

**EMERGENCY HOUSING ASSISTANCE PROGRAM
CAPITAL DEVELOPMENT COMPONENT CONERSION
FUNDS
(EHAP-CD)**

**2015
Notice of Funding
Availability**



**State of California
Governor Edmund G. Brown Jr.**

**Claudia Cappio, Director
Department of Housing and Community Development**

NOTICE OF FUNDING AVAILABILITY (NOFA)

EMERGENCY HOUSING ASSISTANCE PROGRAM CAPITAL DEVELOPMENT COMPONENT CONVERSION FUNDS

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A. Introduction

The State Department of Housing and Community Development (HCD or Department) is announcing the availability of approximately \$10 million in funding for the conversion of emergency shelter and transitional housing facilities to permanent supportive housing pursuant to the authority provided in Section 50803 of the Health and Safety Code. The funds will be available on a geographic basis as follows

Urban Counties (population equal to or more than 200,000): \$8,000,000 (80 percent maximum)

Non-urban Counties (population less than 200,000): \$2,00,000 (20 percent minimum)

Refer to Attachment 1 (Urban and Non-Urban Counties List) to determine if your county is urban or non-urban.

The Department reserves the right to supplement funds based on applicant demand and the availability of additional funds. Additionally, if any non-urban funds remain, the Department may reallocate these funds to urban counties.

Conversions Without Additional EHAP-CD funds Pursuant to the authority provided in AB 873 (Chau), the Department may allow existing EHAP-CD projects to convert to permanent housing. Within 60 days from issuance of this NOFA, the Department will issue a separate management memo setting forth the conditions for conversion for emergency shelter and transitional housing projects previously funded by EHAP-CD that now wish to convert to permanent housing but that are not requesting funds under this NOFA.

B. Application Packaging and Submittal

Applications must be submitted on forms provided or approved by HCD. Application forms must not be modified. The application form will be available on HCD's website along with this NOFA. HCD will only accept applications through a postal carrier service such as U.S. Postal Service, UPS, Fed Ex or other carrier services that provide date stamp verification confirming delivery to HCD's office at:

Multifamily Housing Program
Department of Housing and Community Development
Division of Financial Assistance
2020 W. El Camino Avenue, Suite 500
Sacramento, CA 95833

A complete original application, plus one copy, must be received by HCD via postal carrier no later than **5:00 p.m. on Friday May 1, 2015**. No facsimiles, late applications, incomplete applications, application revisions, electronically transmitted, or walk-in application packages will be accepted. Applications must

meet all eligibility requirements upon submission. Applications having material internal inconsistencies will not be rated and ranked. For application questions contact any member of the HCD staff as listed in the application.

C. Application Technical Assistance

In lieu of NOFA and Application trainings, the Department will schedule technical assistance (TA) calls with individual parties to address NOFA and application requirements and project-specific questions. If an applicant and their project Sponsor would like a TA call, please notify the Department so that a TA call can be scheduled. Contact Kendra Gubaydullin at Kendra.Gubaydullin@hcd.ca.gov to request a TA call.

Failure to notify the Department of the intention to apply, or failure to request this TA, will not prohibit a project from seeking funds under this NOFA.

D. Program Summary

EHAP-CD funds available under this NOFA must be used for rehabilitation and other eligible project costs associated with the conversion of an emergency or transitional housing facility into a Rental Housing Development providing permanent supportive housing to individuals or families who are Homeless or At-risk of Homelessness. At initial occupancy, the tenant household income shall not exceed the 30 percent Extremely Low Income (ELI) income limit for the area. Project rents shall not exceed the 30 percent ELI rent limit. (See NOFA Section M for more information.)

Projects must score a minimum of 55 points pursuant to the rating factors in Section T of the NOFA to be considered for funding. Depending on applicant demand, up to 80 percent of the funds will be available to projects located in urban counties, and a minimum of 20 percent of the funds will be available to projects in non-urban counties. Successful applicants will have 12 months from the execution date of the HCD Standard Agreement to commence a project, (to obtain a permit or other similar evidence of commencement of development related activities), or the Standard Agreement may be terminated and the funds reallocated. This commencement deadline may also be extended for up to 24 months at the discretion of the Department.

EHAP-CD conversion loans shall not exceed \$3 million. Principal and interest shall be deferred for a 20-year loan term and forgiven at the end of the loan term as long as the facility remains permanent supportive housing in accordance with the terms of the project's regulatory agreement

HCD expects EHAP-CD conversion funds to be leveraged with other resources, including federal Continuum of Care programs for services and operations, and other funds necessary to house the target population, keep the project affordable to ELI households for not less than 20 years from the time the project converts to

permanent supportive housing, and to maintain overall financial viability. Project-based rental subsidies will also allow the project to accommodate those target population households who earn less than an ELI income.

All funded projects must meet requirements of this NOFA. **Applications are due May 1, 2015. Award announcements will be made by June 2015.**

E. Legal Authority

EHAP-CD Conversion funds are authorized under Chapter 488, Statutes of 2013 (AB 873), which amended Sections 50802 and 50803 of the Health and Safety Code governing the EHAP Program. Applications submitted under this NOFA are also subject to the requirements specified in this NOFA and other applicable federal, State, and local laws.

F. Definitions

For purposes of this NOFA, the following definitions shall be used:

At-risk of Homelessness means: the same as defined under 24 [CFR 578.3](#)

Chronically Homeless means the same as defined under the federal Continuum of Care program, at 24 CFR [578.3](#)

Emergency Shelter means housing with minimal supportive services for homeless persons that is limited to occupancy of six months or less by a homeless person.

Extremely Low Income means households with incomes not exceeding 30 percent of Area Median Income (AMI), calculated in accordance with Health and Safety Code Section 50106 and published by HCD as part of the Official State Income Limits, at: <http://www.hcd.ca.gov/hpd/hrc/rep/state/incNote.html>.

Homeless is defined in [42 U.S.C 11302](#) and implementing regulations under 24 CFR 578.3, and also includes Homeless Youth defined as:

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

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

“Homeless” includes “Chronically Homeless” and “Homeless with a Disability” as defined in this section of the NOFA.

Homeless with a Disability means the same as “Chronically Homeless”, excluding the requirement of having been homeless for a defined period of time.

Literally Homeless means: the individual or family lacks a fixed, regular, and adequate nighttime residence meaning the individual or family (i) Has a primary nighttime residence that is a public or private place not meant for human habitation; (ii) Is living in a publicly or privately operated shelter designated to provide temporary living arrangements (including congregate shelters, transitional housing, and hotels and motels paid for by charitable organizations or by federal, state and local government programs); or (iii) Is exiting an institution where (s)he has resided for 90 days or less and who resided in an emergency shelter or place not meant for human habitation immediately before entering that institution.

Rental Housing Development means a structure or set of structures with common financing, ownership, and management, and which collectively contains five or more dwelling units. “Rental Housing Development” does not include any “health facility” as defined by Section 1250 of the Health and Safety Code or any “alcoholism or drug abuse recovery or treatment facility” as defined by Section 11834.02 of the Health and Safety Code. Where a Rental Housing Development is located on non-contiguous parcels, all of the parcels shall be governed by similar tenant selection criteria, serve similar tenant populations and have similar rent and income restrictions.

Sponsor means the legal entity or combination of legal entities with continuing control of the Rental Housing Development. Sponsor does not include the seller of the property to be developed as the Project, unless the seller will retain control of the Project for the period of time necessary to ensure Project feasibility as determined by the Department.

Supportive Housing means housing with no limit on length of stay, that is occupied by the target population, and that is linked to onsite or offsite services that assist the supportive housing resident in retaining the housing, improving his or her health status, and maximizing his or her ability to live and, when possible, work in the community.

Typically, the household must: (1) hold a lease or rental agreement in their own name and pay rent, (2) have their own room or apartment and be individually responsible for arranging any shared tenancy, to the extent that shared tenancy is allowed under the lease; and (3) may stay as long as the household pays its share of rent and complies with the terms of the lease, which is subject to applicable state and federal landlord-tenant laws. Participation in services is not required as a condition of tenancy.

Transitional Housing means housing with supportive services for up to 24 months that is exclusively designated and targeted for recently homeless persons.

G. Applicant, Sponsor, Service Provider, and Management Agent Requirements

Applicant: The Applicant must be an agency of local government or nonprofit corporation that provides, or contracts with community organizations to provide, emergency shelter or transitional housing, a public housing authority, tribal government, or Continuum of Care entity.

Sponsor: The Sponsor is the entity relied upon for experience and capacity, and which controls the project during the development and occupancy.

Eligible Sponsors must meet one of the following requirements:

(1) The Sponsor has successfully developed and owned at least one affordable rental housing project or emergency or transitional housing project. OR

(2) (a) The Sponsor contracts with a developer or development consultant for the provision of comprehensive development management services, provided that the Sponsor and the contractor have entered into an agreement acceptable to the Department making the contractor responsible for financial packaging, selection of other consultants, selecting the general construction contractor and property management agent, oversight of architectural design, construction management, and other major aspects of the development process; and

(b) The Sponsor documents that it has current ownership experience commensurate with the ownership role and responsibilities in the proposed Project. (This may include ownership of an emergency shelter or transitional housing project.)

HCD will evaluate all Sponsors, including the roles of any general partner(s) in a limited partnership, to determine if the Sponsor's roles, responsibilities, and benefits in the project development and operations are commensurate with activities necessary for Sponsor control of a Department funded project. The Sponsor entity will be reviewed to determine if adequate staffing levels exist to undertake and complete the proposed project. **The Managing General Partner of the Sponsorship entity must be a nonprofit that has effective control within the partnership as determined by the Department.**

If the borrower is an entity other than the Sponsor identified in the application, HCD may require the Sponsor to enter into a Sponsor Operating Guaranty as a condition of closing the EHAP-CD conversion loan.

Sponsors will be required to demonstrate how the Sponsor identified in the application will maintain full control of the ultimate borrower entity, and the development, ownership, and management of the project. Sponsor control must be in accord with UMR Section 8301(r) requirements of no more than one non-performing (shell) entity between the Sponsor and the ultimate borrower.

Documentation supporting the Sponsor's control of the borrowing entity must be submitted at the time the ultimate borrower is formed and in all cases, prior to the construction loan close.

The entity that submits information to garner experience points must be named as the Sponsor in the application. HCD will permit loan commitments to be transferred to single-asset entities provided the Sponsor entities maintain sufficient control of the borrowing entity to ensure that the ultimate borrower has the resources and experience to develop, own and manage the project. The same threshold criteria will be applied to evaluate Sponsor experience for purpose of awarding points.

Sponsors must have site control documentation as required under the [UMR Section 8303](#) in the name of the Sponsor or an entity controlled by the Sponsor.

Supportive Service Provider: The primary or lead supportive service provider must meet the following requirements: (1) have a minimum of 24 months experience providing supportive services in emergency shelter, transitional housing, or permanent housing to a population similar to the proposed target population; (2) participate in their local Continuum of Care, if one exists; and (3) participate in the local Homelessness Management Information System (HMIS). The primary or lead supportive service provider is the entity responsible for the overall implementation of the service plan, including comprehensive case management, referrals to community based services, housing retention services, and coordination between multiple service providers, where applicable.

Property Manager: The project's proposed property manager must have a minimum of 24 months experience managing a special needs or supportive housing project of five or more dwelling units. Where the proposed project contains less than 10 units, the Department may approve a property manager with experience managing properties that do not qualify as a Rental Housing Development provided that the property manager has experience serving a population similar to the proposed target population.

H. Eligible Uses of Funds

EHAP-CD conversion funds may be provided as construction financing which will convert to permanent financing, or may be used only as permanent financing to pay off construction loans incurred for normal project development (capital) costs, as set forth below.

Funds shall be used only for approved eligible costs that are incurred on the project as set forth in this section. In addition, the costs must be necessary and must be consistent with the lowest reasonable cost consistent with the project's scope and area as determined by the Department.

Eligible costs include the following:

- (1) Property acquisition by the project Sponsor or another entity that will operate the project as Permanent Supportive Housing for homeless or at-risk homeless individuals or families.
- (2) Land lease payments; any prepaid leasehold payments for the proposed project must be reasonable compared to the fee purchase price of the property and based on the leasehold value as supported by an independent third party appraisal
- (3) Construction and rehabilitation work necessary for the conversion of the facility from emergency shelter or transitional housing to permanent Supportive Housing
- (4) On-site improvements related to the project;
- (5) Architectural, appraisal, engineering, legal and other consulting costs and fees, which are directly related to the planning and execution of the project and which are incurred through third-party contracts;
- (6) Development costs of a residential unit reserved for an on-site manager. A manager's unit may be considered to be a restricted unit for the purpose of allocating development costs, childcare facilities, and after-school care and social service facilities integrally linked to, and addressing the needs of the tenants of the Assisted Units;
- (7) EHAP-CD will pay a portion of the project's developer fee, not to exceed 5 percent of the EHAP-CD award amount. A project's total developer fee, paid from EHAP-CD and/or other development sources, must be reasonable and cannot exceed the developer fee limits set forth by the Department for other rental housing programs. See NOFA Section N for more information on developer fee limitations.
- (8) Rent-Up Costs;
- (9) Carrying costs during construction, including insurance, construction financing fees and interest, taxes, and any other expenses necessary to hold the property while the Rental Housing Development is under construction;
- (10) Building permits and state and local fees;
- (11) Capitalized replacement reserves up to the amount of the initial deposit required by the Department pursuant to UMR Section

8309(b). See NOFA Section O for current replacement reserve amounts.

- (12) Escrow, title insurance, recording and other related costs;
- (13) Costs for items intended to assure the completion of construction, such as contractor bond premiums;
- (14) Environmental hazard reports, surveys, and investigations;
- (15) Costs of relocation benefits and assistance required by law;
- (16) Any other costs associated with the conversion approved by the Department.

EHAP-CD conversion funds must be attributed to the development cost of restricted units. EHAP-CD conversion funds shall not be used for the cost of supportive services, although the cost of an on-site support services coordinator consistent with NOFA Section I may be treated as a project operating expense, payable from operating income.

Equity cash-out does is not an eligible use of EHAP-CD conversion funds. Applications will be reviewed to ensure that development costs do not include payments for appreciated equity or equity cash-out through transfers or syndication between related parties. The term “related parties” as used in this paragraph has the same meaning as the California Tax Credit Allocation Committee (TCAC) Regulation 10302(gg).

If included in an otherwise eligible application, requests for ineligible use of funds will be deducted from the requested loan amount of the application. The Department, at its sole discretion, may determine that any application is ineligible if the proposed activities are deemed as an inefficient or ineffective use of EHAP-CD conversion funds.

I. Eligible Projects

Facilities currently operating as Emergency Shelter or Transitional Housing for homeless individuals or families are eligible for conversion funds under this NOFA. **Projects must score a minimum of 55 points pursuant to the rating factors in Section T of the NOFA to be considered for funding.**

The City or County Continuum of Care corresponding to the location of the project must provide approval with the application confirming that the change of use to permanent housing is supported by the Continuum. Prior to execution of the Department’s Standard Agreement, projects must also demonstrate that other

existing lenders or holders of covenants support the new use as permanent supportive housing.

Once the conversion from Emergency Shelter or Transitional Housing is complete, projects must qualify as Supportive Housing of five or more units, as defined in NOFA Section F. Projects must meet the underwriting standards described in [UMR Section 8310](#) except that for 2015, supportive service coordination costs paid as a project operating expense shall not exceed the following amounts:

- (1) \$4,000 per unit per year for Supportive Housing units restricted to Chronically Homeless.
- (2) \$3,000 per unit per year for Supportive Housing units restricted to households with a disability who are homeless.
- (3) \$1,300 per unit per year for units restricted to Extremely Low Income households, but not to Chronically Homeless or households with a Disability Experiencing Homelessness.

These maximum amounts shall be increased each year after 2015 at the rate of two percent per year.

Projects are ineligible if construction or rehabilitation has commenced prior to submission of a complete application, or if the project is already fully funded.

J. Projects with Extraordinarily High Development Costs

HCD is concerned about the extremely high cost of a small but significant number of projects funded in the recent past, and the extraordinary level of public subsidy required by these projects. Of particular concern are projects with total per unit development costs that exceed the historical average of awarded projects by 30 percent. Such projects shall be designated as high cost. Sponsors will be required to explain in writing the project's unusual cost features and explain why an award recommendation would be sound public policy in spite of the costs. It is important to encourage EHAP-CD conversion funding of otherwise qualified projects that are able to minimize costs, without sacrificing design elements that are cost effective in the long run or meet vital needs of project residents. In light of this concern, and consistent with [UMR Section 8311](#), HCD reserves the right to reject an application if total development cost cannot be reasonably justified.

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

excessive site and design-related costs. **Sponsors whose projects are deemed high cost will be advised of this status. The historical averages for rehabilitation projects have been posted on the HCD website in this location: <http://www.hcd.ca.gov/fa/mhp/>.**

Prior to closing construction financing, the Sponsor shall be required to submit an appraisal acceptable to HCD, from a qualified appraiser, which supports any acquisition cost identified in the development budget.

K. Maximum Loan Amounts

Applicants may submit one application per site. The maximum loan request is \$3,000,000. Applicants may submit multiple applications for different sites.

The maximum loan amount permitted under this NOFA per unit is a function of unit size, location, and affordability level at 30 percent AMI or below. Maximum per unit loan limits under this NOFA are located at [2014 Limits](#) beginning on page 46 of the document located at this hyperlink for projects that are proposing use of nine percent Low Income Housing Tax Credits (tax credits), and page 61 of the for all other projects.

The Department encourages projects to keep the cost per unit well-underneath these limits in order to fund as many units as possible under the per project cap. Projects awarded under this NOFA without nine percent tax credits may have their loan amounts reduced based on the lower per-unit subsidy limits for tax credit projects if the project subsequently receives a nine percent tax credit award.

L. Loan Terms and Security

EHAP-CD conversion loans will have a 20-year term beginning from the date the regulatory agreement for the conversion loan is recorded. The loan will accrue three percent per annum simple interest. Principal and interest payments are deferred for the term of the loan and the loan will be forgiven as long as the project is used as permanent Supportive Housing and the proposed services are provided as represented in the application pursuant to the terms of the project's regulatory agreement.

For purposes of this NOFA, project cash flow remaining after payment of all approved mandatory debt service, approved operating expenses, required reserves, asset management fee, and allowable deferred Developer Fee and Distributions shall be deposited into a second operating reserve to address possible budget shortfalls from year to year, or a transition reserve if the project has rental subsidies that could expire within the term of the EHAP-CD loan. (See Section M below.) If the terms of other public agencies' financing require payments from remaining cash flow, HCD may agree to allow a portion of the remaining cash flow to go to the public agencies in proportion to the respective cash loan amounts. Mandatory debt

service on funding from local public agencies will be considered on a case-by-case basis.

EHAP-CD conversion loan documents will include a promissory note, deed of trust and regulatory agreement. The deed of trust and regulatory agreement may be subordinated to bond debt, and amortizing loans from institutional lenders and the federal government, provided no balloon payments are due prior to the end of the EHAP-CD Conversion loan term. EHAP-CD conversion loans may not be subordinated to local public agency loans or Federal Home Loan Bank - Affordable Housing Program loans or restrictions attached to these loans, unless the amount of the local loan is at least twice the amount of the EHAP-CD Conversion loan; (see [UMR Section 8315](#) for other requirements related to loan subordination).

The EHAP-CD conversion loan must be secured by the fee or a leasehold interest in the property acceptable to the Department. The term of a leasehold interest must be at least 90 years, and 65 years when the lessor is a public entity, from the date HCD's documents are recorded. This term excludes any unexercised lease extensions. If the EHAP-CD Conversion loan is secured by leasehold, the owner of the fee and the borrower must sign HCD's form recordable lease rider without modification (see [UMR Section 8316](#) for other leasehold requirements).

M. Rent and Occupancy Limits

EHAP-CD-assisted unit rent and tenant incomes will be restricted in accordance with the rent and income limits proposed by the project Sponsor in their EHAP-CD conversion application, with rents not exceeding the 30 percent of the 30% income limit. The income limits for 2014 are posted at HCD's website at [2014 Limits](#). (Use the non-HERA limits beginning on Page One.)

Projects will be underwritten at the rent limits for the income levels proposed in the application. HCD's first year debt service coverage ratio requirement of 1.10:1 to 1.20:1 will be applied using the maximum rents allowable. For projects with no mandatory debt service first year project cash flow after payment of required reserve deposits shall not exceed 12 percent of operating expenses unless necessary for project feasibility. See [UMR Section 8310 \(e\)](#).

Assisted unit rent increases will be limited in accordance with the rules governing tax credit units and as specified in [MHP Regulation Sections 7311 and 7312](#). Since incomes and rents at initial occupancy are set for ELI households, it is recommended that Sponsors structure their rent mix to accommodate some portion of rents affordable to households below 30 percent AMI in order to reach the homeless target population and to allow incomes of assisted households to rise over time. Where the project receives Project-Based Section 8 or other rental assistance subsidies, "rent" is defined as the tenant's contribution, rather than the contract rent level. Sponsors of this type of project will be required to continue the rental assistance as long as it is available. For projects receiving renewable Project-Based rental assistance, excluding Mental Health Services Act (MHSA) and U.S.

Department of Housing and Urban Development (HUD) Section 811, the Sponsor may be required to capitalize two years of transition reserve to be used in the event the subsidy contract is terminated.

If required, the reserve shall be funded in an amount sufficient to prevent any rent increases for units that previously received rental assistance and are restricted to households with incomes not exceeding EHAP-CD conversion rent levels at 30 percent AMI or below. After the two-year transition period, a project must be feasible with rents not exceeding 50 percent of AMI.

N. Developer Fee and Distribution Limitations

Developer fee means the same as the definition of that term in the California Code of Regulations, Title 4, and Section 10302 and includes Financial Consulting Costs. EHAP-CD will pay a portion of the project's developer fee, not to exceed 5 percent of the EHAP-CD award amount. Total developer fee, paid from EHAP-CD and other sources, is limited in accordance with the Developer Fee calculation worksheet contained in the EHAP-CD Conversion application. Distributions to the Sponsor out of operating income are also limited in accordance with [UMR Sections 8312 and 8314](#).

The value of land donations received from city and/or county jurisdictions, master developers or other entities which are not the Sponsor or an affiliate of the Sponsor will not be counted as a capital contribution to increase Developer Fee limits as described in [UMR Section 8312\(d\)](#), or to increase the jurisdiction's share of cash flow as described in [UMR Section 8314\(a\) \(2\) \(A\)](#).

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

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

O. Other Project Requirements

Project Suitability: Projects must be suitable for conversion from emergency shelter or transitional housing to permanent Supportive Housing of five or more units, as determined by the Department.

Relocation: Applicants must comply with all requirements of the Uniform Relocation Act (URA) of 1970, California Relocation Law (Government Code, Section 7260 et. seq.) and the regulations promulgated thereunder at California Code of Regulations, Title 25, Section 6000 et. seq.

Housing First Practices: Permanent Supportive Housing projects must demonstrate adherence to Housing First practices for as set forth in Section Q below.

Operating Expense Comparables: Submit a minimum of three comparables for the most recent two years as set forth in the Application instructions. Market Studies will be required for projects where HCD is unable to make a clear determination that projected rental income (rent targeting) is attainable. Upon the Department's request, Market Studies meeting current TCAC requirements must be provided.

Replacement Reserve Deposits: Pursuant to [UMR Section 8309](#), projects must have a replacement reserve. For 2015, replacement reserve minimums are as follows.

Type of Project	Minimum Required Initial Annual Deposit to Replacement Reserve
New Construction or Conversion Projects ¹	0.6% of the structure construction cost, up to \$600 per unit. "Structure construction cost" does not include construction contingency, general contractor profit, overhead, or general requirements.
Rehabilitation ²	The deposit amount required will be determined by HCD based on a third-party Physical Needs Assessment (PNA) submitted after award of funds. At time of application, prior to completion of the PNA, HCD will base its underwriting on a preliminary estimate. This preliminary estimate is \$591 per unit.

Environmental Requirements Projects funded by EHAP-CD are subject to the California Environmental Quality Act (CEQA, Public Resources Code Section 21000 et seq.). CEQA compliance certification will be required by prior to the close of construction financing; therefore, Sponsors should coordinate with their city or county planning agency to ensure that the project is in compliance with CEQA requirements.

¹ For purposes of calculating the minimum replacement reserve deposit, these projects have a per unit construction cost (excluding contractor profit and overhead) of over \$35,000 per unit.

² For purposes of calculating the minimum replacement reserve deposit, these projects have a per unit construction cost (excluding contractor profit and overhead) of \$35,000 or less per unit.

Prevailing Wage Requirements - Pursuant to Health and Safety Code Section 50675.4(c)(2), projects receiving assistance under this NOFA are subject to State prevailing wage law, as set forth in Labor Code Section 1720 et seq. The rehabilitation contract shall include a provision for the payment of State prevailing wage, **unless a legal opinion provided by the Sponsor, acceptable to the Department, indicates otherwise.**

Prior to beginning the bid process, projects must request from the Department of Industrial Relations, a Request for State Prevailing Wage Determination from their web site located at: <http://www.dir.ca.gov/dlsr/DPreWageDetermination.htm>. The prevailing wage determination results provided by the DIR must be included with your request for bids package and provided to all interested bidders during the bidding process.

P. Supportive Service and Property Management Requirements

Projects shall be designed to provide affordable housing with access to an array of services and amenities for tenants whose ability to live independent and full lives would be improved by the availability of such services and amenities. Projects shall:

- Provide services that are flexible and responsive to individual resident needs, and culturally and linguistically appropriate.
- Provide individualized services planning that connect tenants to on-site or off-site services that assist the tenant to: retain the housing, improve his or her health, and to maximize his or her ability to live, and where possible, work in the community.
- Employ successful strategies to engage residents in services, building operations, and services planning and operation.
- As part of the EHAP-CD application, Sponsors must complete the Supportive Service Plan, including a detailed description of the experience and capacity, including staffing patterns of the supportive service provider and property management staff, a detailed description of services and service models to be employed that are appropriate to the needs of the targeted population, a line item budget, and documentation identifying proposed funding for the supportive services to be offered, and percentage of total services budget that is committed at the time of the application. A minimum of 25% of the total Supportive Services Budget must be committed or supported by a letter of intent in order to be eligible for funding as a Supportive Housing project.
- Supportive Housing projects which have a confirmed application or commitment of funding from the MHSA will not be subject to service plan review requirements for those units funded with MHSA capital and operating subsidies. A transition reserve

will not be required for these units. To demonstrate commitment of MHSA funding, Sponsors must include in the application any or all of the following:

- Letter of commitment of funds from the County Mental Health Director or Housing Coordinator (alternatively, a letter of invitation to proceed to complete an MHSA application). The letter must include specific amounts and number of MHSA units applied for, or
- Any document evidencing the County's approval of MHSA funding, with specific funding amount and number of units.

Q. Housing First Practices and Tenant Selection

Projects shall employ Housing First practices that are documented in the application, property management plan, and supportive services plan. Adherence to Housing First practices shall be subject to periodic compliance monitoring by the Department. Housing First Practices require:

(1) Tenant selection practices that promote the acceptance of applicants regardless of their sobriety or use of substances, completion of treatment, or participation in service, and seldom reject applicants on the basis of poor credit or financial history, poor or lack of rental history, or minor criminal convictions;

(2) Tenants are assisted in making application for tenancy and reasonable accommodation requests;

(3) Supportive services are flexible and voluntary and focus on housing stability, engagement, and problem-solving over therapeutic goals;

(4) Management and services practices emphasize tenant retention and offer flexibility and services to prevent and resolve lease violations and evictions.

Sponsors shall select tenants in accordance with the provisions of UMR Section 8305. Reasonable selection criteria shall include priority status under a local coordinated access or assessment system developed pursuant to 24 CFR 578.7(a) (8). Where such local systems are in place, Projects shall prioritize highly vulnerable households as referred by the local coordinated access system. Where such systems are not yet operational, Projects shall coordinate directly and accept referrals from emergency shelters, safe havens, drop-in centers, and street outreach programs frequented by vulnerable people experiencing homelessness.

R. Funding Compatibility

Sponsors typically anticipate using an array of funding sources for the construction and permanent financing of their projects. The Sponsor should determine, prior to applying for the EHAP-CD Conversion funds, that the requirements of the other

project funding sources are compatible with the requirements of HCD. For example, compatibility issues have arisen with local and federal funding sources related to:

- The required terms of the HCD security documents, when the security for the EHAP-CD conversion loan is in a leasehold interest ([UMR Section 8316](#));
- The prohibition of senior debt that has a provision for a “balloon” payment. Often bond financing provisions include interest rate resets with potential calls prior to the full amortization term of the loan. Any interest rate resets or similar provisions governing senior debt shall contain a specified interest rate cap, subject to the approval of HCD and shall not jeopardize the feasibility of the project. Details of this issue and the HCD’s policy may be found on HCD’s website at: <http://www.hcd.ca.gov/fa/mhp/MHP-LoanClosing/ManagementMemo07-01.doc>;
- Senior debt with a variable interest rate must be underwritten at the ceiling interest rate;
- Program target population and income-targeting requirements; and
- Asset Management Fee and State Prevailing wage requirements.

S. Important Legal Matters

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

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

Sponsors must also be very careful to avoid violation of fair housing laws. HCD will review proposed tenant selection criteria for potential violations of these laws. A useful resource is “*Between the Lines, A Question and Answer Guide on Legal Issues*” in Supportive Housing, published by the Corporation for Supportive Housing available online at www.csh.org. Please be advised that a proposal may have substantial discrimination problems even though it targets a specific special needs population served when the facility was funded by HCD or other funders as emergency shelter or transitional housing,

T. Application Point Scoring

Applications will be scored as discussed in the table that follows. Urban and non-urban county applications will be scored in two separate applicant pools. **Projects must score a minimum of 55 points to be considered for funding, even if the amount of funds available does not exceed demand.**

Scoring Category	Max. Points	Comments
Extent to which the Project serves Literally Homeless versus at-risk homeless as defined in Section F	20	Points will be awarded in increments of 5 percentage points (5% of units to homeless populations = 1 point 10% = 2 points, etc.)
Development and Ownership Experience of the Sponsor	30	<p>Experience for the prior 10 years from the application due date is considered.</p> <p>Sponsor experience in the development and ownership of permanent supportive housing will receive maximum points. Emergency and Transitional housing development and ownership experience will also be considered.</p>
Commitment of at Least Three Years of Operating or Rental Subsidy for the Proposed Project	50	<p>Documentation of committed financing for all units for a minimum of three years from the HUD Continuum of Care or other funding source will receive maximum points. Commitments for some of units in the Project will receive partial points.</p> <p>For CoC Program funding, points will be awarded if the Project currently receives CoC funding and the CoC has committed to support an application to HUD to convert CoC Transitional Housing funding to CoC Permanent Supportive Housing funding.</p> <p>For sources other than the CoC, documentation must be through a firm letter of commitment from the funding source that indicates the purpose, terms, and contract amounts.</p>
Commitment of Capital Financing	25	<p>For projects where funds in addition to EHAP-CD are needed for rehabilitation or conversion activities, points will be awarded based on the percentage of other capital financing committed.</p> <p>Projects where EHAP-CD will provide 100% of the necessary capital for rehabilitation or conversion activities, will receive full points in this rating category.</p>
Project is a current EHAP-CD-funded emergency shelter or transitional housing facility operating in compliance with HCD agreements	5	Applicant will attach evidence of current EHAP-CD loan; HCD will verify.
Total Maximum Points	130	

Tiebreaker: In the event of tied point scores, the tied project with the highest percentage of project funds committed, including capital, rental subsidy, and operating funds, will receive an award.

The Department may request clarification of unclear or ambiguous documents and/or statements provided in the application where doing so will not impact the neutral evaluation of the application. The Department may request that an Applicant revise any of the application documents as necessary to establish threshold compliance as long as such revisions do not alter scoring, which may include, but is not limited to, adjustments made to the amount of funding requested. The Department may request submission of documentation if the documentation existed prior to the application deadline and the submission of the documentation is necessary but does not alter the scoring.

U. Disclosure of Application

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

Attachment 1

URBAN / NON-URBAN COUNTIES LIST

URBAN

Alameda
Butte
Contra Costa
Fresno
Kern
Los Angeles
Marin
Merced
Monterey
Orange
Placer
Riverside
Sacramento
San Bernardino
San Diego
San Francisco
San Joaquin
San Luis Obispo
San Mateo
Santa Barbara
Santa Clara
Santa Cruz
Solano
Sonoma
Stanislaus
Tulare
Ventura
Yolo

NON-URBAN

Alpine
Amador
Calaveras
Colusa
Del Norte
El Dorado
Glenn
Humboldt
Imperial
Inyo
Kings
Lake
Lassen
Madera
Mariposa
Mendocino
Modoc
Mono
Napa
Nevada
Plumas
San Benito
Shasta
Sierra
Siskiyou
Sutter
Tehama
Trinity
Tuolumne
Yuba