



## LOCAL GOVERNMENT SPECIAL NEEDS HOUSING PROGRAM TERM SHEET FOR PARTICIPATING AGENCIES

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.
- 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.
- 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 Ap 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.

**SNHP Recommended Funding Amounts & Terms**

SNHP Capital Development Loan & Required Reserves	Capitalized Operating Subsidy Reserve (COSR)
<ul style="list-style-type: none"> <li>• <u>Recommended maximum 2017 SNHP Loan Limits</u> - \$145,600 per SNHP Regulated Unit (suggested increase is up to 4% a year)</li> <li>• <u>Eligible Use:</u> construction and/or permanent financing (no predevelopment loans)</li> <li>• <u>Interest Rate:</u> 3% simple interest loan; residual receipts payments required be paid from 50% of surplus cash flow</li> <li>• <u>Loan Term:</u> 20 to 57 years</li> <li>• <u>Capitalized Operating Expense Reserve:</u> 25% of the first year’s approved operating and reserve budget</li> <li>• <u>Required Replacement Reserve:</u> New Construction: \$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.</li> <li>• <u>MHSA Client Rent &amp; 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).</li> <li>• <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.</li> </ul>	<p><b>For Projects with SNHP Loans:</b></p> <ul style="list-style-type: none"> <li>• <u>Recommended maximum 2017 COSR Limit</u> - \$145,600 per assisted unit (suggested increase is up to 4% a year).</li> <li>• <u>COSR Amount and Term:</u> 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 Youth regulated units).</li> <li>• <u>Funded:</u> COSR’s are capitalized at SNHP Loan closing and serviced by CalHFA.</li> <li>• <u>Disbursements:</u> COSR funds are disbursed beginning at Certificate of Occupancy, and reconciled annually prior to future COSR advancements.</li> <li>• <u>CalHFA Annual COSR Servicing Fee:</u> \$5,000</li> </ul> <p><b>For Projects with MHSA Housing Program Loans:</b></p> <ul style="list-style-type: none"> <li>• 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.</li> </ul>

**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, LG determines or approves: 1) the number and size units (by bdrm count) of the SNHP Regulated Units; 2) age related occupancy restrictions (for Transition Age Youth, Family, or Senior MHSA eligible clients and their families); 3) any permitted MHSA client sub-class preferences (i.e. veterans,



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chronically homeless); 4) any other Lender or subsidy required occupancy restrictions that overlay the SNHP regulated units that are more restrictive than required by the SNHP; 5) the maximum SNHP Loan; and 6) the required COSR term (if any) and who is responsible for funding the COSR.

- LG commits to provide supportive services that meet the needs of the MSHA Clients for the term of the SNHP Loan and develops a Supportive Service Plan (“SSP”) that addresses the Project’s MSHA 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 MSHA 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).
- 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 will also be posted on the CalHFA website on the “Boilerplate Documents” tab after January 3, 2017.
- 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:

**Matt Mielewski**, Lead SNHP Housing Finance Officer, Phone: 310.342.5417 [MMielewski@CalHFA.ca.gov](mailto:MMielewski@CalHFA.ca.gov)

**Sabrina Saxton**, Housing Finance Officer, Phone: 310.342.5425 [Ssaxton@calhfa.ca.gov](mailto:Ssaxton@calhfa.ca.gov)

### 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.