MENTAL HEALTH SERVICES ACT HOUSING PROGRAM

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Term Sheet

Program Description	The **Mental Health Services Act Housing Program (MHSA Housing Program)** offers permanent financing and capitalized operating reserve subsidies **(COSR)** for the development of permanent supportive housing. This housing includes both rental housing and shared housing, and serves persons with serious mental illness who are homeless, or at risk of homelessness (as defined by the MHSA Housing Program), and who meet the MHSA Housing Program target population description. This program is jointly administered by the California Housing Finance Agency (CalHFA) and the Department of Mental Health (DMH) under an interagency agreement and in accordance with this term sheet, as amended from time to time by CalHFA and DMH. Please note that this program is designed to be flexible. CalHFA is authorized to grant exceptions to MHSA Housing term sheet on a case by case basis if needed to make a development financially viable, conform the program requirements to be compatible with other funding source requirements and or add more units for the target population. Exceptions will not be allowed for (1) funding for any form of leased housing, (2) deviations from serving the target population and (3) deviations from the approved housing types. (See the exception process at the end of this document). Please see the most recent Rental Housing and Shared Housing applications program guidelines (term sheet), and loan documents at the CalHFA website http://www.calhfa.ca.gov/multifamily/mhsa/index.htm.
MHSA Housing Program Target Population & Certification Requirements	• DMH has defined the MHSA Target Population for the purposes of the MHSA Housing Program, as individuals who meet the following criteria: (1) Adults or older adults with serious mental illness as defined by Welfare and Institutions Code Section 5600.3(b). (2) Children and youth with severe emotional disorders as defined in Welfare and Institutions Code Section 5600.3(a). (3) In addition to meeting either (1) or (2) above, the individual shall be one of the following: • Homeless, meaning 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 being homeless due to one of the following situations: (i) Transition age youth exiting the child welfare or juvenile justice systems. (ii) 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. (iii) Release from city or county jails. (iv) Temporarily placed in a residential care facility upon discharge from (ii) or (iii) above. (v) Certification by the county mental health director as an individual who has been assessed by and is receiving services from the county mental health department and who has been deemed to be at imminent risk of being homeless. • The county mental health department determines the eligibility of individuals applying for tenancy in an MHSA unit in compliance with the target population criteria.
Types of Supportive Housing Available Under MHSA	• Both Rental Housing Developments and Shared Housing Developments are permitted. • A Shared Housing Development is a residential building. All bedrooms in a Shared Housing Development are considered separate units and shall be occupied by an MHSA eligible resident, as determined by DMH and the sponsoring county mental health department. For purposes of the MHSA Housing Program funding, a bedroom in a Shared Housing Development is a unit. • A Rental Housing Development is an apartment building or buildings with no less than five residential units restricted for rent to MHSA eligible residents. • **Master leasing is not allowed**.
Predevelopment Loans	• Predevelopment loans of up to $500,000 may be available to all **Shared Housing Developments** that have received an MHSA Housing Program permanent loan commitment, and can demonstrate site control and receipt of all required local planning approvals, with the exception of building permits. • Predevelopment loans of up to $500,000 may be available to all **Rental Housing Developments** that have received an MHSA Housing Program permanent loan commitment, have obtained 30% of their permanent financing commitments based on dollar amount excluding tax credit equity, and can demonstrate site control and receipt of all required local planning approvals, with the exception of building permits, and in CalHFA's opinion are likely to receive the remaining construction and permanent financing commitments within the term of the MHSA permanent loan commitment. • CalHFA shall have the authority to approve a predevelopment loan, even if not originally requested in the application, upon written request by an applicant. Such approval shall be subject to such conditions as CalHFA deems reasonable or necessary. • There is no additional commitment fee for predevelopment loans but ½ of the 1% MHSA commitment fee will be due at loan commitment and ½ at

	predevelopment loan closing and will be funded from the proceeds of the predevelopment loan. • Predevelopment loan amounts cannot exceed the MHSA Housing Program permanent loan commitment for the development. • Only predevelopment loans used for acquisition of the development will be secured against the property. • Predevelopment loans may be recourse at CalHFA's discretion. • Interest will be 3% simple fixed. Payment of principal and interest shall be deferred until the predevelopment loan maturity date. • The predevelopment loan maturity date shall be the sooner of two years from predevelopment loan closing, or the sooner of the first construction loan closing or the MHSA Permanent Loan Closing. • Predevelopment loan interest will be forgiven at MHSA permanent loan closing, so long as the MHSA permanent loan is funded. • If the MHSA permanent loan does not fund, the predevelopment loan principal and all accrued interest shall be due at the time of the predevelopment loan's maturity. • Predevelopment loan funds may be available for (1) Purchase option costs, acquisition costs and costs associated with site acquisition for Shared Housing Developments; (2) predevelopment costs necessary to complete due diligence required for construction loan closing or permanent financing; (3) non-MHSA predevelopment loan interest; and (4) costs associated with repaying a portion of the outstanding principal and accrued interest for acquisition loans that have matured for Rental Housing Developments • Examples of eligible predevelopment costs include but are not limited to engineering studies and fees, Phase 2 studies, consultant fees, architectural fees, permits and other local fees, relocation expenses, costs for site preparation, third party studies and reports, legal fees, other expenses recoverable from the construction/permanent financing as approved by the Agency, and the MHSA Housing Program loan fee. • Staffing costs are not eligible costs for predevelopment loans.
Permanent Loans	• Permanent loan proceeds may be available at acquisition, at construction loan closing, or during the construction period if title insurance can be acquired. • Permanent loan proceeds may be used for allowable costs associated with the acquisition and development of the property, including reimbursing the developer for predevelopment and acquisition. Permanent loans will be secured against the property and the improvements by a promissory note, a deed of trust and a regulatory agreement. • Permanent loans, if funded during construction or rehabilitation may, at CalHFA discretion, be subject to a loan disbursement agreement. • Permanent loan limits will be based on the number of units restricted to

	MHSA eligible residents and the proportionate share of the manager's unit and not on the total number of units in the proposed development. • MHSA Housing Program loan funds may trigger prevailing wage requirements. Applicants are advised to consult their attorney on this issue. • MHSA Housing Program target population requirements may trigger conflicts with federal funding sources. Applicants are advised to consult their attorney on this issue.
Loan Terms	• Origination Fee: 1% of the MHSA permanent loan amount. One-half of the fees will be due at execution of the final commitment and one-half will be due at MHSA permanent loan closing, or at MHSA predevelopment loan closing, whichever occurs sooner. • A servicing fee of 0.42% of the original principal balance of the permanent loan shall be due and payable annually. This fee shall be paid to CalHFA, annually and in advance, for servicing and administrative services and shall be due January 1 of each year. • If MHSA permanent loan proceeds are disbursed at construction loan closing, loan interest will accrue during the construction period but payment will be deferred. The 0.42% servicing fee will be charged during the construction period. Up to two years of servicing fees will be due as a lump sum in advance at the time of MHSA permanent loan closing. • If MHSA permanent loan proceeds are not disbursed until construction is complete, a partial year from MHSA permanent loan closing until January 1 of the next year, and an additional full year of the 0.42% servicing fee shall be due as a lump sum, in advance, at permanent loan closing. • The interest rate on MHSA Permanent Loans will be fixed at 3% simple interest. Accrued interest and principal payments, to the extent available, will be made on an annual basis from net cash flow (residual receipts), with the first payment due one year after issuance of the certificate of occupancy or if applicable at recorded Notice of Completion. • All accrued and unpaid interest and principle attributable to the loan shall be due and payable upon maturity of the loan, unless this requirement has been modified by CalHFA under the circumstances described in the next paragraph. • For projects which receive an allocation of tax credits, and which involve a limited partnership with a tax credit investor, the payment of unpaid interest attributable to any given year may be forgiven upon demonstration to CalHFA that the Development did not generate sufficient residual receipts to make a full or partial payment. In this circumstance, unpaid interest for that year will not be added to the principal loan amount. However, upon default , or if there are sufficient monies generated in connection with the sale or refinancing of the Development, such unpaid interest shall be due and payable. • All residual receipts payments received by CalHFA will be credited toward pay down of accrued interest and principal shall be deposited back into the

	respective county's sub-account. • The Borrower will be responsible for all external transaction costs and third party studies. • The loan term for both Rental Housing Developments and Shared Housing Developments shall be 20 years or longer if required by other funding sources or if the California Tax Credit Allocation Committee has made an allocation of tax credits. Upon the request of the developer, the loan term may be up to 57 years. The term of the regulatory agreement shall be coterminous with the loan.
Qualified Developers and Borrowers	The Development team must include <u>all</u> of the following: • For Rental Housing, Developers with a track record of 5 years of successful affordable rental housing development. A demonstrated history of developing supportive housing and or serving the target population is desirable. • For Shared Housing, Developers that are stable and established organizations, with a history of successful development and or operation of a supportive housing development. • A qualified borrower organized in the fashion described more fully below. • A qualified service provider with 2 years of history serving the target population and • A qualified property manager. The property manager must demonstrate that the staff supervising the project has a history working with supportive housing projects and with the target population. • A qualified construction contractor/developer. Qualifications include a history of building at least two projects of a similar building type; a demonstrated familiarity with building affordable housing developments; a history of compliance with state and federal prevailing wage requirements, if applicable; and bonding capacity for the amount of the construction contract, if applicable. • Please note that particularly for very small counties, when there are no qualified developers, and property managers available, exceptions may be made to the Developer team qualification requirements by CalHFA on a case by case basis. Other developer options include • An affiliate of the county, redevelopment agency, local housing authority, or other public entity, created to hold properties financed by the MHSA Housing Program or an appropriate agency of the county. • The developer, the borrower and their respective affiliate organizations will be evaluated both for their ability to successfully develop and manage the real estate component of the development, and for their ability to partner with a lead service provider or service providers to deliver high-quality services to the target population.

	The borrower must be legally organized as one of the following: • A limited partnership (LP) in which the managing general partner of the LP must be a 501(c)(3) corporation or a limited liability company (LLC) whose sole member or members are 501(c)(3) corporations; • A 501(c)(3) corporation; • An LLC whose sole member or members are 501(c)(3) corporations; • An affiliate of a local redevelopment agency; • An affiliate of the county, redevelopment agency, a local housing authority, or other public entity, created to hold MHSA Housing Program properties. The borrower also must be organized as either • A single asset entity (in the case of a LP or LLC), or • A separate legal entity that only holds properties that have MHSA Housing Program funding, as appropriate.
Application Process	• Applications shall be submitted to DMH and CalHFA via the county mental health departments, which shall apply for funding in conjunction with a qualified developer/borrower. The signed submission of the application by the county mental health department will signify the county's approval of all of the following: • The capital funding request for the development, • The COSR funding request for the development, (if applicable), and • A commitment by the county mental health department to provide funding for supportive services for the MHSA eligible residents for the term of the MHSA Housing Program loan. All Rental Housing Developments will be required to submit a completed application with all attachments. The application form is posted on the DMH and CalHFA web sites. It includes MHSA Housing Program-specific requirements and the joint CalHFA, TCAC, CDLAC, and HCD application ("the Universal Application"). Shared Housing Developments have the option of submitting a completed application which includes the Shared Housing Universal Application and all attachments, or alternately they may submit their application in two parts, at two different times • The first part shall consist of Sections C (development partners) and Section D (30-day county review process documentation, request for COSR Service Plan and related materials), and along with a request for the loan and when applicable, a request for an operating subsidy. CalHFA and DMH will review the submittal and if approved, CalHFA will issue a conditional commitment letter for funding in advance of the site selection. This section of the application is subject to the 30 day local review process. This approval can cover multiple sites.

	• The second part of the application will be submitted to both CalHFA and DMH once the property is selected, and subject to a purchase and sales agreement, and shall contain Section A (the Shared Housing Application) and Section B (supplemental property information), together with a letter from the county approving the site or sites. Upon receipt of the last two sections, CalHFA will underwrite the loan and subsidy request, and once it is approved, move quickly towards a loan closing. • The County and Developer applicants should contact CalHFA prior to requesting modifications in an application that has already been submitted. Note: The applicants may apply to CalHFA to increase the MHSA permanent loan amount and or the COSR amount at any point between submission of the MHSA application and the closing of the MHSA permanent loan. Increases in the Permanent Loan Amount after the MHSA permanent loan has closed are not permitted under this program.
Due Diligence	The due diligence items identified in Section B of the MHSA Housing Program Application are required for all Rental Housing Developments applications. Preparation of this information will be at the developer's/ borrower's expense. Please note that there are separate checklists for Rental Housing Developments and Shared Housing Developments. Due diligence required for MHSA Housing Program pre-development loans, and permanent loan closings are available on CalHFA's website. CalHFA may require additional information from the Developer during the underwriting and loan closing processes. Please see Section B (supplemental materials) of the most recent Rental Housing and Shared Housing applications at the CalHFA website at http://www.calhfa.ca.gov/multifamily/mhsa/index.htm
Rental Housing Developments	**Additional Terms for Rental Housing Developments** • The MHSA Housing Program will fund one-third of the development costs of the MHSA Housing Program Units in a Rental Housing Development up to a maximum of $104,000 per MHSA Housing Program unit ("apartment"), as adjusted annually by a 4.00% inflation factor beginning January 1, 2010. • A minimum of 5 units in all Rental Housing Developments shall be set aside for MHSA eligible residents. The decision of how many units to set aside above the 5 unit minimum is a decision between the County and the developer. • Each MHSA Housing Program unit in a Rental Housing Development must have a lease signed by all adult members of the household. The lease must contain language that the unit must be occupied by an MHSA eligible resident. • Each MHSA Housing Program unit must be occupied by an MHSA eligible resident, as determined by DMH and the sponsoring county mental health department.

	• Rental Housing Developments may include both general occupancy buildings and special occupancy buildings. Special occupancy buildings include both senior housing and housing for homeless youth, as defined by California statute. • If there are other household members occupying the unit who are not MHSA eligible residents, and the eligible resident no longer resides in the unit, regardless of the reason, the other household members may continue to occupy the unit and rents may be adjusted. This occupancy may be allowed if the Rental Housing Development is a mixed-population development and the housing provider is able to supply a newly vacant non-MHSA Housing Program unit in the same development to an MHSA eligible resident. If the development is a single-population development, or if no non-MHSA Housing Program vacant units are available, the other household members may continue to occupy the unit for up to 90 days. Capitalized operating subsidies, (if applicable to the development), will continue through the end of the 90 day period and the housing provider will work with the remaining household members to find alternate housing accommodations. After 90 days, the Borrower shall start eviction proceedings. **Essential Multifamily Program Design Elements** • All units in a Rental Housing Development shall include, at a minimum, a living area, a sleeping area, a kitchen area and a full bathroom. The kitchen area shall at a minimum consist of a sink, refrigerator, cupboard space, counter area, microwave or oven, and a two-burner stove or built-in cook top. • Each unit with up to three bedrooms shall contain a bathroom and a half-bath. Units with four or more bedrooms shall contain two full bathrooms. A full bathroom shall consist of a toilet, sink and shower and/or bathtub. A half-bath shall consist of a toilet and a sink. • All Rental Housing Developments will be required to have adequate office space for the resident manager, supportive services staff and have sufficient community space with handicap accessible bathrooms for meetings and tenant service programs. The site management space should be physically separate from the supportive services space. Exceptions to this policy must be approved by CalHFA. • One unit may be made available for a manager's unit. CalHFA may approve, as part of an application, a request to use some rental units for Shared Housing in a Rental Housing Development, provided that the unit design allows for such a use, and that owner, in CalHFA's judgment has the experience and staffing necessary to operate the unit or units as Shared Housing, and adequately addresses this use in Section D of the application. Note: Each Rental Housing unit, regardless of the number of bedrooms rented as Shared Housing in that unit, shall only be eligible for the MHSA loan amount and COSR amount authorized for one Rental Housing unit. Note: Shared Housing units in Rental Housing Developments which are financed in part with

	Low Income Housing Tax Credits or American Recovery and Reinvestment Act funds administered by the California Tax Credit Allocation Committee (CTCAC) funds must meet IRS requirements as well as MHSA Housing Program requirements. Borrowers are advised to contact CTCAC as to their requirements.
	
	Allowable Non-MHSA Funding Sources for Multifamily Developments
	
	• The MHSA Housing Program will fund one-third of the costs of the MHSA Housing Program units in a Rental Housing Development up to the current allowable loan maximum per MHSA Housing Program unit. Two thirds of the costs must come from other sources. Note: This 1/3 ratio may be waived on an exception basis by CalHFA. This exception is most likely to be granted to small, non tax-credit developments and for developments in very small counties when other local funding sources are not available.
	
	• Fully amortizing loans from other sources will be allowed for Rental Housing Developments that receive MHSA Housing Program capitalized operating subsidies if all of the following conditions are met:
	
	    • Rents on the non-MHSA Housing Program units are high enough to fully support amortizing debt, and
	
	    • Annual operating budgets and annual audits are bifurcated sufficiently to ensure that the amortizing debt payments are not being paid from MHSA Housing Program units subsidized with COSR.

Shared Housing Developments	**Terms for Shared Housing Developments** • The MHSA Housing Program will fund all of the costs of a Shared Housing Development up to $104,000 per bedroom as adjusted annually at a four percent (4%) factor beginning January 1, 2010, provided that each bedroom is restricted for rental to an MHSA eligible resident. Developers will not need to supplement MHSA Housing Program funds with other capital sources in Shared Housing Developments unless the costs exceed $104,000 per bedroom. Note: this does not apply to apartment units in Rental Housing Developments that are used as Shared Housing. Those units shall only be eligible for the MHSA loan amount authorized for one Rental Housing unit, and **not** the Shared Housing loan amount authorized per bedroom. • Interest rates on Shared Housing Developments will be fixed at 3% simple interest. Principal and interest payments will be from residual receipts. • All residences shall be rented to two or more unrelated adults, each of whom qualifies as an eligible resident under the MHSA Housing Program. A lease must be signed by each occupant of the bedroom. • While this program is intended primarily for unrelated adult house-mates each of whom occupies a single bedroom, nothing in this definition excludes the spouse, adult partner, and/or child of an MHSA eligible resident from sharing the bedroom of the eligible resident, up to housing

	occupancy limits. **Essential Shared Housing Program Design Elements** • Each bedroom must be lockable. • In addition to the bedrooms, the Shared Housing Development must also contain a living area, a kitchen and full bathroom. Kitchens and living rooms need to be appropriately sized to accommodate the number of residents in each residence. Where possible, provisions should be made for a private or quiet area for a service provider to meet with residents. • Each Shared Housing Development with three bedrooms shall contain a minimum of a full bathroom and a half-bath. Each four or five bedroom Shared Housing Development shall contain two full bathrooms. A full bathroom shall consist of a toilet, sink and shower and/or bathtub. A half-bath shall consist of a toilet and a sink. Access to bathrooms shall not be through another resident's bedroom. • The maximum number of bedrooms per Shared Housing Development is five. • A Shared Housing Development may consist of a 1 to 4 unit building, provided that all bedrooms in each unit in the building are targeted for use as Shared Housing. Single-family homes, condominiums, half-plexes, duplexes, triplexes and four-plexes will qualify as a Shared Housing Development provided that they have a minimum of two bedrooms. An applicant may apply for several Shared Housing Developments in the same application. In an application which includes several Shared Housing Developments, the sites may be geographically scattered.
General Rent and Occupancy Requirements	• All MHSA Housing Program units must be targeted for occupancy by at least one MHSA eligible resident. • Rents in MHSA Housing Program units in both Rental Housing Developments and Shared Housing Developments must be restricted to 30% of 50% or less of the area median income (as adjusted by household size). • For units with MHSA Housing Program COSR, the tenant portion of the rent must be set at 30% of the current SSI/SSP grant amount for a single individual living independently, or 30% of total household income, whichever is higher (up to 30% of 50% of area median income). • The county mental health department must certify the eligibility of individuals meeting target population criteria. Individuals who have been certified are MHSA eligible residents. • If operating and/or other rental subsidies for the MHSA units are expected to be exhausted prior to the maturity date of the original MHSA permanent loan, the Borrower may submit to CalHFA a plan to transition of the use of these units to non-MHSA units. The plan shall be submitted at least two years prior to the expected depletion of the subsidies. The plan shall

	include, but not be limited to the following: • An explanation of the efforts the Borrower has made to secure rental subsidies necessary to sustain the MHSA units from other sources like shelter plus care and Section 8. • An explanation of the fiscal necessity of adjusting the number or use of the designated MHSA units. • A process for increasing the rent and continuing to market and rent the MHSA units to members of the Target Population who do not require subsidies. • The plan for continuing, throughout the term of the MHSA permanent loan, to apply for other subsidies, renewal of subsidies, and/or applications to the County for additional funds to subsidize the rental of MHSA units to members of the Target Population. CalHFA's approval of the Borrower's transition plan will be based on CalHFA's assessment of the information provided and a review of the Development's overall financial feasibility. Rent increases above 30% of 50% of AMI will not be approved. Approval will also be conditioned on the Borrower's commitment to continue to seek other subsidies and commitment to continue to market to the Target Population.
Allowable Costs and General Requirements	• All costs normally allowed as development costs for supportive housing by CalHFA are allowable costs for MHSA Housing Program loans. • Reasonable third-party consulting costs of the county charged to the developer applicant for county processing of the financial portion of the application are allowable costs. • Developer fees may be no higher than those allowed by TCAC and will be reviewed individually for appropriateness. • If the Development receives a COSR award and is subject to ground lease payments, the pro-rata share of the ground lease payments for the MHSA units must be capitalized in the development budget, and cannot be amortized over the term of the loan, unless there is sufficient cash flow from the non-MHSA units to pay the entire ground lease payment. • All developments will be required to apply for the "welfare tax exemption" (property tax exemption), and will be required to maintain that exemption for the term of the loan. • Projects that receive an allocation of tax credits from CTCAC may take an Asset Management Fee if required in their partnership agreement. The Asset Management Fee is a fee paid by the partnership on an annual, cumulative basis to the Limited Partner for property management oversight, tax credit compliance monitoring, and related services for the Limited Partner. • Projects that receive an allocation of tax credits from CTCAC may take a Partnership Management Fee if required in their partnership agreement. The Partnership Management Fee is a fee paid by the partnership to the General Partner on an annual, cumulative basis, in the amount and priority

	specified in the partnership agreement for managing the Partnership's operations and assets and coordinating the preparation of the required federal, state, and local tax and other required filings and financial reports. • The amount of the Asset Management Fee and Partnership Management Fee shall be in an amount allowed by the partnership agreement, and agreed to by the other public lenders, provided that such amounts are deemed reasonable by CalHFA and are paid from project cash flow subject to payment priority allowed in the regulatory agreements or other residual receipts agreements of the lenders involved in the transaction.
Allowable Non-MHSA Funding Uses	• The applicant must provide 100% of the capital costs of the non-MHSA Housing Program units from other sources. The resident managers' unit shall be prorated. • Capital costs above the MHSA Housing Program funding limits for Rental Housing Developments and Shared Housing Developments may be obtained from grants, tax credits, other loans from governmental and private loan sources, and other county mental health funds. • Developers are advised to consult their attorneys regarding potential legal conflicts between different housing funding sources.
Subordinate Financing	• Subordinate loans or grants are encouraged from local government and third parties to achieve project feasibility. • The MHSA Housing Program Regulatory Agreement and Regulatory Agreement (The MHSA Permanent Loan Documents) may be subordinate to conventional construction loan documents, fully amortizing permanent loans, and HUD 811 Use Agreements and loan documents. Subordination to other HUD documents may be considered on a case-by-case basis. • The MHSA Permanent Loan Documents may be subordinate, upon CalHFA approval, to other residual receipts/deferred permanent loans and regulatory agreements and use restrictions from federal, state, and local sources provided that those loans are equal to or greater than the amount of the MHSA Housing Program Loan. Regulatory agreements and use restrictions from federal, state, and local sources whose loans are less than the MHSA Housing Program Loan may at CalHFA's discretion, be in a superior position to the MHSA Loan Documents. • The MHSA Permanent Loan Documents may be subordinate to recorded redevelopment plans, general plans and other recorded use restrictions required by federal, state and local governmental entities, if such restrictions are compatible with the MHSA Housing Program requirements and are approved by CalHFA. • If the MHSA loan is secured by a ground lease, the ground lease will be subject to approval by CalHFA. Borrowers are encouraged to seek CalHFA approval of ground leases as soon as possible. • Approved ground leases will be permitted provided that the ground lease is

	of a sufficiently duration to protect the MHSA permanent loan. • When there is a public entity ground lessor, the MHSA loan documents will be recorded against the leasehold interest, but not against the fee interest, provided that no other lenders loan documents are recorded against the fee interest. • When there is a private entity ground lessor, the MHSA loan documents will be recorded against the leasehold interest, and may be recorded against the fee interest at CalHFA's discretion. • All other loan documents, loans, leases, recorded use agreements, and recorded grant agreements must be subordinate to the MHSA Permanent Loan Documents.
Reserve Requirements	**<u>Operating Expense Reserve</u>** • A minimum of three months of the first year's anticipated operating cost, but no more than 12 months of anticipated first year's operating costs, will be capitalized as an MHSA required operating expense reserve. This reserve may be held by CalHFA for the term of the MHSA Housing Program loan. **<u>Supplemental Reserves Units</u>** • Supplemental COSR reserve funds may be required by CalHFA for use by the MHSA restricted units in the event that the COSR does not subsidize the MHSA COSR units for a minimum of 15 to 18 years. These funds may be held by the Agency and disbursed per the terms of a Capitalized Operating Subsidy Reserve Agreement. • CalHFA may require an additional reserve for Rental Housing Developments where the non-MHSA Housing Program unit rents are too low to make the project feasible. This reserve will be funded with non-MHSA sources and CalHFA may hold this reserve. **<u>Replacement Reserve</u>** • There is no capitalized replacement reserve deposit requirement for new construction. • There will be a capitalized replacement reserve deposit requirement for developments involving acquisition/rehabilitation if indicated by a replacement reserve over time analysis. • A minimum annual replacement reserve deposit of $500 per unit per year will be required for all new construction Rental Housing Developments. This requirement may increase for developments which involve acquisition/rehabilitation if indicated by the replacement reserve over time analysis. This requirement applies to both MHSA units and non MHSA units. • A minimum annual replacement reserve deposit of $2,500 per building or $500 per bedroom per year, which ever is higher will be required for all new construction Shared Housing Developments. This requirement may

	increase for developments which involve acquisition/rehabilitation if indicated by the replacement reserve over time analysis.
MHSA Capitalized Operating Subsidy Reserve ("COSR")	• COSR, in an amount determined by CalHFA, may be available for developments that receive MHSA Housing Program permanent loan funds. No COSR will be available for a project that does not receive an MHSA Housing Program Permanent loan. • The borrower and the county mental health department may apply for a reservation of the COSR subsidy for the MHSA Housing Program units up to a maximum of $104,000 per unit, adjusted by a 4% inflation factor beginning on January 1, 2010, and annually thereafter. • Only the operating costs of MHSA Housing Program units, which includes the proportional share of the resident manager's unit, may be subsidized with capitalized operating subsidies. Non-MHSA Housing Program unit costs, including supportive services, are not eligible for COSR subsidies. • Note: For underwriting purposes, and only to determine the tenant portion of the rent, and the amount of COSR required at Final Commitment, CalHFA will assume that one person will occupy the MHSA studio and one bedroom apartments. For two bedroom and larger apartments, CalHFA will assume that at least one of the bedrooms will be occupied an adult eligible for SSI/SSP and the other units will be occupied by a child eligible for Cal WORKS. • COSR funds may not be used to make amortized debt service payments for Rental Housing Developments and Shared Housing Developments, or residual receipts payments. COSR may be used to make the 0.42% required annual debt service payment for HCD MHP loans, provided that the payment is in proportion to the number of units in the Development which receive COS funds, and the proportionate share of the manager's unit. Note: CalHFA may grant an exception on a case by case basis to either allow COSR to fund amortized debt payments or to increase the capital amount of the MHSA permanent loan to eliminate amortizing debt for Shared Housing. This exemption will be primarily for very small counties where no other public funds are available. • COSR subsidies will be sized to allow for operating subsidies for up to 20 years. • A development's COSR will be sized and determined by CalHFA based on a review of the difference between the projected income for the MHSA COSR subsidized units the operating expenses in the first-year operating budget, assuming an annual income escalator factor and an annual expense cost escalator factor. • Interest earnings on the COSR will be factored into the amount of available subsidy. • The COSR will be capitalized at MHSA Housing Program permanent loan closing, and held by CalHFA in an interest-bearing reserve account.

	• The COSR is for use by MHSA units only and will not be the property of the development. • COSR awards will be made at loan commitment but will be conditioned upon a determination, prior to permanent loan closing, that the developer has applied in good faith for other available rental housing subsidies for the development, and been unsuccessful in its application(s). Developers will be asked to identify the rental subsidy source or sources for which they have applied for or which they are planning to apply for and why they are pursuing that source. The determination of the appropriateness of the source will be made during the underwriting process. Documentation of good faith application to the alternate source or sources will be required during the underwriting process. • Developers will only be required to apply for other subsidies in at least one award cycle, and may be required to apply in a second cycle at CalHFA's discretion. • If the development receives an allocation of operating subsidies for the MHSA units from another source prior to the first draw on the MHSA COSR account, CalHFA, may at its discretion, return COSR subsidies not expected to be used during the 20 year term of the COSR agreement back to the County sub account. • Developments that receive rental or operating subsidy contracts from other sources may also apply for a back-up award for MHSA for the time period not covered by other subsidy contract(s), or for any shortfall not covered by other subsidy awards during their term(s), provided that the Developer agrees to apply for all available extensions of subsidy contract(s). • In year 15, and every 5 years thereafter, the COSR account of a development will be reviewed by CalHFA. Funds not anticipated to be utilized during the remaining term of the COSR agreement may be returned to the County sub-account at CalHFA's discretion for use in as COSR in another development with a MHSA Housing Program loan in the same county. • Developments that receive rental or operating subsidy contracts from other sources for less than the total number of MHSA units may apply for COSR reserves for the remaining MHSA units, provided that they agree to apply for all available extensions of subsidy contract(s). • Capitalized Operating Subsidy Reserve funds shall not be available for disbursement until the later of: (a) MHSA Permanent Loan Closing and full disbursement of the MHSA Permanent Loan; or (b) Certificate of Occupancy or recorded Notice of Completion if applicable and submission to CalHFA of documentation required in the COSR agreement. • The first advance of COSR will include the first full year of subsidy for the COSR units and a per diem of the COSR from the completion date to the first day of the next quarter. Starting in the second year, advances of COSR will be made quarterly.

	• The first advance of COSR may include the anticipated tenant portion of the subsidized rent for one full year. This will allow the borrower to assist the MHSA eligible residents in applying for SSI and other available sources of income. This additional subsidy is intended to make the project whole while residents are going through the SSI application/appeal process. Note: the intent is for these funds to be recycled. Borrowers are advised to include clauses in their leases that require the tenants to reimburse them for back rent due when they begin to receive SSI disability benefits.
	• The capitalized operating subsidy payments will be reconciled with actual operating costs every year.
	• No distributions of surplus cash or residual receipts may be made to the borrower for non-project purposes from excess capitalized operating subsidies. Any surplus cash attributable to the capitalized operating subsidies, based on the annual audit, must be held by the development for the next year's operating expenses and the next year's capitalized operating subsidies allocation will be adjusted accordingly.
	• COSR shall be used to pay:
	    • Approved Operating Expenses in excess of actual Development income attributable to the MHSA Units, and a proportionate share of the manager's unit.
	    • The annual servicing fee of 0.42% attributable to the MHSA capitalized operating subsidy units, and a proportionate share of the attributable to the manager's unit.
	    • The balance of the COSR may be used to pay the following, if funds are available after payment of approved operating expenses and the 0.42% annual servicing fee, in the priority order specified below:
	    • If the development has a HCD Multifamily Housing Program (MHP) loan, the 0.42 percent required annual interest payment of the principal amount of the MHP loan, attributable to the COSR units, and a proportionate share of the manager's unit.
	    • Annual bond issuance fees, if any, attributable to the COSR units.
	    • For those developments that have an allocation of tax credits, Asset Management Fees and Partnership Management Fees in proportion to the number of the MHSA Housing Program units receiving COSR in the development.
	    • An annual Operating Reserve deposit not to exceed three percent (3%) of anticipated gross income for the relevant year attributable to the COSR units.
	    • Approved deferred developer fees, if any, attributable to the COSR units. This applies to only those developments which have an allocation of tax credits, and whose ownership structure is a limited partnership with an equity investor as the limited partner.

	- Service coordinator salaries and benefits attributable to the COSR units. - COSR shall not be used to pay for the following project costs: - amortized debt service payments, - ground lease payments, - Asset Management Fees and Partnership Management Fees in excess of the proportional share of the MHSA Housing Program units receiving COSR in the development, - the operating costs of any non-MHSA Unit, - the operating costs of any MHSA Units for which the Borrower did not apply for and receive a COS award, - cash distributions to the Borrower, - residual receipts payments to other lenders, or - lump sum pay off of other loans.
Occupancy Requirements, Reduction or Termination of the Capitalized Operating Subsidy Reserve (COSR)	- Occupancy will be reviewed annually for compliance with MHSA Housing Program requirements. - COSR will be reduced or terminated for developments that do not rent their MHSA Housing Program units to MHSA eligible residents. - COSR will be reduced or terminated for MHSA Housing Program units when the MHSA eligible resident has a housing choice voucher (HCV), absent mitigating circumstances. - COSR will be reduced or terminated for MHSA units that receive project-based rental subsidies from other sources. - COSR is only available while an MHSA eligible resident resides in the unit and is paying the tenant portion of the rent. COSR is not available when the eligible tenant has moved out of the unit unless one of the following exceptions is met: - COSR may continue for up to two months upon vacancy of an MHSA Housing Program unit that receives a capitalized operating subsidies. - COSR will continue if the MHSA eligible resident is in a hospital, an acute or long-term care facility, or other institutional setting for up to three months, provided the MHSA eligible resident is expected to return within the three-month period, and the tenant, or service provider or county informs the property manager in writing, and provided that the MHSA tenant portion of the rent is kept current;

	• COSR will continue for up to 90 following the date the MHSA eligible resident moves out of the unit when the eligible resident resides in the unit with other household members who are not MHSA eligible residents; and • If family members who are not MHSA eligible residents continue to reside in the unit after the MHSA eligible resident moves out, they must be given timely legal notice that: (1) the capitalized operating subsidy will terminated after 90 days; and (2) upon termination, that the unit rent will be increased to the market rent or the highest restricted rental rate applicable to the development.
Supportive Services	• **All applications must include a supportive services plan**, which must meet MHSA Housing Program requirements and must be **approved by DMH**. • The borrower must provide a clearly articulated supportive services delivery program. • The supportive services provided must be appropriate to MHSA eligible residents, and designed to assist those residents to live independently. • The borrower must have a commitment for supportive services funding from the county mental health department upon submission of the MHSA Housing Program loan application. • All developments must identify a qualified service provider that will provide supportive services to the residents. In the event that there are multiple service providers, the application must identify a primary service provider for the development. The borrower will be required to arrange for the provision of supportive services for the term of the MHSA Housing Program loan. • A supportive services budget, including staffing ratios, will be required one hundred and twenty (120) days prior to anticipated lease up or upon the closing of the MHSA Housing Program Loan, at the county's and borrower's election. • The property management agent and the primary service provider may be the same entity, provided that there is a clear separation of staff and a delineation of their separate roles and responsibilities. • MHSA projects must have a Memorandum of Understanding (MOU) between the developer, the primary service provider(s), the property management company, and the county mental health department. 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. A draft of the MOU will be required with the application, and an executed MOU approved by CalHFA and State DMH will be due 120 days prior to anticipated lease up.
Asset	• All MHSA projects must have an executed management contract with a

Management	qualified property management agent with experience with the target population. • CalHFA will hold the COSR and disburse it according to the terms of the COSR Agreement. • Replacement reserves and regular operating reserves for the development may be held by CalHFA. This requirement may be waived at CalHFA's discretion. • Taxes and insurance may be impounded by CalHFA. This requirement may be waived at CalHFA's discretion. • All developments will be required to submit quarterly financial reports. This requirement may be waived, or more frequent reporting may be required, at CalHFA's discretion. • All developments will be required to submit an annual operating budget, and an annual supportive services budget. • All developments will be required to submit an annual audit prepared by a certified public accountant in accordance with commonly accepted accounting standards. CalHFA will accept a different form of financial certification for Shared Housing Developments and small Rental Housing Developments of 25 or fewer units. • All mixed-use developments which receive a MHSA COSR will be required to submit a bifurcated annual audit. The bifurcated audit must distinguish actual annual income and expenses of MHSA units that receive capitalized operating subsidies from those units that do not receive the subsidies. • Please see the CalHFA website for a sample regulatory agreement http://www.calhfa.ca.gov/multifamily/mhsa/index.htm .
Small Counties	**Small Counties** • Eight percent of the total funds allocated to the MHSA Housing Program by DMH will be allocated for small counties. The MHSA funds set aside for small counties are currently estimated to be approximately $32 million of the available $400 million initial allocation. • To be identified as "small," the county must have 200,000 or fewer residents based on the most recent census. • The application process will be the same for large and small counties. However, CalHFA may waive some of the program requirements for small county applications. Requests for waivers will be reviewed on a case-by-case basis. Please contact CalHFA if an exception is needed for project feasibility. • County specific funds may be combined by small counties to create developments that serve regional needs. While it is anticipated that the MHSA Housing Program is sufficiently flexible to meet the needs of small counties, alternate program provisions may be

	developed if they are needed to address the unique needs of small counties.
County Allocations	**MHSA Loan Allocations Per County** The county mental health department must certify the eligibility of individuals meeting target population criteria. • A total of $400 million has been made available from the MHSA for housing development and operating subsidies under this program. • Each county received a portion of the $400 million and most have assigned those funds to CalHFA. • MHSA loans and COSR funds are limited to the funds available in the CalHFA-held county sub-account plus any interest earned. • Counties are able to assign additional funds to their sub-account. Account balances can be found in the Semi Annual Report on the DMH website at http://www.dmh.ca.gov/Prop_63/MHSA/Housing/default.asp • Nothing shall prohibit county mental health departments from utilizing other available funds for this program to supplement available funds in their account.
Reporting	• County mental health departments must meet all DMH Outcomes Reporting requirements. • The primary service provider and borrower will be required to provide information to CalHFA and State DMH regarding supportive services delivery to and housing outcomes for MHSA eligible residents, on an MHSA Housing Program Annual Self-Certification form (see CalHFA website http://www.calhfa.ca.gov/multifamily/mhsa/index.htm .
Exception Process	CalHFA may grant exceptions to MHSA Housing Program requirements upon written request from the county mental health department and/or the sponsor/borrower. Only the county mental health department may request an increase in the allowable maximum loan amount. Please note: the developer/borrower is be responsible for notifying the county mental health department when they submit an exception request. Unless prior written approval is received from CalHFA, the county mental health department and the sponsor/borrower must maintain compliance with all program requirements. No exceptions will be considered for any form of leased housing, deviations from serving the target population or from the approved housing type. CalHFA may exempt the county mental health department and/or the sponsor/borrower from compliance with any program requirements upon receipt and approval of a submittal substantiating evidence supporting the request and justifying the proposed alternative. Within 30 days of receipt of a request for an exception, CalHFA will provide written notice to the county mental health department and/or the sponsor/borrower, that either (1) the request with substantiating evidence has been received and accepted for consideration, or (2) the request is deficient. If

	the request is deficient, CalHFA will describe the additional information required for the request to be acceptable and establish a timeframe for receipt of the additional information. If the county mental health department and/or the sponsor/borrower fail to comply with the CalHFA-established timeframe for submission of additional information, the exception request will be denied. Within 30 days of receipt of an acceptable request for an exception, CalHFA will provide written notice to the county mental health department and/or the sponsor/borrower, that the request has been approved, denied, or accepted with conditions and modifications.
Questions	Policy questions regarding the MHSA Housing Program may be directed to CalHFA's Multifamily Programs Division: Bob Deaner, Director of Multifamily Programs Phone: 916.326.8801; Fax: 916.327.5115 Email: bdeaner@calhfa.ca.gov Questions regarding prospective and submitted MHSA Housing Program loan applications may be directed to the following persons in CalHFA's Multifamily Programs Division: Nanette Guevara, MHSA Lead Loan Officer Phone: (916.326.8813); Fax: 916.327.5115 Email: nguevara@calhfa.ca.gov Debra Starbuck, Loan Officer Phone:530.878.8075; Fax: 530.878.8075 Email: dstarbuck@calhfa.ca.gov Matt Mielewski, Loan Officer Phone: 310-342-5417, Fax 310-342-1226 Email: mmielewski@calhfa.ca.gov Ruth Vakili, Loan Officer Phone: 916.326.8816; Fax: 916.327.5115 Email: rvakili@calhfa.ca.gov Questions on the Mental Health Services Act and the MHSA Housing Program requirements may be directed to DMH's MHSA Special Projects unit: Jane Laciste, Chief, Special Projects Phone: (916) 654-3529 Email: jane.laciste@dmh.ca.gov

IMPORTANT DISCLOSURE INFORMATION:

While this term sheet attempts to provide accurate information, additional terms and conditions may apply. This program guideline may be amended from time to time by CalHFA and DMH without prior notice.