DRAFT MENTAL HEALTH SERVICES ACT HOUSING PROGRAM
Term Sheet

Program Description	The **Mental Health Services Act Housing Program (MHSA Housing Program)** offers permanent financing and capitalized operating subsidies for the development of permanent supportive housing, including both rental housing and shared housing, to serve persons with serious mental illness who are homeless or at risk of homelessness, and who meet the MHSA target population description.
Permanent Loans	• The interest and principal on permanent loans will be deferred for the term of the loan. • Permanent loan proceeds will be available at construction loan closing or permanent loan closing, at the election of the borrower. • Permanent loan proceeds may be used for all costs associated with the acquisition and development of the property including reimbursing the developer for predevelopment costs and acquisition costs. Permanent loans will be secured against the property and the improvements. • MHSA Housing Program permanent loan limits will be based on the number of units restricted to the target population (and not the total number of units in the proposed project). • MHSA loan funds may trigger prevailing wage requirements if used to fund construction. Applicants are advised to consult their tax professionals on this issue.
Rates and Terms	• An interest payment of 0.42% of the outstanding principal balance shall be due and payable annually. This payment shall be made to CalHFA for administrative services. • All interest (other than the 0.42% required annual payment above) and principal payments will be deferred until the maturity of the permanent loan provided that the development continues to meet the programmatic requirements of the MHSA Housing Program. • The interest rate on Rental Housing Developments will be fixed at 3% but may differ if tax credits are involved. When tax credits are involved, interest rates may be set as low as 0.42% provided that the applicant demonstrates that an interest rate reduction is necessary for tax-related reasons. • Interest rates on Shared Housing Developments will be fixed at 3.0%. • The loan term for both Rental Housing Developments and Shared Housing shall be 20 years, or longer if required by other funding sources or if tax credits are involved. If tax credits are involved, the loan term may be extended to up to 55 years if the applicant demonstrates that the longer term is necessary for tax-related reasons. The Regulatory Agreement shall be extended to match the longer loan term. • At maturity of the MHSA Housing Program loan, both accrued interest and principal will be due and payable. Loan extensions at maturity may be permitted at CalHFA's discretion, provided that the MHSA Regulatory Agreement is also extended for the longer term. • Neither accrued interest nor principal will be forgivable at maturity for developments that have received an allocation of low income housing tax credits. • Accrued interest, but not principal, will be forgivable at maturity for shared housing developments and rental housing developments that have not received an allocation of low income housing tax credits if 1) the property was used in accordance with the

	MHSA Program Guidelines throughout the loan term; 2) the loan term is extended for a time period to be determined; 3) the Regulatory Agreement is extended for the term of the loan and 4) adequate provisions are made for the continued use of the restricted units for the MHSA target population. Alternately, accrued interest may be forgiven if the property is sold at maturity and the sale proceeds are invested in a property which has a like use and is encumbered by a MHSA Regulatory Agreement, and new note/deed of trust in the amount of the original MHSA permanent loan. • Accrued interest will not be forgiven at maturity if the property is converted to a different use or if the property is sold and the proceeds of the sale are not reinvested in a property which has a like use and is encumbered by a MHSA Regulatory Agreement, and new note/deed of trust in the amount of the original MHSA permanent loan. • The loan term for HUD 811 projects shall be the term of the HUD Use Agreement. The 0.4% annual interest payments shall be due at loan disbursement if required by HUD. All other interest and principal shall be deferred for the term of the HUD Use agreement. • Disbursed MHSA capitalized operating subsidies may be either a grant or a deferred loan, at the election of the borrower.
Approved Housing Types	Both Rental Housing Developments and Shared Housing Developments are permitted as defined below.
Shared Housing Developments	• A Shared Housing Unit is a unit that is rented to and shared by two or more unrelated adults, each of whom is a member of the MHSA target population. • To qualify for funding, a Shared Housing Development must provide a separate lockable bedroom for each adult, and each adult must have a lease and be responsible for paying rent, and each bedroom must be restricted for occupancy to members of the MHSA target population. Each shared housing unit must also contain a kitchen and bathroom. • A Shared Housing Development shall consist of a 2- to 4- unit building, provided that all units in the building are restricted for use as Shared Housing. Larger buildings may be permitted on an exception basis. • Single-family homes and condominiums shall also qualify as a Shared Housing Development provided that they have a minimum of two bedrooms. • One-bedroom or studio units in duplexes, triplexes and four-plexes shall qualify as Shared Housing units provided that all two-bedroom and larger units in the building are Shared Housing units.
Rental Housing Developments	• Rental Housing Developments are apartment buildings with 5 or more units. • Rental Housing Developments include both general occupancy buildings and special occupancy buildings. Special occupancy buildings include both senior housing and housing for transition-age youth as permitted by statute. • All units, including SRO units, shall include at a minimum, a sleeping area, a kitchen area and a bathroom. The kitchen area shall at a minimum consist of a sink, refrigerator, counter area, microwave or oven, and a two burner stove or built-in cook top. • At least 10% of the units, but no fewer that 5 units per development, shall be set aside

	for members of the target population. • Qualified rental housing units shall be restricted for rental to a household with an adult member who is also a member of the target population. Adult is defined for these purposes as someone who is 18 years of age or older, or who is between 16 and 18 years of age and has been emancipated by court order. • Rental Housing Developments smaller than 5 units may be considered on an exception basis.
Applicant Qualifications	• Applications shall be submitted via county mental health departments, which shall apply for funding on behalf of a qualified non-profit housing development organization. • The submission by the county mental health department will signify the county's approval of all of the following; 1) The capital funding request for the development, 2) The operating subsidy funding request for the development, and 3) A commitment by the county to provide funding for supportive services for the residents of the development who are members of the target population for the term of the MHSA loan. • Qualified non-profit housing development organizations include; 1) Developers with a track record of successful housing development and a history of serving the target population, 2) Developers with a track record of successful housing development but with no history of serving the target population, but with a strong contract/Memorandum of Understanding with a qualified service provider and property manager, and the assistance of qualified consultants with a history of successfully working with developers to house the target population, and 3) A qualified supportive services provider with a joint venture developer partner with a history of successful development, who has entered into a strong contract/Memorandum of Understanding with a qualified property manager, and has the assistance of qualified consultants who have a history of successfully working with similar joint venture partners to house the target population. • The developer and its affiliate organizations will be evaluated both for their ability to successfully develop and manage the real estate component of the project, and for their ability to partner with a service provider or lead service provider to deliver high-quality services to the target population.
Qualified Borrowers	• The borrower must be either: 1) A limited partnership (LP). The managing general partner of the LP must be a 501(c)(3) corporation or a limited liability company (LLC) whose sole member is a 501(c)(3) corporation; 2) A 501(c)(3) corporation; 3) An LLC whose sole member is a 501(c)(3) corporation; 4) A county mental health department; 5) A local housing authority; or 6) An affiliate of the county mental health department created to hold properties financed with MHSA funding.

	• The borrower also must be organized as either 1) A single asset entity (in the case of a LP), or 2) A separate legal entity that only holds properties that have MHSA funding, as appropriate.
MHSA Loan Allocations Per County	• Each county will have MHSA Housing Program capital and operating subsidy funds allocated to them by the California Department of Mental Health (DMH). The permanent (capital) loans and capitalized operating subsidy awards made under the MHSA program in a given county will be limited by the funds available to each county under the DMH allocation formula. • The first allocation to the counties will be for a 5-year period. • Nothing shall prohibit the county mental health departments from utilizing other available funds for this program to supplement their MHSA allocations.
Small Counties	• Eight percent, or $6,000,000 in capital loans and $3,200,000 in subsidies each year, will be allocated for small county applications under this program. These funds may be combined by contiguous small counties to develop projects serving regional needs. • Small counties are free to follow the application process described herein for any projects that meet these standards. Where appropriate, program requirements may be waived on a case-by-case basis. • To be identified as "small," the county must have 200,000 or fewer residents in accordance with MHSA requirements based on the most recent census. • Due to the unique needs of small counties, separate, more flexible guidelines will be available for their use in developing housing resources.
Matching Funds	• The MHSA Housing Program will fund one-third of the costs of a Rental Housing Development up to a maximum of $100,000 per restricted unit. Amounts over $100,000 up to one-third of total development costs per restricted unit will be considered on an exception basis, if requested by the county. • No MHSA funding will be provided for non-restricted units in Rental Housing Developments, and the developer must provide 100% of the costs of the non-restricted units from other sources. • No match will be required for Shared Housing Developments provided that the costs are at or below $100,000 per bedroom, and each bedroom is restricted for rental to a tenant who meets the target population definition. • Matching funds may be obtained from grants, tax credits, other deferred, forgivable or residual receipts loans from governmental and private loan sources, and other county mental health funds. • MHSA Housing Program capitalized operating subsidy funds may not be used to make amortized debt service payments, with the exception of the MHSA Program interest payment of 0.42% and HCD Prop 1C required interest payment of 0.42%. • Fully amortizing loans will be allowed for those Rental Housing Developments or Shared Housing Developments that do not receive MHSA operating subsidies. • Fully amortizing loans will be allowed for Rental Housing Developments that receive MHSA operating subsidies on a exception basis if all of the following conditions are

	met: 1) The rents on the non-restricted units are high enough to fully support amortizing debt, and 2) The operating budgets are bifurcated sufficiently to insure that the amortizing debt payments are not being paid from MHSA operating subsidy funds. • No matching funds are required for operating subsidies.
Subordinate Financing	• Subordinate loans or grants are encouraged from local government and third parties to achieve project feasibility. • The MHSA Regulatory Agreement and Loan Documents will be subordinate to Construction Loan Documents, fully amortizing permanent loans, and HUD 811 Use Agreements and Loan Documents. • The MHSA Regulatory Agreement and Permanent Loans will be subordinate to other residual receipts/deferred permanent loans from federal, state and local sources provided that those loans are twice the amount of the MHSA permanent loan or larger. • Subordination to other HUD loan documents, use agreements and grant agreements will be reviewed on a case-by-case basis. All other loan documents, loans, leases, recorded use agreements, and recorded grant agreements must be subordinate to the MHSA Permanent Loan Documents and Regulatory Agreements.
Rent and Occupancy Requirements	• All MHSA units must be restricted for occupancy by MHSA target population households earning 50% or less of the county median income (as adjusted by family size). Unit rents must be restricted to 30% of 50% or less of the county median income (as adjusted by family size). • Funding applicants are encouraged to restrict occupancy in MHSA units to MHSA target population households earning 30% or less of the county median income and rents to 30% of 30% or less of area median income (adjusted by family size). • A bedroom is a MHSA unit in Shared Housing Developments, provided that each tenant holds a lease agreement in his/her own name, and is responsible for paying rent. Each “bedroom” unit in a Shared Housing Development must be restricted for occupancy by single adult who meets the target population definition and whose income is 50% or less of county median income for a studio unit. Bedroom unit rents in shared housing units must be restricted to 30% of 50% of the county area median income for a studio unit.
Allowable Costs	• All costs normally allowed as development costs for supportive housing by CalHFA will be allowable costs for MHSA loans. Developer fees will be no higher than those allowed by TCAC and will be reviewed individually for appropriateness. • Up to 100% of the first year’s operating cost may be capitalized as a regular operating reserve. • Up to $3,000 per unit of replacement reserves may be capitalized if funds are available in the development budget. • Between three months and six months of rent-up reserves may be capitalized, depending upon the tenant certification procedures required by the county for MHSA restricted units.

	• Ground Lease Payments must be capitalized in the development budget, and cannot be amortized over the term of the loan.
Capitalized Operating Subsidies	• The Borrower and the county may apply for a reservation of operating subsidies for the MHSA restricted units. • Priority in allocating operating subsidies will be given to Rental Housing Developments. • Only the operating costs of MHSA restricted units may be subsidized with operating subsidies. Non-restricted unit costs are not eligible costs. • Operating subsidies are available for up to 20 years. • Operating subsidies will be capitalized at permanent loan conversion/closing and held by CalHFA in an interest-bearing reserve account for the benefit of the development. • Operating subsidies will be disbursed quarterly, in advance. The first advance will have a 60-day cushion that may not to be spent unless authorized by CalHFA. • Operating subsidies will not be the property of the development. Reserves not used by the development will be recaptured for other MHSA developments. • The operating subsidy reserve will be sized based on a review of the development's first-year operating budget, and 4% annual cost escalators. Interest earnings on the reserve will be factored into the cost escalator calculation. • The operating subsidy payments will be reconciled annually with actual operating costs. • Occupancy will be reviewed annually. Operating subsidies will be reduced or terminated for developments that do not rent their restricted units to members of the target population. Operating subsidies may be reduced for MHSA restricted units when the resident has a housing choice voucher (HCV), absent mitigating circumstances. • Operating subsidies will not be available for projects that do not receive permanent loan funds from the MHSA Housing Program. • Operating subsidy awards will be made at loan commitment but will be conditioned upon a demonstration prior to permanent loan closing that the Developer has applied in good faith for other available rental housing subsidies for the project, and been unsuccessful in their application(s). Developers will be asked to identify in their applications the rental subsidy source or sources for which they are applying and why they are pursuing that source or sources. The determination of the appropriateness of the source or sources will be made during the underwriting process. Documentation of good faith application to the alternate source or sources will be required during the underwriting process. Developers will only be required to apply for other subsidies in one award cycle. • Projects that receive operating subsidy contracts from other sources that have a term of less than 20 years may also apply for a back-up award for MHSA capitalized operating subsidies for the time period not covered by their other subsidy contract(s), provided that they agree to apply for all available extensions of subsidy contract(s) they receive. Back-up capitalized operating subsidy reserves not used by the development will be recaptured for other MHSA developments. • Deferred developer fees (for tax credit projects) and asset management fees of \$25/unit/month, or \$15,000 per development, whichever is less, may be paid from

	operating cash flow. • Ground lease payments will not be an allowable operating cost unless they are token payments. • Replacement reserves may be paid from project cash flow. • All developments will be required to apply for the "welfare tax exemption" (property tax exemption), and will be required to maintain that exemption for the term of the loan. • Disbursed MHSA capitalized operating subsidies may be either a grant to the borrower or a deferred loan, at the election of the borrower.
Asset Management	• Replacement reserves and regular operating reserves for the development will be held by CalHFA. This requirement may be waived at CalHFA's discretion. CalHFA will hold operating subsidies in a reserve. • Taxes and insurance will be impounded by CalHFA. They will be deducted from operating subsidies paid to the development. This requirement may be waived at CalHFA's discretion. All developments will be required to submit quarterly financial reports. This requirement may be waived or more frequent reporting may be required at the CalHFA's discretion. • All developments will be required to submit annual audits prepared by a certified public accountant to commonly accepted accounting standards.
Services	• The Borrower must provide a clearly articulated service delivery program and property management plan. • The services provided must be appropriate to the target population, and designed to assist the MHSA Housing Program target population residents to live independently. • The Borrower must have a commitment for service funding from the county at MHSA Housing Program loan closing. All projects must identify a qualified service provider who will provide supportive services to the residents. In the event that there is not a single service provider, the application must identify a lead service provider for the project. The Borrower will be required to arrange for the provision of services for the term of the MHSA Housing Program loan. • All applications must include a supportive service plan and budget, which must meet MHSA requirements and must be approved by DMH. • All projects must provide an MOU between the borrower, service provider and property management agent.
Target Population	• The target population is defined as low income adults, older adults, or transition-age youth with serious mental illness as defined in Welfare and Institutions Code Section 5600.3(b)(1) who at time of assessment for housing services meets the criteria for MHSA Community Services and Support services in their county of residence and are homeless or at risk of homelessness. ❖ Homeless is defined as living on the streets, or lacking a fixed, regular, and adequate night-time residence (this includes shelters, motels and living situations in which the individual has no tenant rights), or ❖ At risk of homelessness includes the following: Transition-Age Youth exiting foster care or juvenile hall; individuals discharged from institutional settings, Individuals released from local city or county jails; individuals temporarily

	placed in Residential Care Facilities upon discharge from one of the institutional settings defined below, and individuals who have been assessed and are receiving services at the county mental health department, and who have been deemed to be at imminent risk of homelessness, as certified by the County Mental Health Director ❖ Institutional settings is defined as hospitals, including acute psychiatric hospitals, psychiatric health facilities (PHF), skilled nursing facilities (SNF) with a certified special treatment program for the mentally disordered (STP), and mental health rehabilitation centers (MHRC), and crisis and transitional residential settings • To receive assistance under the MHSA Housing Program, the proposed project must serve the MHSA target population and must ensure the provision of services necessary to allow members of the target population to live independently. • CalHFA and DMH reserve the right to review and approve all applications and all supportive services plans for eligibility for the MHSA Housing Program.
Fees (Subject to change)	• Application Fee: $500, due at time of application submittal. • Origination Fee: 1% of the loan amount, due prior to the Final Commitment. • All third party costs commissioned by CalHFA. Examples of possible third party costs include appraisal reports, physical need assessments, and construction inspection.
Application Process	All projects will be required to submit a completed application with all attachments. The application will be on the CalHFA Web site. It will include MHSA Housing Program specific requirements and the joint CalHFA, TCAC, CDLAC, and HCD application ("the Universal Application").
Due Diligence	All of the due-diligence reports listed below are required. Preparation of reports will be at the Borrower's expense: • A management contract with a qualified property manager. • Plans and Specifications. • Plans should provide for supportive service space, and office space for service staff as appropriate. • For Rental Housing Developments, three years of audited financials for the developer. • An MOU between the Developer, a qualified service provider and the property management company. • A supportive service plan and budget. • A commitment from the county mental health department for services funding. • Qualifications and evidence of experience with similar projects from the developer and development team members, together with resumes for their key personnel. • Property appraisal, market study, Phase I Report, and other studies as appropriate. • Freddie Mac Form #70 (single family) or #72 (small rental) appraisals, as appropriate, will be required for Shared Housing appraisals. MAI commercial appraisals will be required for Rental Housing Developments. • Physical Needs Assessments, building inspection reports, sewer camera reports, roof

	reports, lead-paint, mold, asbestos, and structural (seismic) studies as appropriate for rehabilitation projects.
Predevelopment Loans	• Predevelopment loans of up to $500,000 will be available to all Rental Housing Developments that have received an MHSA loan commitment and can demonstrate site control and receipt of all required local entitlements. • Predevelopment loans of up to $200,000 will be available to all Shared Housing Developments that have received an MHSA loan commitment and can demonstrate site control and evidence of appropriate zoning. • The predevelopment loan term will be two years or at construction loan closing, whichever is sooner. • Interest will be 3% fixed, and will be deferred until construction loan closing. It will be forgiven at construction loan closing. • Predevelopment loan funds will be available for predevelopment costs required to secure other funding commitments, and to complete due diligence required for construction loan closing or permanent financing. Examples of eligible predevelopment costs include engineering studies, Phase 2 studies, and architectural and legal fees. • Staffing costs, option costs, and all costs associated with site acquisition are not eligible costs for predevelopment loans. Predevelopment loans of less than $200,000 may be secured against the property at CalHFA's discretion. All predevelopment loans in excess of $200,000 must be secured against the property.
Questions	Questions regarding the MHSA Financing Program may be directed to CalHFA's Multifamily Programs Division: Edwin Gipson, Chief, Multifamily Programs Phone: (310)342-6899; Fax: (310)342-1225 egipson@calhfa.ca.gov

IMPORTANT DISCLOSURE INFORMATION:

The information provided in this program description is for guidance only. While we have taken care to provide accurate information, we cannot cover every circumstance or program nuance. This program description is subject to change from time to time without prior notice.