NCSHA 2016 Annual Awards Entry Form

(Complete one form for each entry)

Deadline: Wednesday, June 15, 2016

Visit ncsha.org/awards to view the Annual Awards Call for Entries.

Instructions: Type entry information into the form and save it as a PDF. Do not write on or scan the form. If you have any questions contact awards@ncsha.org or 202-624-7710.

Fill out the entry name *exactly* as you want it listed in the program.

Entry Name: California Local Governments Special Needs Housing Program

HFA: California Housing Finance Agency

Submission Contact: (Must be HFA Staff Member) Melissa Flores **Email:** mflores@calhfa.ca.gov

Please provide a 15-word (maximum) description of your nomination to appear on the NCSHA website.

Special Needs Housing Program creates permanent supportive housing for mentally-ill homeless individuals

Use this header on the upper right corner of each page:

HFA: California Housing Finance Agency

Entry Name: Special Needs Housing - Housing for Persons with Special Needs
California Local Governments Special Needs Housing Program

Select the appropriate subcategory of your entry and indicate if you are providing visual aids.

Communications	Homeownership	Legislative Advocacy	Management Innovation
○ Annual Report ○ Creative Media ○ Promotional Materials and Newsletters	○ Empowering New Buyers ○ Encouraging New Production ○ Home Improvement and Rehabilitation	○ Federal Advocacy ○ State Advocacy	○ Financial ○ Human Resources ○ Operations ○ Technology
Rental Housing	**Special Needs Housing**	**Special Achievement**	Are you providing visual aids?
○ Encouraging New Production ○ Multifamily Management ○ Preservation and Rehabilitation	○ Combating Homelessness ◉ Housing for Persons with Special Needs	○ Special Achievement	◉ Yes ○ No

Building on Success

In 2008, the voters of California approved a 1% tax on income over a million dollars to help provide services for residents with mental illness, who were homeless or at risk of homelessness. A one-time appropriation of $400 million of these funds was dedicated to housing. Through an 8-year Interagency Agreement between two State entities – one dedicated to housing and one dedicated to health care – a successful program was created to help those with mental illness move off of the streets to a permanent supportive housing unit. The Mental Health Service Act (MHSA) Housing Program success translated into $390 million committed to 183 housing developments that provide over 2,500 new housing units for MHSA-eligible clients throughout the state of California. The MHSA Housing Program funding, when leveraged with other sources of funding, created over 10,500 units of affordable housing.

When the agreement between the two State collaborators ended in May 2016, however, some counties still held unused funds; all still had unmet housing and mental health service needs; and many expressed interest in seeing this type of program continue.

Background

Even though the MHSA Housing Program no longer provides funding commitments, the challenge of developing permanent supportive housing continues. Several larger southern California counties requested that CalHFA offer another special needs program. The counties were interested in continuing the partnership with CalHFA and to use local and MHSA funds to continue developing housing or supplement expiring subsidies over time.

With the CalHFA Board of Directors' support in May 2015, staff pursued the development of a continuation program. Using the lessons learned from administering the MHSA Housing Program and considering input from others that participated in the original program, CalHFA developed the Local Government Special Needs Housing Program (SNHP) to continue to support the needs of localities. The SNHP launched on June 1, 2016.

Special Needs Housing Program

The Special Needs Housing Program creates permanent housing units for individuals and delivers mental health services, with the goal of moving beyond the mental health clinic setting to offer a much wider and more creative array of services and support to the individual in community settings, enhancing their recovery efforts and their opportunities for independent living.

The SNHP provides funding for the capital costs and long-term operating subsidies to develop affordable permanent supportive rental housing. The local mental health agencies provide the supportive services through existing programs and funding. This collaboration targets transition-age youth, adults, seniors and families where a child is often the qualifying member.

CalHFA's role, as the State's affordable housing bank, is to provide comprehensive housing finance and development training for localities and developers, to underwrite localities' selected proposals and ensure projects are not being over subsidized or that the MHSA dollars invested in housing projects are financially viable over the long-term.

The SNHP participation is voluntary and subject to adequate annual funding commitments from participating localities and allows localities to rollover funding from the MHSA Housing program. The localities benefit by participating in the SNHP by maintaining local control over the solicitation and selection of housing proposals that best meet local needs, while relying on the experience of the state's housing finance agency. The selected projects will meet local and state goals to create housing that provides the requisite supportive services to benefit the mentally-ill homeless, chronically homeless and those at-risk of homelessness.

Replicable

The program design is simple. Upon an executed Participation Agreement between CalHFA and the local jurisdiction and a transfer of local funds to CalHFA, developers apply for local government project approval. With approval, CalHFA takes over the administration of the project financing and asset management. The local government's mental health services department administers the supportive services through existing programs.

Problem solving response to an important state housing need

The key objective of this program is to marrying the housing with the supportive services which has been proven to increase positive outcomes for the individual. The opportunity for a "normal" life with the supportive care services, set in the broader community is positively life-changing. Giving people the opportunity to work through recovery in a stable living environment gives them the ability to live their lives with more choice, and more opportunities for personal growth.

Secondly, the state and local funds available are used more efficiently. This program leverages the limited resources available for housing and healthcare services. Through this combination more people can benefit and even prosper in much more meaningful ways.

Proven track record of success in marketplace

During the development of the SNHP, we looked at what worked well and what could be improved under the MHSA Housing Program. There were lessons learned that were considered. These generally fell in four key areas:

- Locality – lack of experience in housing development, tenant screening process, and managing various interests goals
- Development Delays – NIMBY obstacles, lack of qualified developers in particular regions, tax credit cycles
- Property Management – generally a lack of experience with the target tenants
- Capitalized Operating Subsidies – underestimated operating expenses

These areas were addressed with additional support and technical assistance in the new SNHP program.

Demonstrates effective use of resources
A constant issue with developing affordable housing today is the lack of resources. This program allows localities to manage funding and to use multiple sources to maximize the production of affordable housing.

Effectively employ partnerships
An important advantage of this program is that it utilizes various partners' expertise creating efficiencies while providing the local government with planning and oversight control.

Results and Success
By seeking input early on during the development of this program and basing it on a successful model, we were able to make the necessary modifications that should prove to increase localities satisfaction, promote early their adoption and buy in.

Even though this program is in the early stages of implementation (effective June 1), we already have 14 counties completing Participation Agreements and have committed roll-over funds and additional allocations totaling nearly $70 million for the new program.

The true measure of success is that the localities are interested in promoting the program which will create much needed special needs housing units. The future residents will gain a more positive outlook on their future, pride in their homes and community, security, happiness and better quality of life.

LOCAL GOVERNMENT SPECIAL NEEDS HOUSING PROGRAM

CALHFA'S MULTIFAMILY PROGRAM TERMS

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.

Qualifications	• 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. • 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). 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). • 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. • Developer/Borrowers are 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.

Let's talk...

Debra L. Starbuck, Lead SNHP Housing Finance Officer
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County Participation Fees (NON-REFUNDABLE AND PAYABLE UPON RECEIPT OF LG FUNDS ASSIGNED TO CALHFA)	• 3% Program Participation Fee: for all unencumbered MHSA funds that the LG authorizes be transferred from the MHSA Housing Loan Program to the SNHP before September 30, 2016. • 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: LG may recoup a portion of the Participation Fee by charging the Developer a 1% fee. This Fee is collected by CalHFA at SNHP Loan closing and deposited into the LG's SNHP Funds account at CalHFA. • $2,500 CalHFA Application Fee: A 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 Capital Development Loan & Required Reserves	**SNHP Capital Development Loan & Required Reserves** • Recommended 2016 SNHP Loan Limits - $140,000 per SNHP Regulated Unit (increasing by up to 4%/year) • Eligible Use: construction and/or permanent financing • Interest Rate: 3% simple interest loan; residual receipts payments required be paid from 50% of surplus cash flow • Loan Term: 20 to 55 years • Capitalized Operating Expense Reserve: 25% of the first year's approved operating and reserve budget • Required Replacement Reserve: $500 per unit/annually for all units in a Project, increasing by 5% every five years • MHSA Client Rent & Utility Assistance Reserve: reserve that Developer's should fund by completion of a Project. Reserve should equal 3 years' minimum rental income for the SNHP Units (assuming rents at 30% of SSI). Reserve held by Borrower as a revolving fund to cover rent payments for MHSA Clients waiting for SSI approval. • CalHFA Annual Servicing Fee: $2,500 for Shared Housing Projects with 1-4 units; and $7,500 for five or more SNHP regulated units in a Rental Housing Development.
SNHP Recommended Capitalized Operating Subsidy Reserve (COSR)	**Capitalized Operating Subsidy Reserve (COSR)** For Projects with SNHP Loans: • Recommended 2016 COSR Limit - $140,000 per assisted unit (increasing by 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 Transitional Aged Youth regulated units). • Funded: COSR's are capitalized at SNHP Loan closing and serviced by CalHFA. • Disbursements: COSR funds are disbursed beginning at Certificate of Occupancy, and reconciled annually prior to future COSR advancements.

	• CalHFA Annual COSR Servicing Fee: $5,000 For Projects with MHSA Housing Program Loans: • A deposit of any amount may be added to an existing COSR and administered by CalHFA per the terms of existing MHSA COSR Agreements.
Local Government Application & Approval Process	• LG solicits/selects proposals for the construction or acquisition and renovation of rental units using SNHP Funds. • For each SNHP Project, LG determines: 1) the number and size units (bdrm count) of the Regulated Units; 2) occupancy restrictions and preferences (that include a priority for housing the chronically homeless); 3) the maximum SNHP Loan; and 4) the maximum COSR (if applicable). • LG commits to provide supportive services that meet the needs of the MHSA Clients for the term of the SNHP Loan. • LG approves each Project's Supportive Service Plan and negotiates a Memorandum of Understanding between the LG, Borrower, property manager, and primary service provider. • LG obtains all necessary local approvals and completes the required public comment process prior to submitting a SNHP Application to CalHFA for underwriting. • 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 submit a CalHFA Application with required submittals and SNHP Application Fee. • CalHFA analyzes the proposal and recommends the SNHP Loan and COSR amounts. Any recommended COSR funding level shortfalls must be funded from other sources and administered by CalHFA per the SNHP COSR Agreement. • The SNHP Application and checklist, SNHP Loan closing checklists, and boilerplate non-negotiable SNHP loan docs and COSR Agreement will be posted on the CalHFA 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.

Last revised: 05/2016

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 nor program nuance. This program description is subject to change from time to time without prior notice. The California Housing Finance Agency does not discriminate on any prohibited basis in employment or in the admission and access to its programs or activities. Not printed at the taxpayer's expense. **06/16**

SNHP Local Government Special Needs Housing Program


Cabrillo Gateway, Los Angeles County


Avenida Villas, Orange County

CalHFA operates the Local Government Special Needs Housing Program on behalf of mental health agencies throughout California. The SNHP allows local governments to use Mental Health Services Act and other local funds to provide financing for the development of permanent supportive rental housing that includes units dedicated for individuals with serious mental illness, who are homeless or at risk of homelessness. The SNHP has been created to replace the MHSA Housing Program as an option for local governments to begin or continue to development supportive housing for MHSA-eligible persons, and to more fully utilize MHSA funds for housing purposes.

Interested?

Check with the MHSA housing divisions of each mental health agency for specifics regarding MHSA/SNHP funding availability and their terms and conditions of funding. All permanent supportive rental housing projects require evidence of local mental health agency fund allocations prior to submitting an SNHP application to CalHFA for loan underwriting. CalHFA will begin accepting SNHP applications from developers once CalHFA has an executed Participation Agreement with the mental health agency and local MHSA funds have been transferred to CalHFA.

CalHFA anticipates making the first SNHP financing commitments as soon as October of this year.

For More Info…

Visit CalHFA's webpage at www.calhfa.ca.gov/multifamily/snhp

CalHFA, the state's affordable housing bank, is uniquely qualified to provide housing development expertise and real estate lending services for the benefit of other governmental entities in the State of California for the construction, rehabilitation, and development of housing for persons qualifying for mental health services under the Act.

To date, 13 county Mental Health Agencies have indicated a desire to contract with CalHFA to underwrite their loans and participate in the SNHP:

Contra Costa	**Los Angeles**
Del Norte	**Orange**
Fresno	**Riverside**
Humboldt	**San Bernardino**
Kern	**San Diego**
Lake	**Shasta**
Lassen	

Let's talk…

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CalHFA California Housing Finance Agency

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Mental Health Services Act Housing Program (MHSA)
Funding by Participating County
May 30, 2016

Participating Counties Utilizing Original $400MM of MHSA Appropriations	Total Available Funds - Original allocation plus any additional assigned funds and accrued interest, less the CalHFA Admin fee	MHSA Funds Returned to Counties thru May 30, 2016	Column A Total Funds Encumbered for Loans - Based on approved, committed, and closed loans	Column B Total Funds Encumbered for COSRs - Based on approved, committed, and closed loans	CalHFA Estimate of Unencumbered Fund Balance as of May 30, 2016	Total Projects to be Developed with MHSA Loans[3]	Total Units in MHSA Funded Projects	Total MHSA Regulated Units in MHSA Funded Projects	Total Units assisted with MHSA COSR Funds
Alameda[1]	$16,468,611.25		$10,968,225.00	$5,481,100.00	$19,286.25	14	761	95	58
Amador	$519,363.02	$519,363.02			$0.00				
Butte	$2,326,718.65		$1,575,884.00	$736,345.11	$14,489.54	1	15	14	14
City of Berkeley	$1,283,493.44		$1,258,600.00		$24,893.44	2	90	17	0
Calaveras	$641,206.54	$641,206.54			$0.00				
Colusa	$322,124.42	$322,124.42			$0.00				
Contra Costa	$9,356,910.54		$4,734,994.00	$2,899,430.00	$1,722,486.54	7	159	33	28
Del Norte	$418,445.30				$418,445.30				
El Dorado	$2,261,496.31	$13,126.31	$1,489,570.00	$758,800.00	$0.00	2	88	11	11
Fresno	$9,543,706.00		$3,375,000.00		$6,168,706.00	4	121	69	0
Glenn	$423,771.19	$423,771.19			$0.00				
Humboldt	$2,012,546.15		$1,343,957.00	$651,800.00	$16,789.15	1	32	15	15
Imperial	$2,727,696.45		$1,872,000.00	$855,674.67	$21.78	1	72	18	18
Kern	$8,060,441.23		$5,382,815.00	$2,644,100.00	$33,526.23	2	80	43	43
Kings	$2,204,581.80		$1,469,400.00	$734,700.00	$481.80	1	10	10	10
Lake	$976,094.18				$976,094.18				
Lassen	$415,332.45				$415,332.45				
Los Angeles[2]	$135,407,869.15		$84,613,107.00	$35,126,598.00	$15,668,164.15	37	1952	829	360
Madera	$2,581,376.08	$968,282.08	$983,683.00	$629,411.00	$0.00	2	12	12	12
Marin	$2,214,393.90		$475,000.00	$250,000.00	$1,489,393.90	1	50	5	5
Mendocino	$1,334,359.50	$1,334,359.50			$0.00				
Merced	$2,694,669.14	$21,487.14	$1,754,500.00	$918,682.00	$0.00	2	77	20	20
Monterey	$4,681,993.83		$2,881,493.00	$1,798,900.00	$1,600.83	3	43	28	19
Napa	$1,875,103.20		$1,218,600.00	$609,300.00	$47,203.20	1	24	18	18
Nevada	$1,688,666.18		$1,074,000.00	$513,888.00	$100,778.18	2	9	9	9
Orange	$34,812,564.00		$19,345,298.00	$15,467,266.00	$0.00	11	587	160	152
Placer	$2,431,129.00		$1,499,300.00	$836,734.00	$95,095.00	2	17	17	17
Riverside	$19,503,170.03		$12,930,082.00	$6,564,890.00	$8,198.03	7	679	105	90
Sacramento	$12,568,457.12		$7,775,000.00	$3,800,000.00	$993,457.12	4	334	81	58
San Benito	$910,190.79		$585,700.00	$319,000.00	$5,490.79	1	41	4	4
San Bernardino	$23,851,346.72		$14,097,545.00	$6,409,086.00	$3,344,715.72	8	765	110	73
San Diego	$35,454,251.03		$22,984,895.00	$11,369,356.00	1,100,000.03	14	1139	229	125
San Francisco	$10,127,583.90		$6,600,000.00	$3,500,000.00	$27,583.90	7	769	66	35
San Joaquin	$6,482,351.58		$4,427,523.00	$1,987,474.00	$67,354.58	3	213	39	39
San Luis Obispo	$2,653,318.21		$1,943,508.00	$575,525.00	$134,285.21	1	8	8	8
San Mateo	$6,818,140.92	$1,073,038.18	$5,742,845.00		$2,257.74	5	200	50	0
Santa Barbara	$5,138,567.30		$2,210,840.00	$550,000.00	$2,377,727.30	2	90	23	3
Santa Clara	$21,510,423.37	$394,198.37	$13,846,225.00	$7,270,000.00	$0.00	12	776	113	75
Santa Cruz	$3,001,812.10		$2,060,680.00	$937,425.00	$3,707.10	3	161	15	10
Shasta	$2,760,891.30		$1,790,700.00	$668,668.00	$301,523.30	1	55	19	19
Siskiyou	$595,169.69				$595,169.69				
Solano	$3,977,352.81	$724,952.81	$2,108,100.00	$1,144,300.00	$0.00	2	153	17	17
Sonoma	$4,648,918.87		$3,037,000.00	$1,581,932.00	$29,986.87	4	145	30	22
Stanislaus	$4,962,675.19		$2,679,970.00	$1,175,000.00	$1,107,705.19	2	23	22	18
Sutter/Yuba	$2,369,086.75		$545,000.00	$276,410.00	$1,547,676.75	1	10	10	10
Tehama	$872,053.71				$872,053.71				
Tri-Cities	$5,614,722.91		$5,612,402.00		$2,320.91	3	148	64	0
Tulare	$4,537,220.12	$2,697,220.12	$1,540,000.00	$300,000.00	$0.00	1	22	22	22
Tuolumne	$809,516.31	$11,816.31	$500,000.00	$297,700.00	$0.00	1	6	6	6
Ventura	$8,361,487.50		$5,470,900.00	$2,889,303.00	$1,284.50	5	113	65	65
Yolo	$3,122,785.75		$3,100,000.00		$22,785.75	1	80	20	0
TOTAL	**$440,336,156.88**	**$9,144,945.99**	**$268,904,341.00**	**$122,528,797.78**	**$39,758,072.11**	**184**	**10,129**	**2,541**	**1,508**

FOR JOINTLY FUNDED PROJECTS:

[1] The appropriations in columns A & B represent funding for the Harmon Gardens Project, but the Project/unit counts (in the blue fields) appear within the City of Berkeley numbers as this was a joint funded Project.

[2] The appropriations in columns A & B represent funding for the Cedar Springs Project, but the Project/Unit counts (in the blue fields) appear within the Tri-Cities numbers as this was a joint funded Project.

[3] Final numbers once all Projects and units have been developed (estimated to be in late 2018).

Participation Agreement

Local Government Special Needs Housing Program

This Participation Agreement ("***Agreement***") for the Local Government Special Needs Housing Program ("***SNHP***" or "***Program***") is entered into and effective as of ____________, 2016, by and between ____________________ ("***Participant***") and the California Housing Finance Agency ("***CalHFA***" or "***Agency***") (each a "***Party***", and collectively the "***Parties***").

RECITALS

A. In 2004, the people of the State of California passed Proposition 63, which established the Mental Health Services Act ("***MHSA***" or the "***Act***"), as subsequently amended. The Act creates the Mental Health Services Fund ("***MHSF***") within the State Treasury for the purposes of funding programs authorized under the Act.

B. Through a joint effort among the State Department of Mental Health (DMH), CalHFA, and the County Mental Health Directors Association, the MHSA housing program was created in 2008 as a limited term program to administer Four Hundred Million and No/100s Dollars ($400,000,000.00) of MHSA funds set aside to finance permanent supportive housing for individuals with mental illness (the "***MHSA Housing Program***"). With nearly all of the original funding expended or committed, no new financing for housing under the MHSA Housing Program shall be approved after May 30, 2016.

C. Safe, affordable, decent and stable housing is a critical element for wellness, recovery and resiliency for persons with mental illness. The Participant has determined that funds from the MHSF may be used to provide for such housing for persons qualified for services under the Act.

D. CalHFA is the state's affordable housing bank, with expertise in developing and administering real estate lending programs and products benefiting persons of low and moderate income. CalHFA is authorized to enter into contracts to create and administer housing and real estate lending programs for the benefit of other governmental entities in the State of California.

E. This purpose of this Program is to provide an option, subsequent to termination of approvals of new financing under the MHSA Housing Program, for Participants to continue partnering with CalHFA in the development of supportive housing for MHSA-eligible persons, and to more fully utilize MHSA funds for housing purposes.

F. The Participant and CalHFA enter into this Agreement for the purpose of authorizing Participant to provide funding to CalHFA to provide housing development expertise and real estate lending services to the Participant for the construction, rehabilitation, and/or development of housing for persons qualifying for mental health services under the Act.

AGREEMENT

1. Definitions.

"**Act**" is defined in Recital A.

"**Agreement**" means this Participation Agreement

"**Application**" means a Local Government Special Needs Housing Program Application submitted to CalHFA by the Participant and Developer(s).

"**Application Fee**" is defined in Section 4.6.2.

"**Area Median Income**" ("**AMI**") means the median gross income of the area in which the Development is located as determined by the Secretary of the Treasury of the United States for the purposes of Section 42 of the Internal Revenue Code of 1986, adjusted for family size in accordance with 26 USC 42(g)(2)(c)(ii).

"**Assignment Agreement**" is defined in Section 4.1.

"**Borrower**" means the party, or parties, to whom a Loan is made under this Program.

"**CalHFA**" means the California Housing Finance Agency, a public instrumentality and political subdivision of the State of California.

"**Capitalized Operating Subsidy Reserve** ("**COSR**")" means a capitalized operating subsidy reserve held by CalHFA to cover deficits in operating expenses attributable to a portion or all of the COSR Regulated Units. The COSR will be subject to the terms of a Capitalized Operating Subsidy Reserve Agreement between the Borrower and CalHFA.

"**Certificate of Occupancy**" means a certificate, or equivalent, issued by a local building department to the Borrower that indicates that the Development has met all local code requirements and is ready for occupancy.

"**Concept Meeting**" is defined in Section 5.1.7.

"**COSR**" is defined in Section 2.8.

"**COSRA**" or "**COSR Agreement**" means the agreement between the Borrower and CalHFA governing the COSR.

"**COSR-Assisted Unit**" is defined in Section 2.8.

"**COSR Servicing Fee**" is defined in Section 4.6.5.

"**CTCAC**" means the California Tax Credit Allocation Committee, which approves the competitive allocation of state and federal tax credits to eligible developments.

"**Developer**" means the party selected by a Participant to acquire and renovate or build rental housing that includes rental units reserved for Eligible Clients.

"**Development**" means a housing development for which funds are provided under this Program.

"**Development Proposal**" means a financial proposal by a Developer to renovate or construct a rental or shared housing development that will include units reserved for occupancy by Eligible Clients. A Development Proposal includes the site location and environmental concerns, a summary of the proposed unit mix, rents, any income limits, the proposed sources and uses of funds needed to build the Development, operating expense and vacancy projections, and a thirty (30) year cash flow analysis of the Development following issuance of a Certificate of Occupancy.

"**Eligible Clients**" means a person (including Veterans) who is Homeless or at Risk of Homelessness and who has a mental illness in accordance with California Welfare & Institutions Code Section 5600.3(a) and/or California Welfare & Institutions Code Section 5600.3(b).

"**Eligible Development**" means a Development eligible for financing under this Program, as described in Section 2.5.

"**Final Commitment Letter**" means a letter issued by CalHFA to memorialize the terms and conditions relating to the use of Program Funds and conditions relating to a proposed Development and units reserved for Eligible Clients, including: (a) the terms and conditions of the Loan and COSR approval; (b) any reserve requirements; (c) the required Loan lien priority; and (d) any special conditions related to the Development financing or scope of rehabilitation or construction.

"**Financial Analysis**" means the comparison of the Development's anticipated sources of funds to the anticipated development costs, and an income and expense analysis based on proposed rents, utility allowances, vacancy assumptions, rental subsidies, operating expenses, debt service. This analysis allows CalHFA to determine the projected COSR funding levels needed to subsidize the MHSA COSR Assisted Units, and any subsidy, operating or replacement reserves needed to ensure the financial viability of the Development over the first twenty (20) – thirty (30) years of operations.

"**Homeless or at Risk of Homelessness**" means living on the streets or lacking a fixed and regular night-time residence. This includes living in a shelter, motel or other temporary living situation in which the individual has no tenant rights. "At Risk of Homelessness" may be due to one of the following situations: (a) transition age youth exiting the child welfare or juvenile justice systems; (b) discharge from crisis and transitional residential settings, a hospital, including acute psychiatric hospitals, psychiatric health facilities, skilled nursing facilities with a certified special treatment program for the mentally disordered, and mental health rehabilitation centers; (c) release from city or county jails, but not a parolee from state prison; (d) temporary placement in a residential care facility upon discharge from (b) or (c) above; and (e) individuals who have been assessed and are receiving services from 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.

"**Loan**" means a secured loan financed with Program Funds under the terms of the Program.

"**Memorandum of Understanding**" or "**MOU**" means an agreement between the developer, the primary service provider(s), the property management company, and the Participant to ensure compliance with the Regulatory Agreement terms and other Development regulatory agreements that may impose income restrictions or more restrictive rent limits on the Regulated Units. The property management agent and the primary service provider may be related entities, provided there is a clear separation of staff and a clear delineation of their separate roles, staffing and responsibilities in the MOU.

"**MHSA Housing Program**" is defined in Recital B. The MHSA Housing Program is governed by an Interagency Agreement solely between CalHFA and the State Department of Health Care Services ("***DHCS***") (the successor to DMH), with continuing obligations of CalHFA and DHCS. Housing financed under the MHSA Housing Program remains subject to the terms thereof.

"**MHSF**" is defined in Recital A.

"**Participant**" means a county, two or more counties acting jointly, or a city receiving funds pursuant to Welfare and Institutions Code Section 5701.5, and which is a Party to this Agreement.

"**Participant Funds**" means MHSA or other funds transferred from the Participant to CalHFA for use per the terms of the Program and this Agreement, and may include residual receipt loan payments received by CalHFA for repayment of MHSA Housing Program loans or SNHP Loans that the Participant approves for transfer to CalHFA for use per the terms of the Program and this Agreement.

"**Participant's Account**" means an account established at CalHFA for the purpose of holding Participant Funds transferred to CalHFA under the terms of the Program and this Agreement, which may include sub-accounts. The Participant's Account includes quarterly interest earnings, disencumbered COSR funds, and may include residual receipt loan payments authorized by Participant to be deposited therein.

"**Party**" and "**Parties**" are defined in the first paragraph of this Agreement.

"**Permanent Loan Conversion**" means the conversion of construction loans to permanent status, and may include payment in full or part of the principal of a construction loan or the funding of additional loans upon completion of construction. Permanent Loan Conversion may be subject to additional due diligence requirements.

"**Primary Service Provider**" means the entity responsible for overall implementation and delivery of the supportive services to the Eligible Clients as specified in an Eligible Development's supportive services plan approved by the Participant.

"**Program**" or "**SNHP**" shall mean the Local Government Special Needs Housing Program administered by CalHFA in accordance with this Agreement.

“**Program Funds**” shall mean Participant Funds transferred to CalHFA, plus accrued interest, to be used to finance SNHP Loans or COSR’s for Eligible Developments or such other purposes agreed upon by the Parties.

“**Program Participation Fee**” or “**PPF**” is defined in Section 4.5.

“**Regulated Unit**” means a rent and occupancy-restricted bedroom or unit in a Development reserved for Eligible Clients under the Program.

“**Regulatory Agreement**” means a Development-specific regulatory agreement that restricts occupancy of a specific number of units/bedrooms reserved for Eligible Clients. The Regulatory Agreement shall: (a) identify the number, size (number of bedrooms), and use or occupancy restrictions of the Regulated Units; (b) specify the maximum rents for the regulated units; and (c) be recorded senior to the Loan deed of trust.

“**Rental Housing Development**” means an apartment building or buildings with five or more apartments. Individual apartments or bedrooms within an apartment may be rented to Eligible Clients as Shared Housing Units. A Rental Housing Development shall not include a Development which is subject to any State of California licensure requirements.

“**Servicing**” is defined in Section 6.2.

“**Servicing Fee**” is defined in Section 4.6.5.

“**Shared Housing Development**” means a residential building having less than five apartments (a single family home, duplex, tri-plex or four-plex), with each bedroom rented to an Eligible Client and is not subject to any State of California licensure requirements. Each bedroom within a Shared Housing Development is a Regulated Unit and considered a “**Shared Housing Unit**”.

“**Shared Housing Unit”** means a bedroom that is leased to an Eligible Client living in a Shared Housing Development or a Rental Housing Development.

“**SNHP**” or “**Program**” means the Local Government Special Needs Housing Program developed and administered by CalHFA in accordance with this Agreement.

“**Term Sheet**” is defined in Section 2.10

“**Underwriting Fee**” is defined in Section 4.6.3.

“**Unit**” means: (a) a traditional apartment residence containing at least one (1) bathroom and a kitchen in the case of Rental Housing Developments; or (b) a separate lockable bedroom in the case of Shared Housing Developments, with each bedroom being subject to a separate individual rental agreement.

2. General Program Description

2.1 Purpose. The purpose of the Program is to allow local government recipients of MHSA funds to partner with and utilize CalHFA’s expertise to jointly provide supportive housing and housing assistance for Eligible Clients (and their families). This Program is separate and independent from the MHSA Housing Program. This Program shall not affect the rights and obligations of any party under the MHSA Housing Program, and the MHSA Housing Program shall not affect the rights and obligations of any party under this Program.

2.2 Participant's Role. Eligible Participants include local governments that provide MHSA and/or other funds *(*collectively, the ***"Program Funds"***) to CalHFA for the purpose of providing financial assistance in accordance with this Agreement. Participant shall be responsible for those items listed in Section 3.1.

2.3 Eligible Use of Program Funds. Program Funds may be used to finance capital development loans for the development of new permanent supportive rental housing and to provide operating subsidies for some, or all of the rental housing units reserved for Eligible Clients. Subject to CalHFA approval, and such conditions deemed necessary or advisable by CalHFA, Program Funds may also be used to provide financial assistance to housing developments financed under the MHSA Housing Program.

2.4 Eligible Borrowers. The Borrower must be legally organized as a single-asset entity, or entity that holds title only to MHSA or SNHP Developments, or as otherwise approved by Participant.

2.5 Eligible Developments. Eligible Developments include new construction or the acquisition and rehabilitation of a Rental Housing Development or Shared Housing Development to provide new permanent supportive housing for Eligible Clients, which may include occupancy restrictions (including preferences or other restrictions), such as units for seniors, veterans, or transitional aged youth, as determined by Participant. Master leasing is not permitted.

2.6 Loans

2.6.1 Loans shall be fixed at three percent (3%) simple interest (unless otherwise approved by Participant), require annual residual receipt payments (in accordance with the Regulatory Agreement), and have a minimum term of twenty (20) years. Proposed Loans must be sized based on the recommended Loan Limits reflected on the most current Term Sheet, unless otherwise approved by Participant.

2.6.2 Accrued interest and principal payments on Loans will be required on an annual basis, payable from residual receipts (*i.e.*, from fifty percent (50%) of surplus cash after payment of approved operating expenses) to the extent available and in proportion to other residual receipts lenders' loan amounts, as more particularly described in the Regulatory Agreement and Loan documents.

2.6.3 Accrued and unpaid interest and principal shall be due and payable in full upon maturity of the Loan, except as otherwise approved by Participant.

2.6.4 The Loan term shall be coterminous with the term of the Development's shortest residual receipts or deferred loan, except as otherwise approved by Participant.

2.6.5 The Loan shall be secured against the fee interest in the property (or leasehold interest if approved by Participant) in a lien position based on size of the Loan compared to other residual receipt loans or as otherwise approved by Participant.

2.6.6 Predevelopment loans are not permitted under the Program. Loan closing may only occur prior to the start of construction or at Permanent Loan Conversion.

2.7 Regulated Units. A Regulatory Agreement will be recorded and will restrict the Development and the Regulated Units.

2.8 Capitalized Operating Subsidy Reserve. The Participant may elect to provide a capitalized operating subsidy reserve (the "***COSR***") funded with Program Funds to subsidize the rents of some or all of the Regulated Units (the "***COSR-Assisted Units***") by approving a maximum COSR as part of the Application.

2.8.1 COSR funds shall be held by CalHFA in a Development-specific reserve account subject to the terms of the COSR Agreement.

2.8.2 Except as otherwise approved by Participant, the rents for COSR-Assisted Units shall not exceed the greater of: (a) thirty percent (30%) of the current SSI/SSP grant amount for a single individual living independently (less CTCAC utility expenses and other mandatory fees); or (b) thirty percent (30%) of total household income (less CTCAC utility expense and other mandatory fees), whichever is higher (up to thirty percent (30%) of thirty percent (30%) of AMI adjusted for family size and determined annually by CTCAC).

2.8.3 CalHFA is responsible for advising the Participant of the continuing need for the COSR if a Development receives new operating or rental subsidies for the COSR-Assisted Units. If the COSR is no longer needed, the COSR funds shall be disencumbered and returned to Participant's Account.

2.9 MHSA Housing Program Development Assistance. As a convenience to Participants with housing developments financed under the MHSA Housing Program, CalHFA will permit a Participant to request that Program Funds in Participant's Account be transferred to and used to provide financial assistance for housing developments financed under the MHSA Housing Program. The use of Program Funds for such purpose shall be subject to CalHFA approval and to such conditions deemed necessary or advisable by CalHFA, or as otherwise required under the MHSA Housing Program.

2.9.1 Requests under this Section 2.9 shall be in written form acceptable to CalHFA and signed by an authorized representative of Participant.

2.9.2 Program Funds transferred under this Section 2.9 may be used for any purpose that benefits the development or the MHSA tenants, including without limitation providing additional funds for operating subsidy reserves, paying costs and expenses in connection with ensuring the continued availability of the MHSA units, and protecting or preserving the security interest in the MHSA Housing Program development.

2.9.3 Program Funds transferred to or used for MHSA Housing Program developments shall thereafter be subject to the terms of the MHSA Housing Program.

2.10 Term Sheet. CalHFA shall publish a SNHP Term Sheet (the "***Term Sheet***") on its website (www.calhfa.ca.gov) providing details of the Program, including recommended Loan and COSR limits per Regulated Unit, required Borrower or Developer-paid fees, and reserve requirements. The Term Sheet is subject to change at CalHFA's discretion; Participants will be notified of changes. In the event of a conflict between this Agreement and Term Sheet, the provisions of this Agreement shall control. A Participant may provide its own term sheet to sponsors or developers detailing supplemental Program terms and conditions.

2.11 Lender. Program Funds being used under this Program are being provided by the Participant and are being loaned or otherwise used in accordance with the Participant's direction. All Loan payments, interest, and other income with respect to the Program Funds shall be deposited in the Participant's Account unless otherwise directed by Participant. Because CalHFA shall be underwriting and closing the Loans in accordance with this Agreement, the Loan documents shall be in the name of CalHFA, solely for ease of administration. CalHFA's obligations and responsibilities in this regard shall be limited as prescribed herein.

2.12 Collaborative Effort. As a jointly created and administered Program, the Parties shall continue to work together to address and resolve issues that may arise with respect to the Program or a particular Development.

3. General Responsibilities of the Parties

The general responsibilities of the Parties concerning the operation and implementation of the Program are listed below, subject to any specific requirements provided elsewhere in this Agreement, in statute and/or in regulation.

3.1 Participant Responsibilities. Participant shall be responsible for each of the following general matters with respect to the Program:

3.1.1 The interpretation and implementation of the terms of the Act with respect to matters relating to mental health programs and services contemplated by the Act, including the definition of persons qualifying for services under the Act, as such may affect the Program.

3.1.2 Determination of the qualification for and delivery of the mental health and supportive services under the Program and the Eligible Client population.

3.1.3 All agreements, contracts, consents, public notices, and approvals by or with local agencies, or other entities that may be required by the Act, or otherwise needed to implement the Program.

3.1.4 All matters related to Participant Funds (whether from MHSF or another source) provided to CalHFA for the Program, including approvals that may be required prior to the transfer of any such monies to the possession and control of CalHFA under the Program, and all matters relating to accounting, transfer and distribution of such Program Funds.

3.1.5 Determination of the following: (a) maximum SNHP Loan or COSR amount per Regulated Unit; (b) term of the COSR; (c) unit sizes and bedroom count permitted for Shared Housing occupancy; (d) lien priority of the Loan documents; (e) Loan interest rate, term and repayment requirements; and (f) maximum Regulated Unit rents.

3.1.6 All matters relating to Participant approvals and agreements regarding tenant selection and supportive services to be provided to Eligible Clients residing in Regulated Units, including supportive services plans, staffing ratios and budget appropriations, monitoring and implementation of services plans and tenant mental health outcomes reporting as required by Participant, the State Department of Health Care Services ("***DHCS***"), the County Behavioral Health Directors Association ("***CBHDA***") or any other oversight committee or agency.

3.1.7 Executing a Memorandum of Understanding (or such other agreement), as Participant deems necessary, with the Borrower, property manager, primary service provider, and providing a copy of such agreement to CalHFA.

3.1.8 Reporting to CalHFA on matters listed in Section 8 of this Agreement.

3.2 CalHFA Responsibilities. CalHFA shall be responsible for each of the following general Program matters:

3.2.1 Development of such lending operations and protocols identified in Section 5.2 or as may be needed to implement the Program, including development of: (a) an Application; (b) specific Loan and COSR approvals; (c) the issuance of Loan commitments; and (d) Loan and COSR documentation, including but not limited to escrow instructions, promissory note, deed of trust, regulatory agreement, and subordination agreements, as applicable.

3.2.2 Representation of Participant in negotiations with developers, borrowers, investors, other lenders, local governments, service providers and property management firms; issuing Loan and COSR commitments; closing Loans, and obtaining title insurance.

3.2.3 Underwriting the Development Proposal, including preparation of a Financial Analysis to determine the anticipated COSR needed to subsidize the COSR-Assisted Units for the term requested by Participant.

3.2.4 All matters related to the handling, investment and disbursement of Program Funds provided to CalHFA.

3.2.5 Reporting to Participant on matters listed in Section 7.

3.2.6 The Servicing responsibilities described in Section 6.2.

4. Financial Provisions

4.1 Participant shall obtain all consents, approvals or agreements necessary to transfer Program Funds to CalHFA for purposes of operating the Program. Transfers of such monies shall be made pursuant to a written assignment agreement (the "***Assignment Agreement***") submitted to and accepted by CalHFA.

4.2 Participant's assigned Program Funds shall be transferred to, and deposited with, CalHFA and held in the Participant's Account.

4.3 All monies transferred to CalHFA shall be considered expended for their intended purpose upon the date of receipt by CalHFA.

4.4 During the term of this Agreement, CalHFA shall have control of, and shall administer, all Program Funds on behalf of Participant. These funds shall be held by CalHFA for the exclusive purposes of the Program. Program Funds held by CalHFA shall be considered assets of CalHFA until such time as transferred to a Development or returned to Participant. CalHFA shall be responsible for the investment of all Program Funds. Interest earnings upon such investments shall be added to the Participant's Account for the purposes of the Program.

4.5 Participant shall pay CalHFA a program participation fee equal to five percent (5%) of the amount of Program Funds transferred from the Participant to CalHFA (the "***Program Participation Fee***" or "***PPF***"). The PPF is due and payable upon receipt of Program Funds and shall be deducted from the Program Funds by CalHFA upon receipt, prior to deposit of the balance of the Program Funds into the Participant's Account. Notwithstanding the foregoing, Participant may transfer funds to CalHFA from the following sources subject to a reduced fee of three percent (3%) of the amount transferred: (a) any existing unencumbered funds from Participant's MHSA Housing Program account, until September 30, 2016; and (b) any COSR funds committed, or loan funds committed, to Participant's developments under the MHSA Housing Program that become disencumbered.

4.6 Developer or Borrower shall pay Project-Related Fees as listed in the Term Sheet, and as follows:

4.6.1 Participant Application Fee. Participant may, at its option, charge the Borrower a fee of up to one percent (1%) of the sum of all Program Funds provided to a Development (the "***Participant Application Fee***"). Such fee shall be due and payable to CalHFA at Loan closing and shall be paid from a source other than Program Funds. Upon receipt by CalHFA, this fee shall be deposited into the Participant's Account and held by CalHFA for eligible Program purposes, unless otherwise directed by Participant.

4.6.2 SNHP Application Fee. A non-refundable fee payable to CalHFA in the amount listed in the Term Sheet (the "***Application Fee***"). Such fee shall be due and payable with the submittal of an Application. The Application Fee shall be credited towards the Underwriting Fee.

4.6.3 CalHFA Underwriting Fee. A non-refundable fee payable to CalHFA at Loan closing equal to one percent (1%) of the sum of all Program Funds provided to a Development (the "***Underwriting Fee***"), less the Application Fee.

4.6.4 Escrow/Closing Fees. CalHFA may charge reasonable escrow and loan closing or disbursement administration fees to Borrower through escrow.

4.6.5 Servicing Fee and COSR Servicing Fee. Borrower shall pay CalHFA an annual servicing fee (the "***Servicing Fee***") for so long as CalHFA is providing Servicing for a Development, and Borrower shall pay CalHFA an annual COSR servicing fee (the "***COSR Servicing Fee***") for so long as a COSR exists and CalHFA is providing Servicing. For a Development of five or more rental units the Servicing Fee shall be Seven Thousand Five Hundred and No/100s Dollars ($7,500.00) and the COSR Servicing Fee shall be Five Thousand and No/100s Dollars ($5,000.00). For a Development of one to four rental units the Servicing Fee shall be Two Thousand Five Hundred and No/100s Dollars ($2,500.00) and the COSR Servicing Fee shall be Five Thousand and No/100s Dollars ($5,000.00). The Servicing Fee and COSR Servicing Fee may be increased, in CalHFA's sole discretion, as necessary to cover CalHFA's costs upon a refinancing, restructuring, or other event requiring changes to the Loan documents. The Servicing Fee and COSR Servicing Fee shall be described in the Regulatory Agreement, shall be approved Development operating expenses, and shall be paid in advance annually from Development income. Failure to pay the Servicing Fee or COSR Servicing Fee shall be considered an event of default under the Development loan documents.

4.7 Other Costs/Responsibilities

4.7.1 Participant shall be responsible for and shall pay the cost of any litigation, action or proceeding relating to: (a) the consistency of the Program with the terms of the Act or other provision of applicable law; (b) the authority of Participant to implement the Program or the validity, legality, applicability or interpretation of any regulation or programmatic requirement of Participant with respect to the Program; (c) the allocation, reallocation, distribution, return or transfer of Program Funds by Participant in connection with the Program; (d) the legal challenge concerning the legality of any use or occupancy restriction associated with the Program or Regulated Units; and (e) any other matters related to the terms or requirements of the Act as it may affect the Program. Participant shall indemnify, defend and hold harmless CalHFA, its officers, agents and employees for any and all claims and costs with respect to the above.

4.7.2 Participant shall be responsible for and shall pay for costs associated with enforcement of Development Loan documents, and for services outside the scope of this Agreement, as more fully described in Section 6.1.7. Such costs may be paid from Participant's Account upon Participant's approval.

4.7.3 CalHFA shall be responsible for and shall pay for costs related to actions due to CalHFA's gross negligence or willful misconduct in processing Program Loans or COSR.

4.7.4 If Program Funds in the Participant's Account are insufficient to make loans or otherwise pay any fees or costs payable therefrom, CalHFA shall have no obligation to contribute or advance any CalHFA funds to such accounts, nor shall CalHFA be required to take any action which would have been otherwise required if such funds were available.

5. <u>Relationship of the Parties in the Application and Development Process</u>

5.1 Participant shall be responsible for the following:

5.1.1 Completing a local review process to determine eligible Developments to receive Program Funds, including: (a) selecting the Developments to receive SNHP Funds, which assumes Participant acceptance of the development team (including the developer(s), property management firm and service provider if other than Participant); (b) approving the location of the Development; (c) identifying the number and size of Regulated Units (bedroom count), and any use or occupancy restrictions; (d) identifying the maximum rent; and (e) selecting the supportive services provider;

5.1.2 Seeking and obtaining all required Program Funds local approvals before executing and submitting the Application to CalHFA;

5.1.3 Preparing and submitting, jointly with the Borrower, an Application for CalHFA underwriting to include: (a) the maximum SNHP Loan being offered; (b) the number of Regulated Units and their maximum rent (not to exceed 30% of 30% AMI); (c) if applicable, the number of COSR Assisted Units, the maximum COSR funding available, and the maximum COSR subsidy term for the COSR-Assisted Units; and (d) any use or occupancy restrictions on the Regulated Units or unit sizes;

5.1.4 Developing and obtaining any required local approvals for each Development's supportive services plan, and annual budget and staffing required to ensure adequate supportive services are provided to the tenants in Regulated Units for the life of the Program Loan;

5.1.5 Developing a tenant selection plan for each Development, and ensuring compliance with all local, state and federal fair housing laws;

5.1.6 If desired, requiring Borrower to provide a purchase appraisal or real estate value analysis for CalHFA review, since the Program imposes no loan-to-value constraints;

5.1.7 Participating in CalHFA-required concept meetings for each Development, which shall include, as applicable, the developer(s), property manager, service provider(s), other lenders, and the investor (the "***Concept Meeting***"). The Concept Meeting provides an overview of the Development Proposal, including the Eligible Client supportive service needs, the experience of the property manager and primary service provider, and proximity to other resident service needs;

5.1.8 Reviewing CalHFA's recommended Loan and COSR amounts for each Development, and providing written acceptance or alternative amounts;

5.1.9 Prior to occupancy of a Development and release of the first COSR draw (if applicable), Participant shall provide to CalHFA the approved supportive services plan;

5.1.10 Participant shall be responsible for coordinating with Borrowers and property managers to ensure adequate numbers of Eligible Clients are referred to Developments to fill vacancies in a timely manner; and

5.1.11 To ensure the financial success of each Development, Participant shall ensure that the MOU for each Development identifies which party is responsible for working with Eligible Clients to assist them in getting qualified for SSI or assists Borrower in locating alternative subsidies to cover the Eligible Client's minimum required rent payment. Participant shall provide a copy of the MOU to CalHFA.

5.2 <u>CalHFA Responsibilities</u>

5.2.1 CalHFA will review complete Applications and recommend and approve Loans and COSR amounts.

5.2.2 CalHFA will coordinate with Applicants to schedule a Concept Meeting, which shall typically be held within thirty (30) days of receipt of a complete Application.

5.2.3 CalHFA will underwrite each Development Proposal and recommend to Participant the maximum Loan and minimum COSR's needed to subsidize all or a portion of the Regulated Units for a minimum of seventeen (17) years. CalHFA will also advise the Participant of any supplemental regulatory provisions or income restrictions imposed by other lenders or CTCAC that would potentially affect the rents, or impose income restrictions on the Regulated Units.

5.2.4 Following receipt of Participant's approval of a final Loan amount and COSR for a Development, CalHFA will issue an approval that authorizes the encumbrance of Participant Funds for the Development.

5.2.5 Following CalHFA approval and the Development's receipt of a CTCAC allocation (if applicable), CalHFA will issue a Final Commitment Letter.

5.2.6 Following receipt of the required Loan closing checklist items, as posted on the CalHFA website, CalHFA will close the Loan, release any approved draws and fund the COSR from the Participant's Account. The COSR funds will be held by CalHFA in a Development-specific account along with any Development-specific reserve accounts funded by the Borrower and held by CalHFA.

5.2.7 CalHFA will monitor the rehabilitation and construction of each Development, as necessary. Borrower shall be responsible for costs of any reports and inspections, which shall be paid prior to Loan closing and held by CalHFA.

5.2.8 CalHFA will participate in the Permanent Loan Conversion and require Borrower to submit all appropriate documentation.

6. Relationship of the Parties After Completion of Loan Transaction

The Parties shall have the following responsibilities after the completion of the Loan transaction, which shall be deemed to be the latest of Loan closing, Development completion and stabilized occupancy, or Permanent Loan Conversion, as applicable.

6.1 Participant Responsibilities

6.1.1 Providing mental health supportive services to the tenants of the Regulated Units. Participant shall also ensure that each Development has an acceptable supportive services plan, and that any modifications to the supportive services plan are appropriate to meet the needs of Eligible Clients and the Development(s);

6.1.2 Approving any modifications or amendments to the supportive services plan and providing a copy to CalHFA;

6.1.3 Monitoring outcome reporting data collection and compilation, as it deems necessary in order to meet all local and state MHSA reporting requirements, as applicable, and providing such information to local and state entities, if required;

6.1.4 Providing financial and other information as requested by CalHFA with respect to the Program or Development(s);

6.1.5 Coordinating with Borrowers and Development property managers to ensure adequate numbers of Eligible Clients are referred to Developments to fill vacancies in a timely manner;

6.1.6 Coordinating with the MOU parties to monitor the Development to ensure the MOU requirements are met;

6.1.7 Additional services beyond those specified in Section 6.2, including without limitation: (a) specific enforcement; (b) judicial or non-judicial foreclosure; (c) receivership; (d) legal fees; (e) Loan document changes related to a default, or potential default, under the Loan documents; (f) title insurance claims; and (g) advancement of funds to pay insurance and taxes (or as otherwise necessary to preserve the security interest in the Development) shall be the responsibility of Participant, including all associated costs. CalHFA will advise Participant with respect to real estate lending issues related to the foregoing. Subject to a separate agreement between the Parties, CalHFA may agree to assist Participant with the foregoing. Such costs may be paid from Participant's Account upon Participant's approval; and

6.1.8 Advising CalHFA of changes, or proposed changes, to: (a) Eligible Client populations; (b) the number of Regulated Units, and use or occupancy restrictions; (c) the number of COSR-Assisted Units; (d) the Regulated Unit rents; (e) the Loan documents, such as related to a default or potential default under the Loan documents; and (e) other changes to a Development.

6.2 CalHFA Responsibilities. CalHFA shall provide the asset management services described below ("***Servicing***") for Participant's SNHP Loans, subject to the Servicing Fee and COSR Servicing Fee described in Section 4.6.5. The Servicing shall include the following:

6.2.1 Review and approval of the following required Borrower submittals (which Borrower must also submit to Participant), including: (a) annual SNHP self-certification Development report(s); (b) evidence of property and liability insurance; (c) Regulated Unit rent rolls and proposed rent increases; (d) current local Housing Authority utility allowances by unit size; (e) proposed line item operating budget; (f) evidence of rental subsidies; (g) annual Development audits showing actual rents and operating costs for the prior year; and (h) COSR draw requests;

6.2.2 Hold, control and approve disbursements of Development reserve accounts and COSR, as applicable;

6.2.3 Determine appropriate investment vehicles for the Agency-held Program Funds and deposit interest earnings into the applicable Participant or Development account;

6.2.4 Perform periodic reviews regarding the adequacy, use, disbursements, and need for COSR on any given Development, and annually provide the results of such reviews to Participant. Subject to Participant consent, the COSR may be reduced or eliminated and the funds reallocated as directed by Participant;

6.2.5 Perform inspections and prepare physical inspection reports biennially or as deemed necessary by CalHFA, and provide copies to Participant if requested;

6.2.6 Provide concurrently to Participant and the Borrower any statutory notices of default under the Loan documents;

6.2.7 Accept SNHP Loan or other payments from a Borrower or Development and disburse such funds at least annually to Participant. If instructed by Participant in writing, CalHFA may transfer such payments or other income to Participant's Account, subject to the Program Participation Fee;

6.2.8 Failure to pay the Servicing Fee or COSR Servicing Fee shall be considered an event of default under the Development loan documents. If the Borrower fails to pay the Servicing Fee or COSR Servicing Fee, CalHFA may, at its option: (a) deduct the fees from any CalHFA-held Development reserve account, and withhold future COSR disbursements (if applicable) until payment is received; or (b) deduct the fee from the Participant's Account following Participant notification;

6.2.9 Subject to an additional fee to be paid by Borrower, as necessary to cover CalHFA's costs as determined by CalHFA, CalHFA may agree to provide certain other administrative services in connection with the SNHP Loan, such as processing requests for approval of Borrower organizational changes, transfers of the Development or other ownership changes, and substitution of property management firms; and

6.2.10 Subject to a separate agreement between the Parties if deemed necessary by CalHFA, CalHFA may agree to assist Participant with the services described in Section 6.1.7, as well as transactions related to refinancing, restructuring, or other changes to the Loan documents, Development or Borrower. Costs for such services will not exceed the amount necessary to cover CalHFA's costs as determined by CalHFA and may be paid from Participant's Account upon Participant's approval.

7. **CalHFA Reporting Requirements**

7.1 CalHFA shall keep such books and records of the operation of the Program and the Developments, pursuant to common accounting principles, practices and state laws.

7.2 CalHFA shall prepare annual reports to Participant that include key results and funding for the costs associated with Participant Developments. CalHFA shall provide such reports to Participant no later than March 31st of each year.

7.3 Commencing in 2017 and each fiscal year thereafter, CalHFA shall provide to Participant an accounting of Program Funds to include: (a) the amount of funds held by CalHFA at the beginning of the reporting term; (b) the amount of new funds received from Participant; (c) the amount of funds received from Loan repayments or unused COSR deposits to the Participant's Account; (d) the amount of interest earned on Program Funds by date posted; (e) the amount in the Participant's Account at the end of the reporting term; and (e) a report on the total amount of committed and uncommitted Participant Funds by Development.

8. **Participant Reporting Requirements**

8.1 Participant shall report to CalHFA by May 1st of each calendar year the anticipated amount of new Program Funds that will be assigned to CalHFA after July 1st of the same calendar year for Program purposes during the fiscal year commencing July 1st. Transfers of Program Funds may be made periodically, subject to an Assignment Agreement submitted to and accepted by CalHFA.

8.2 Participant shall provide all reports and other information to such parties as may be required under the Act, or as requested by CalHFA from time to time.

9. **Return of Program Funds**

Participant may request the return of any unencumbered Program Funds remaining in Participant's Account by providing sixty (60) days written notice to CalHFA.

10. <u>Miscellaneous</u>

10.1 <u>No Third Party Beneficiaries</u>. This Agreement is for the exclusive benefit of the parties hereto and no rights of third party beneficiaries are created herein. This Agreement shall not benefit or create any implied or expressed rights of any third person or entity, including but not limited to the California Department of Health Care Services, the Borrower, Development sponsor, Development owner, service provider, or any tenant or applicant for tenancy of a Development.

10.2 <u>Entirety, Amendments, Construction</u>. This Agreement supersedes any and all other agreements, oral or in writing, between the parties hereto with respect to the subject matter hereof and contains all of the covenants and agreements between the parties with respect thereto. Each Party to this Agreement acknowledges that no representations, inducements, promises, or agreements, orally or otherwise, have been made by any Party, or anyone acting on behalf of any Party, which are not embodied or referred to herein, and that no other agreement, statement, or promise not contained or referred to in this Agreement shall be valid or binding. No amendment or modification of the provisions of this Agreement shall be valid unless made in writing and signed by the parties hereto. This Agreement shall not be construed as if it had been prepared by one of the parties, but rather as if both of the parties had prepared it.

10.3 <u>Survival</u>. The terms, conditions, and warranties contained in the Agreement that by their sense and context are intended to survive the performance hereof by the parties hereunder shall so survive the termination of the Agreement, whether by completion of the performance, cancellation, or otherwise.

10.4 <u>Potential Conflict of Interest</u>. If, in addition to a Loan pursuant to this Agreement, CalHFA provides a separate loan secured by a Development, it may create a perceived or actual conflict of interest. Participant hereby waives any such conflict of interest and agrees to execute any additional document as deemed reasonable or necessary by CalHFA. By executing this Agreement, Participant and CalHFA agree that CalHFA is not assuming any obligations beyond those required under California law applicable to senior lenders, unless expressly set forth herein.

11. <u>Termination</u>

11.1 Either Party may terminate this Agreement with or without cause by providing sixty (60) days written notice to the other Party. However, any Developments with approved/encumbered SNHP Program Funds shall continue to be processed by CalHFA. Upon termination of this Agreement: (a) CalHFA's authority to lend Participant Funds under the Program shall cease; (b) CalHFA shall retain responsibility for the Servicing for Developments for which it is providing such services, subject to Section 11.2; (c) all uncommitted/unencumbered Program Funds held by CalHFA shall be returned to Participant; and (d) all future funds received from a Development, including payments, interest earned, and other income, shall be returned to Participant or transferred in accordance with Participant's written instructions. Upon termination of this Agreement, Participant's responsibilities under Sections 3.1, 4.7.1, and 4.7.2 and any responsibilities with respect to existing Developments shall remain in full force and effect.

11.2 Termination of Servicing

11.2.1 Participant may terminate CalHFA as the Servicer for all, but not less than all, of Participant's Developments under the Program by providing CalHFA with one hundred eighty (180) days written notice. Upon such termination, CalHFA shall assign and Participant shall assume all Loans in accordance with Section 12, and CalHFA shall transfer to Participant all files and records related to the Developments, after which CalHFA shall have no further responsibilities and obligations with respect to the Developments.

11.2.2 CalHFA may terminate Servicing for one or more of Participant's Developments under the Program by providing Participant with one hundred and eighty (180) days written notice if: (a) Participant breaches any provision of this Agreement and such breach is not cured within sixty (60) days; (b) CalHFA no longer has adequate staff to provide such services; or (c) Borrower is in default under the SNHP Loan and such default has not been cured within one hundred and eighty (180) days. Upon such termination, CalHFA shall assign and Participant shall assume such Loan(s) in accordance with Section 12, and CalHFA shall transfer to Participant all files and records related to the Development(s), after which CalHFA shall have no further responsibilities and obligations with respect to the Developments.

12. Assignments of Program Loans

In addition to any other assignment provision hereunder, if with respect to a particular Development Participant does not meet its obligations under the Agreement, or otherwise breaches the terms of this Agreement, CalHFA may assign, and Participant agrees to assume, the Loan and all related Development loan documents and associated responsibilities and obligations (including the Servicing). Upon any assignment of a Loan under this Agreement, CalHFA's responsibilities and obligations with respect to such Loan and Development shall cease. The Parties agree to take such steps as necessary to effect such assignment.

13. Notice

Any notice, tender, or delivery to be given hereunder by either Party to the other may be effected by personal delivery, in writing, by facsimile transmission, by e-mail or by mail, postage prepaid, and shall be deemed communicated as of the date of actual receipt. Mailed notices shall be addressed as set forth below, but each Party may change its address by written notice in accordance with this paragraph.

Participant Contact Information

____
____
____
____

CalHFA Contact Information

Housing Finance Chief – Multifamily Programs
California Housing Finance Agency
500 Capitol Mall, Suite 1400
Sacramento, California 95814

With copy to:
General Counsel
California Housing Finance Agency
500 Capital Mall, Suite 1400, MS 1440
Sacramento, California 95814

WHEREFORE, the parties hereto have executed this Agreement as of the date set forth above, and by their signatures acknowledge their understanding of and agreement to all of its provisions.

Participant

By: __**DRAFT – DO NOT EXECUTE**__
Name: ______________________________
Title: ______________________________

Approved as to Form:

By: ______________________________
Name: ______________________________
Title: ______________________________

CalHFA

CALIFORNIA HOUSING FINANCE AGENCY, a public instrumentality and political subdivision of the State of California

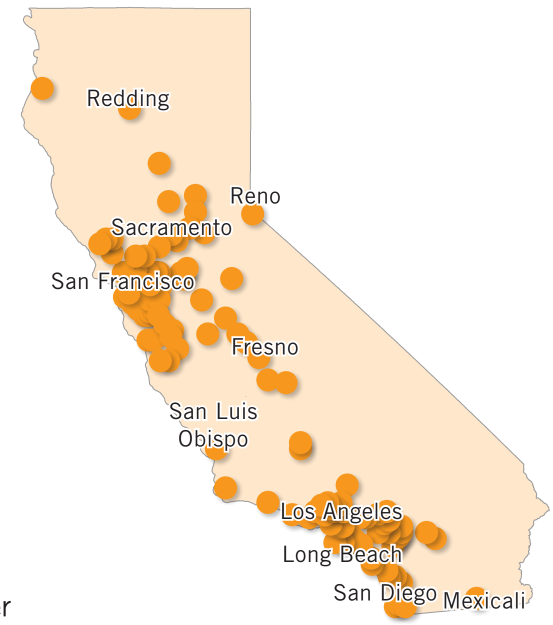
By: __**DRAFT – DO NOT EXECUTE**__
Name:______________________________
Title:______________________________

MHSA Housing Program Factsheet

Program Description

The Mental Health Service Act Housing (MHSA) Program was developed in 2008 as a result of voter approved Proposition 63 for the development of permanent supportive housing to serve persons with serious mental illness and their families who are homeless or at risk of homelessness. CalHFA has administered this program, in collaboration with the California Department of Health Care Services, local mental health agencies, localities, developers, and service providers.

The one-time $400 million appropriation of Proposition 63 funds will create housing for more than 2,500 mentally-ill individuals and their families in 185 newly built or renovated housing developments statewide by 2018. The MHSA Program also leveraged public, local, state and federal funding and tax credits to develop over 9,900 new affordable housing units in California.



MHSA Distribution as of 12/13/2015

The program funds provide capital loans and long-term operating subsidies for the development of affordable rental housing for MHSA residents, some of whom are Veterans and Transition Age Youth leaving the foster care system. Each county's Department of Mental Health, or similar agency, provides MSHA residents with an individualized array of supportive services needed for recovery and the opportunity to become fully functioning community members. The MHSA Housing Program sunsets on May 30, 2016.

Statistics for MHSA Loans

- Based on MHSA Loans closed or approved for financing, the funds have supported the development of 2,500 MHSA housing units with 186 projects that include over 10,500 units – all of which are 95% affordable at regulated rents below 60% of Area Median Income
- MHSA Loans closed or committed to date exceed $267 Million and Capitalized Operating Subsidy reserves (COSR) exceed $123 Million
- 65% are New Construction developments
- 35% are Acquisition/Rehab developments

Rental Subsidies

- COSR funds provide operating subsidies for 2/3rds of all MHSA regulated units. These reserves are sized to provide 15-20 years of subsidy to ensure MHSA residents pay rent that is the higher of 30% of SSI or 30% of their household income less the cost of utilities
- Approximately 1/3 of the MHSA regulated units have alternate rental subsidies (i.e. Section 8, VASH vouchers, Shelter Plus Care, or Continuum of Care subsidies)

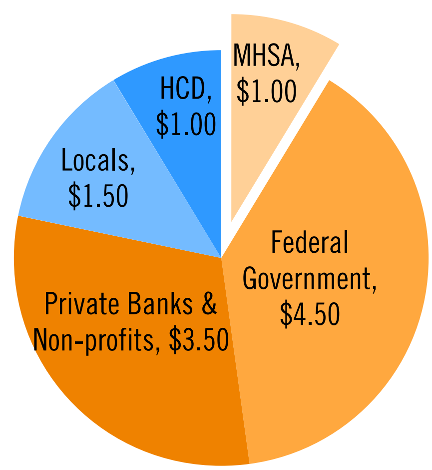
Affordability

- 36% of the total units are regulated to rents that are below 30% of AMI
- 86% of the units are at rents below 50% of AMI (this includes the 30% figure)
- 12.5% of the total units developed will serve Seniors 55 or older
- 9.2% of the total units developed will serve Transitional Aged Youth ages 18-24

Housing for Veterans

- Veterans with a mental illness at risk of homelessness, or homeless are eligible to reside in MHSA regulated units if they are ineligible for VA services
- Residents voluntarily identify themselves as Veterans, and not all choose to do so. Rent rolls show that 39 MHSA projects house 65 veterans in MHSA regulated units and an additional 107 veterans in non-MHSA regulated units

Leveraged Sources of Funds



- 76% of MHSA projects have received tax credits (with nearly half coming from 9% credits)
- Less than 10% of MHSA projects have MHSA as the only funding source
- Over 75% of MHSA projects have some form of local financing
- Nearly 75% of MHSA projects have private funding (often in the form of a loan)
- Nearly half of projects have financing from the California Department of Housing and Community Development
- The MHSA funds have been leveraged over 10 times; for each dollar that MHSA provides, the federal government provides $4.5, private banks and non-profits provide $3.5, locals provide $1.5, and HCD provides $1