



**ATTACHMENT D
MENTAL HEALTH SERVICES ACT (MHSA) FUNDING
TERM SHEET**

The Orange County Community Resources Housing and Community Development (HCD) provides below market rate financing for the development of permanent supportive rental housing that includes housing affordable to extremely low-income households who are experiencing homelessness, using Orange County Housing Successor Agency (HSA) funds, Federal HOME Investment Partnerships Program (HOME) funds, and Mental Health Services Act (MHSA) funds. The funds may be used for acquisition, new construction, and acquisition and rehabilitation of Permanent Supportive Housing.

HCD will also provide up to two hundred (200) Project-Based Housing Choice Vouchers; this shall be regardless of whether or not capital funding is requested under the NOFA.

Eligible applicants include non-profit and for-profit organizations, joint ventures, or partnerships that serve the identified purpose of the NOFA.

Eligible Projects are those which provide a minimum of five (5) new permanent rental homes with supportive services for extremely low- income individuals with a serious mental illness experiencing homelessness; these projects may result from new construction, acquisition or acquisition and rehabilitation. Conversion of commercial and light industrial use buildings to residential use may be eligible on a case-by-case basis as determined by HCD.

General Loan Terms and Conditions

All of the policies and lending practices of HCD for permanent financing set forth within the NOFA shall apply to all projects funded with MHSA funds. **The following additional requirements shall apply to all of the MHSA funded units:**

- The population to be served shall include extremely low income (30% of Area Median Income for Orange County), homeless individuals who has a serious mental disorder as defined in WIC 5600.3(b), verified by a State Licensed Mental Healthcare Professional and has been deemed to meet the MHSA Housing Program eligibility (MHSA Certified) by Health Care Agency MHSA Housing Program staff.
- The maximum 2020 loan limit for the MHSA funds is \$163,780 per regulated unit (increasing up to 4% a year).
- Restricted rents for the MHSA funded units shall not exceed 30% of the HUD-published 30% Area Median Income (AMI) levels for Orange County, adjusted for designated household size (less a utility allowance unless included in the rent) with the **tenants rent portion not to be more than 30% of their Social Security Income/Social Security Pension (SSI/SSP) or not more than 30% of their total gross household income (if additional income beyond SSI/SSP is received)**. If federally

funded Project Based Vouchers are provided, the developer shall comply with the federal regulations for maximum rent and tenant rent portions.

- HCD requires that units assisted under this NOFA be filled with tenants who are prioritized through the Coordinated Entry System (CES). The Developer shall utilize the local coordinated entry system to screen for eligible residents currently experiencing homelessness and with a documented serious mental disorder.
- Housing units and building features must meet the needs of the MHSA tenants to be served at the development, including privacy, housing activities and community interaction. There shall be no requirement for non-related, single, adult tenants to share bedrooms. There shall be adequate number of bedrooms to accommodate the housing composition. Units are encouraged to have at least one-bedroom and be at least 450 square feet.
- Rental homes must have an identifiable and private living area, sleeping area, full kitchen area and a full bathroom. The kitchen area shall at a minimum include a sink, full size refrigerator, cupboard space, counter area, microwave or oven, and a two-burner stove or built-in cook top.
- All units should be furnished with standard furnishings applicable to the unit type.
- Developers are encouraged to provide units that are pre-wired for high technology and internet access.
- The building must include common space, such as a community room that can accommodate a variety of activities and where tenants can choose to interact with one another.
- The building must include a designated office space to provide services to MHSA tenants.
- The design and operation of the housing shall incorporate features designed to increase efficiency and reduce ongoing expenses.
- The housing shall incorporate appropriate and feasible green design practices, such as the use of ENERGY STAR rated energy-efficient appliances and water-conserving fixtures and products.
- The housing must also utilize durable materials chosen to reduce future maintenance costs and renewable building supplies.
- Tenants shall be provided with information to assist them to participate in environmentally friendly practices such as energy and water conservation, recycling and use of non-toxic household products.

Required Operating, Replacement and Subsidy Reserves

All developments using MHSA funds must provide for the following reserves:

Capitalized operating expense reserve, at a minimum, shall equal 25% of the first year's approved operating and reserve budget.

Capitalized replacement reserve for rehabilitation projects shall be based on a physical needs assessment and/or one or more Building Inspection Reports and a Replacement Reserve Needs Analysis. New construction projects shall have a capitalized replacement reserve of at least \$500 per unit/annually for all units in a project, increasing by 5% every five years.

Capitalized operating subsidy reserve ("COSR") shall be required for projects without rental assistance vouchers (or other rental subsidies) to subsidize operating costs for the MSHA Regulated Units. COSR's

must be funded to allow for operating cost subsidies for a minimum of 17 full years unless waived by HCD. The recommended maximum COSR limit is \$163,780 per assisted unit (with a suggested increase up to 4% per year).

Tenant Rent & Utility Reserve may be required by HCD to be funded by the Developer by Certificate of Occupancy for the development. This Reserve is used to assist MHSA eligible tenants with rent and utility payments while waiting to get approved for SSI/SSP and/or rental assistance. The Reserve should provide 2 to 3 years rental income for the MHSA-assisted units (assuming rents that include utilities at 30% of SSI/SSP). This Reserve is held by Borrower as a revolving fund and is intended to be replenished over time from tenant rent back payments once the tenants qualify for SSI/SSP.

Developer/Borrower is required to continually seek future commitments of rental or operating subsidies for the MHSA Regulated Units (e.g., project-based Section 8) for the life of the MHSA Loan.

Application and Loan Commitment Notes

Upon review of the borrower application and a decision to loan MHSA funds, the following will be determined by HCD and set forth in a commitment letter: 1) the regulated unit loan amount; 2) the percent of MHSA regulated units as it relates to the entire Project; 3) the size of the regulated units to best meet MHSA tenants needs (bedroom count); 4) any permissible occupancy preferences (adults; seniors; transition age youth); 5) the maximum COSR (if applicable) to carry the project through the first 17 years of operations; 6) whether Developer must fund a tenant rent reserve (for COSR assisted Projects only); 7) any permissible developer fees for non-tax credit transactions; and 8) permissible overlaying occupancy, rent or income restrictions from other financing or tax credit sources.

Supportive services provisions and a Social Services Plan and operating budget from the primary or lead service provider(s) shall be provided.

All units assisted with MHSA funding through this NOFA shall additionally include supportive services provided by the Orange County Health Care Agency (HCA) Behavioral Health Services (BHS) as the lead service provider, or an HCA BHS-contracted service provider. The developer shall work with HCA MHSA Housing Program to develop and provide a supportive services plan that meet and address the needs of the MSHA tenants for the term of the HCD Loan.

Primary supportive services shall be provided on site to meet the specific needs of the population to be served.

All MHSA tenants must be MHSA Certified by HCA MHSA Housing Program staff as outlined in the MHSA Certification and Referral Process. It is important to note that in no event shall a person be required to be a client of the Orange County Behavioral Health department or a recipient of mental health or other services in order to qualify for or remain in an Assisted Unit.

NOTE: This term sheet is subject to change.