalHFA.

- A participating LG assigns funds to CalHFA in advance of approving financing for Projects in its jurisdiction.
- Eligible Projects are Rental Housing (5 or more units) or Shared Housing (1-4 units) for MHSA clients who rent lockable bedrooms within a single family home, duplex, tri-plex or four-plex. Projects must reserve a minimum of 5 units (or bedrooms in shared housing) for referred MHSA Clients (each a "SNHP Regulated Unit") and the minimum SNHP Loan amount per Project is $500,000. NOTE: Master Leasing is not a permitted use of funds.
- Eligible Projects provide new permanent supportive housing units, or revitalize existing units if the current MHSA clients are at-risk of becoming homeless (when certified by the local Mental Health Director).
- The maximum SNHP Loan and availability of any capitalized operating subsidy reserves (COSR) are determined solely by the LG based on the number of units reserved for MHSA Clients for the life of the SNHP loan.
- Rental units must have a living area, sleeping area, kitchen area and a full bathroom. The kitchen area shall at a minimum include a sink, refrigerator, cupboard space, counter area, microwave or oven, and a two-burner stove or built-in cook top.
- The LG may offer a capitalized operating subsidy reserve ("COSR") to subsidize operating costs for the SNHP Regulated Units – or to supplement an existing MHSA Housing Loan Program COSR serviced by CalHFA. COSR's must last a minimum of 17 full years unless waived by the LG. The LG may require the developer to fund the shortfall, or entire COSR amount if other subsidies aren't available to the MHSA clients and the proposed rents aren't deemed affordable for the MHSA clients.
- For COSR assisted Projects - the LG should typically require the Developer to fund a "Tenant Rent & Utility Reserve" by Certificate of Occupancy. This Reserve is used to assist MHSA eligible clients with rent and utility payments while waiting to get approved for SSI/SSP. The Reserve should provide 2 to 3 years rental income for the SNHP COSR-assisted units (assuming rents that include utilities at 30% of SSI/SSP). This Reserve is held by Borrower as a revolving fund and is intended to be replenished over time from tenant rent back payments once the tenants qualify for SSI/SSP.
- MHSA Clients in SNHP funded one bedroom units assisted with COSR must pay a minimum rent that is the higher of 30% of SSI/SSP or 30% of their household income (less utilities unless included in the rent). Larger units would pay rents that are the higher of an additional $100/month rent per additional bedroom, or 30% of household income (less utilities unless included in the rent).
- MHSA rents may not exceed 30% of HUD published 30% AMI levels (adjusted by family size). NOTE: There are no income limits imposed by the SNHP Regulatory Agreement. Any income restrictions, or occupancy restrictions overlaying the SNHP Regulated Units must be approved by the LG (per SNHP Financing Application Attachment B-1 signed by the Developer/Borrower and LG).
- Developer/Borrower is required to continually seek future commitments of rental or operating subsidies for the SNHP Regulated Units (*e.g.*, project based Section 8) for the life of the SNHP Loan.
- The LG and Developer jointly submit an application to CalHFA for analysis of the financial viability of a

proposal. CalHFA's role is to recommend maximum loans and COSR funding levels so Projects aren't over subsidized; provide evidence of Loan/COSR approvals to LG and Borrower; Issue a Commitment Letter following receipt of tax credits (if applicable); close and fund the SNHP Loan and COSR; monitor the Project during construction through occupancy; and service the SNHP Loan and administer the COSR for as long as COSR funds are available.

County Participation Fees: *non-refundable and payable upon receipt of LG funds assigned to CalHFA*

- **3% Program Participation Fee**: for unencumbered MHSA funds that the LG authorizes be transferred from the MHSA Housing Program to the SNHP before March 31, 2017; or any disencumbered MHSA loan reservations or Capitalized Operating Subsidy Reserve funds that are transferred to the SNHP in the future.
- **5% Program Participation Fee:** for any ***new*** LG funds transferred to CalHFA for use in the SNHP (including future MHSA Residual Receipt Loan payments received by CalHFA and authorized by LG to be transferred to the SNHP).

Fees Paid By Developer/Borrower:

- **1% Local Government Application Fee**: An LG may decide to recoup a portion of their Participation Fee by charging Developers a 1% Local Government Application Fee. This Fee is collected by CalHFA at SNHP Loan closing and deposited into the LG's SNHP Account at CalHFA for future SNHP eligible uses.
- **$2,500 CalHFA Application Fee:** A CalHFA non-refundable fee paid by the Developer at time of submittal of a SNHP Loan Application to CalHFA. This Fee is applied towards the 1% CalHFA Underwriting Fee.
- **1% CalHFA Underwriting Fee:** This Fee is based on the total sum of SNHP Funds provided by LG to a Project. Full payment is due at SNHP Loan closing.
- **Disbursement Administration Fee:** payable to CalHFA and collected at SNHP Loan closing ($1000)
- **Tax Service Fee**: payable to title company and collected at SNHP Loan closing (Approximately $2200)
- **Construction Inspection Fees**: Varies by project and is based on the length of construction (estimate $500 per month). Fee can be waived if Borrower negotiates for CalHFA to receive copies of the senior construction lenders monthly inspection reports (non-reliance copies are fine).

SNHP Recommended Funding Amounts & Terms

SNHP Capital Development Loan & Required Reserves	Capitalized Operating Subsidy Reserve (COSR)
• Recommended maximum 2019 SNHP Loan Limits - $157,481 per SNHP Regulated Unit (suggested increase is up to 4% a year) • Eligible Use: construction and/or permanent financing (no predevelopment loans) • Interest Rate: 3% simple interest loan; residual receipts payments required be paid from 50% of surplus cash flow • Loan Term: 20 to 57 years • Capitalized Operating Expense Reserve: 25% of the first year's approved operating and reserve budget • Required Replacement Reserve: New Construction:	**For Projects with SNHP Loans:** • Recommended maximum 2019 COSR Limit - $157,481 per assisted unit (suggested increase is up to 4% a year). • COSR Amount and Term: Each COSR is sized to pay a pro-rata share of the Project's operating expenses and sized to last a minimum of 17 years assuming a 10% vacancy rate* of the SNHP units; 1% SNHP rental income inflation rate; and a 3.5% operating budget inflation rate. (*a 30% vacancy rate is assumed for Transition Aged

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$500 per unit/annually for all units in a Project, increasing by 5% every five years. Capitalized and annual deposits to RR's for rehab projects will be determined by the results of a Physical Needs Assessment and/or Building Inspection Reports and a Replacement Reserve Needs Analysis. The RR for rental housing may be held by the Borrower. The RR for shared housing is held by CalHFA unless otherwise approved.

- <u>MHSA Client Rent & Utility Assistance Reserve:</u> reserve that Developer must fund by completion of a Project when required by LG. Reserve should equal 3 years minimum projected rental income for the SNHP units (assuming rents at 30% of SSI/SSP). Reserve may be held by Borrower as a revolving fund to cover rent and utility payments for SNHP Eligible clients waiting for SSI/SSP approval (typically required for SNHP COSR assisted units).
- <u>CalHFA Annual Servicing Fee:</u> $2,500 for Shared Housing Projects with 1-4 units; $7,500 for five or more SNHP regulated units in a Rental Housing Development.
- <u>Underwriting Assumptions</u>: CalHFA assumes the following when underwriting each proposal:
  - ✓ a 10% vacancy rate for the SNHP regulated units for MHSA adult clients (seniors, individuals and families; 5% may be used if the SNHP units are supported by a PB HAP, and if 5% was used in the CTCAC application)
  - ✓ a 30% vacancy rate for any SNHP regulated units reserved for Transition Age Youth.
  - ✓ a 10% vacancy rate for other special needs units (to match CTCAC assumptions)
  - ✓ a 1% SNHP rental income inflation rate
  - ✓ a 1.8% - 2.5% Section 8 subsidy income inflation rate (typically using the senior lender assumptions)
  - ✓ a 2.5% other rental unit inflation rate
  - ✓ a 3.5% operating budget inflation rate for most operating budget expenses (excluding taxes at 2%, and replacement reserves, monitoring fees and debt service expenses)
- <u>Capitalized Operating Expense Reserve:</u> 25% of the first year's approved operating and reserve budget – held by CalHFA, or other approved Lender or tax credit Investor.
- <u>Replacement Reserves:</u> See above.

Youth regulated units). Typically COSR should not be used to pay for the following fees; however the LG may approve the payment of a pro-rata portion of any one or more of the following fees when adequate COSR funds are provided:
a) deferred developer fees; b)partnership management fees; c) on- site supportive service coordinator expenses; d) any share of CTCAC required service coordinator expenses; or e) any portion of tenants rent and utility payments (and if so, for how many years).

- <u>Funding:</u> COSR's are capitalized at SNHP Loan closing and serviced by CalHFA.
- <u>Disbursements</u>: COSR funds are disbursed beginning at Certificate of Occupancy, and reconciled annually prior to future COSR advancements.
- <u>CalHFA Annual COSR Servicing Fee:</u> $5,000

For Projects with MHSA HP Loans:
A deposit of any amount may be added to an existing MHSA Housing Program funded Project with an existing COSR Agreement. For Projects with tax credits, annual COSR Servicing Fees of $5,000 will not be billed to the Project until such time as the Project refinances at the end of the initial tax credit compliance period.

• Tenant Rent & Utility Reserve: When required by an LG (or recommended by CalHFA) this reserve must be funded by the Developer/Borrower at start of construction. The Reserve must equal at least 3 years minimum rental income projected for the SNHP Units (assuming minimum rents at 30% of SSI). Reserve can be held by the Borrower as a revolving fund to cover rent payments for MHSA clients waiting for SSI/SSP approval. Supplemental cash flow deposits can be used over time to increase deposits to this reserve.	

Local Government Application & Approval Process

- LG solicits/selects proposals for the construction or acquisition and renovation of rental units using MHSA and local funds transferred to CalHFA for use under the SNHP.
- For each SNHP Project, the LG determines: 1) the per regulated unit loan amount; 2) the percent of regulated units as it relates to the entire Project; 3) the size of the regulated units to best meet MHSA client needs (bdrm count); 4) any permissible occupancy preferences (adults; seniors; transition age youth); 5) the maximum COSR (if applicable); 6) whether the SNHP regulated units must be furnished by the Developer; 7) whether the Developer must fund a tenant rent reserves (for COSR assisted Projects only); 8) whether they will require the payment of any County loan fees as described below; 9) any permissible developer fees for non-tax credit transactions; and 10) permissible overlaying occupancy, rent or income restrictions from other financing or tax credit sources (as noted on the SNHP Loan Application Attachment A & A-1 signed by the LG).
- LG commits to provide supportive services that meet the needs of the MHSA Clients for the term of the SNHP Loan and develops a Supportive Service Plan (“SSP”) that addresses the Project’s MHSA client needs. A draft SSP is required as part of the CalHFA SNHP Application, and a final SSP is required prior to the SNHP Loan closing and will be an attachment to the SNHP Regulatory Agreement.
- LG negotiates a Memorandum of Understanding between the LG, Borrower, property manager, and primary service provider and provides a copy to CalHFA prior to occupancy of the SNHP regulated units.
- LG ensures adequate funds have been assigned to CalHFA to finance all proposed SNHP Projects and COSR’s before allowing a Developer to submit a SNHP Financing Application to CalHFA.
- LG is responsible for reporting the use of MHSA funds as required by State DHCS or other state agency.
- To the greatest extent feasible, LG shall utilize the local coordinated entry system to screen for eligible residents.

CalHFA Application Process

- LG and Developer/Borrower jointly submit a CalHFA SNHP Financing Application with the required non-refundable $2,500 Application Fee (paid by the Developer); the signed Local Government Certification (Attachment A); the Draft Supportive Service Plan (Attachment A-1); the signed Developer/Borrower Certification (Attachment B); and the signed and approved SNHP Regulated Unit Occupancy Restrictions (Attachment B-1).
- The SNHP Application and checklist, SNHP Loan closing checklists, and boilerplate **non-negotiable** SNHP

loan docs and COSR Agreement are posted on the CalHFA SNHP website.

- The SNHP Regulatory Agreement and Deed of Trust will be recorded in lien priority based on the SNHP Loan size in relation to other residual receipt loans, unless otherwise approved by the LG.
- The SNHP Commitment Letter will be issued shortly after Senior Loan Committee – and must be awarded to, and accepted by the single asset Borrowing Entity - so the developer should plan to establish the borrowing entity prior to CalHFA's Senior Loan Committee meeting.
- When the LG indicates a Project should have a COSR, CalHFA analyzes and recommends the COSR amount required to carry a Project through the first 17 years of operations. The Borrower is responsible for funding the difference between the LG COSR commitment and CalHFA's recommended minimum COSR funding level. COSR funds are held and administered by CalHFA per a SNHP COSR Agreement.
- Application Submittal Instructions and the SNHP Financing Application (Universal Application), required Attachments and checklist items are available on CalHFA's SNHP website - "Developer Application" tab.
- The SNHP Loan closing checklists, boilerplate non-negotiable SNHP loan docs, and COSR Agreement are posted on the CalHFA website on the "Boilerplate Documents" tab, and are attached to the Final Commitment Letter.
- The SNHP Regulatory Agreement and Deed of Trust shall be recorded in lien priority based on the SNHP Loan size in relation to other residual receipt loans, unless otherwise approved by the LG.

CalHFA Contact Information:

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Refer to CalHFA' s Website for more SNHP Information:

http://www.calhfa.ca.gov/multifamily/snhp/index.htm

NOTE: This term sheet is subject to change.