

# Portfolio Reinvestment Program (PRP) Notice of Funding Availability (NOFA) Amendment #1 Workshop

California Department of Housing  
and Community Development  
September 8, 2022





# Housekeeping

- Keep your microphone muted.
- Please hold all verbal questions and comments until the end of the presentation.
- You may submit your questions during the presentation by typing in the chat feature in MS Teams.
- A copy of this Power Point will be posted on the HCD website.

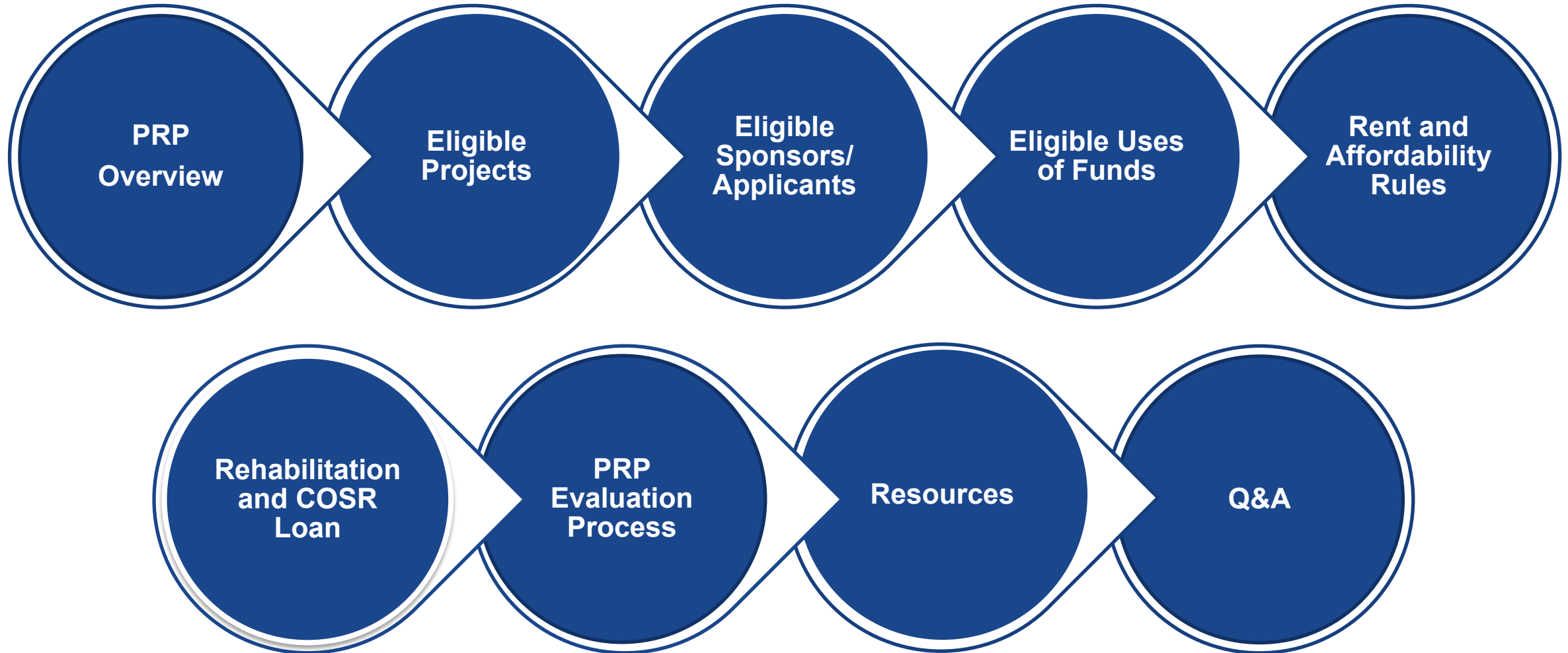


# PRP Team

- **Lindy Suggs** Branch Chief
- **Joanna Chang** HCD Specialist
- **Joan Carnago** HCD Specialist
- **Doug Gongaware** HCD Representative
- **Gina Lassagne** HCD Representative
- **Kelly Limberia** HCD Representative
- **Nancy Milla** HCD Representative



# Agenda



# PRP OVERVIEW





# PRP Funding

PRP NOFA and Guidelines §1A

- New funding to preserve and rehabilitate eligible Projects in HCD's Portfolio:
  - CALDAP, CHRP, DPRLP, FHDP, FMTW, FWHG, HOME, MHP, RHCP, RHCPO, SERA, SUHRP, etc.
- Extends the affordability of these projects and extends the useful life through rehabilitation.



# Authorizing Legislation

PRP NOFA and Guidelines §1C

- Assembly Bill 140 (Chapter 111, Statutes of 2021) created the statutory basis for the PRP by adding Chapter 5.5, commencing with HSC section 50606.
- Senate Bill No. 197 (Chapter 70, Statutes of 2022), which was signed by Governor Gavin Newsom on June 30, 2022, amending Chapter 5.5 (commencing with section 50606) of Part 2 of Division 31 of the Health and Safety Code (HSC).\*
- MHP final guidelines, effective June 19, 2019 are incorporated by reference.
- UMRs, effective November 15, 2017 are incorporated by reference.



## PRP NOFA Amendment #1\*

- PRP NOFA was released on March 28, 2022
- PRP NOFA Amendment #1 was released on July 28, 2022 and included the following:
  - Increased available funds from \$285 million to \$332.5 million
  - Extended the application deadline to November 30, 2022
  - Expanded the program criteria for eligible projects
  - Provided additional incentives to applicants
  - Clarified various PRP terms and regulations





# Funds Available

PRP NOFA and Guidelines §1A

- The maximum amount of PRP funds available under this NOFA is approximately **\$332.5 million\***.
- There are three funding set asides within this NOFA:
  - \$50 million set aside for Small Projects, which are defined as having from 5 to 20 units.
  - \$100 million set aside for Residential Hotels, as defined in the MHP Guidelines section 7301.
  - **\$50 million set aside for Projects that have been foreclosed on by the Department or by another public lender\***.

If the set asides are not fully utilized by **November 30, 2022\***, the remaining funds will be made available to the general funding pool.



# Maximum Award Amount\*

PRP NOFA and Guidelines §IIG2

The Assisted Unit and per Project caps (not including the COSR Award) are as follows:

- **Small Project Set Aside:** \$250,000 for each Assisted Unit that is restricted at 60 percent of AMI or less, except for Assisted Units for which section II(E)(1)(c) applies, with a \$2.5 million maximum per Project.\*
- **General Pool / Residential Hotels Set Aside:** \$250,000 for each Assisted Unit that is restricted at 60 percent of AMI or less, except for Assisted Units for which section II(E)(1)(c) applies, with a \$25 million maximum per Project.\*
- **Foreclosed:** \$450,000 for each Assisted Unit that is restricted at 60 percent of AMI or less, except for Assisted Units for which section II(E)(1)(c).\*



# High-Cost Expenses

PRP NOFA and Guidelines § IIG2(d)

Projects that are under the maximum per Project loan limit for the general pool, Residential Hotels set aside, and foreclosure set aside may qualify for additional funding if they have any of the following high-cost expenses:

- Temporary or Permanent Relocation
- Elevator Replacement or Repair
- Seismic Work
- Structural Work
- Required Environmental Remediation
- Accessibility Modifications



# Timeline

PRP NOFA and Guidelines §IB

<b>ACTIVITY</b>	<b>DATES</b>
<b>PRP NOFA Release:</b>	<b>March 28, 2022</b>
<b>Application Release:</b>	<b>April 8, 2022</b>
<b>PRP NOFA Amendment #1:</b>	<b>July 28, 2022*</b>
<b>Application submission period:</b>	<b>April 29 – November 30, 2022* 5:00PM PST</b>
<b>Award Announcements:</b>	<b>Continuously as applications are approved, approximately 4-5 months after application submittal, but no later than May 31, 2023*</b>
<b>Funds encumbered through an executed Standard Agreement:</b>	<b>No later than June 30, 2024</b>
<b>Permanent loan conversion:</b>	<b>No later than August 31, 2026</b>
<b>Capitalized Operating Subsidy Reserve expenditure deadline:</b>	<b>December 31, 2026*</b>

# Eligible Projects





# Project Eligibility

PRP NOFA and Guidelines §IIA

**The Project must have the Original HCD Loan documents recorded on the property and must meet the following additional requirements:**

**All HCD regulatory agreement(s) have expired or will expire on or before 12/31/2032\***

**HCD regulatory agreement has not been terminated by HCD**

**Project's rehab will not be funded through Low Income Housing Tax Credits**

**Tax credits and certain bonds may not be used to fund the Project for at least 10 years.**

**Construction period rehabilitation financing provided by other lender(s)**

**Have 5 units or more and cannot be comprised of two or more sites**



# Project Eligibility

PRP NOFA and Guidelines §IIA

**PRP NOFA Amendment #1 expanded the project eligibility criteria**

**Foreclosed by the  
Department or another  
public lender\***

**Executed only a loan  
extension under the Loan  
Portfolio Restructuring  
Program or Housing Loan  
Conversion Program\***

# Eligible Sponsors/Applicants







# Eligible Sponsor

PRP NOFA and Guidelines §IIB

**Applicant must be an Eligible Sponsor as described below:**

- An individual
- Joint Venture
- Partnership
- Limited Partnership
- Trust
- Corporation
- Limited liability company
- Local public entity
- Tribal Entity
- Or any combination thereof



# Eligible Applicants

PRP NOFA and Guidelines §IIB

- May not be in breach or default of the Original HCD Loan nor under any other Department program, except for the maturity of an unpaid loan.
- Must be current with payments due to HCD and mandatory reporting including the Schedule of Rental Income and financial statements.
- Any questions regarding eligibility please reach out to the PRP team.



# Change of Ownership

PRP NOFA and Guidelines §IIB(3)

- If the Applicant is not the current owner of the Project, the current owner must request the Department's approval of a change of ownership no less than 30 days prior to the submittal of the application.
- The Department must issue a written approval of the change of ownership prior to submittal of the application.



# When Applicant is not the Current Owner

PRP NOFA and Guidelines §II B(3)

**If the Applicant is NOT the current owner of the Project, the Applicant must demonstrate site control and experience relevant to owning and developing affordable rental housing through evidencing current capacity including:**

- Ownership/Development within last 10 years
- Financial Resources
- Complies with Preservation Notice Law
- Office, payroll and qualified staff

# Eligible Uses of Funds





# List of Eligible Uses

PRP NOFA and Guidelines §IIC

- Rehabilitation work to extend the useful life of the Project through the end of the PRP loan term;
- Site improvements that are required by a regulatory agency;
- 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;
- Environmental hazard reports, surveys, and investigations;
- Costs of relocation benefits and assistance required by law;
- Carrying costs during construction, including insurance, construction financing fees and interest;



# List of Eligible Uses

PRP NOFA and Guidelines §IIC

- Building permits and state and local fees;
- Escrow, title insurance, recording, and other related costs;
- Costs for items intended to assure the completion of construction, such as contractor bond premiums;
- Accessibility improvements that meet or exceed local, State, and Federal accessibility requirements, as approved by the Department;
- Installation of broadband internet and/or energy/water conservation features, as approved by the Department;
- A short-term Capitalized Operating Subsidy Reserve (COSR);
- Capitalization of Replacement Reserves\*; and
- HCD Monitoring Fee Reserves\*



# Developer Fee

PRP NOFA and Guidelines §IIC

PRP funds can be used to fund a Developer Fee.

- For Projects that are not group homes, the Developer Fee shall be limited to the amount permitted by the UMR section 8312(a) or \$2,200,000, whichever is less.\*
- For Group Homes, the Developer Fee shall be limited to 5 percent of the PRP rehabilitation loan up to a maximum of \$750,000.\*



# Rent and Affordability Rules





# Affordability for Existing Tenants

PRP NOFA and Guidelines §IIE

Project shall convert to AMI-Based Rent and Income limits under the PRP Regulatory Agreement, Assisted Units will be restricted by a specific percentage of AMI:

<b>Units originally designated as:</b>	<b>AMI Level</b>
Low Income	60% AMI
Very Low Income	30% AMI– HCD may re-designate units up to 50% AMI to achieve Fiscal Integrity
<b>Units not originally assisted:</b>	<b>AMI Level</b>
Sponsor chooses to make Assisted under PRP	Up to 60% AMI



# Affordability for Existing Tenants

PRP NOFA and Guidelines §IIE

Sponsors may designate up to 20% of original Assisted Low Income Units at 80% AMI, in counties where 100% of AMI is under the current Multifamily Tax Subsidy Project (MTSP) Income limits and is equal to the current statewide non-metro median income.



# Assisted Vacant Units

PRP NOFA and Guidelines §II E

- Assisted Units that are vacant or that become vacant after the PRP application is submitted shall be charged rents in accordance with the Original HCD Loan until the PRP Regulatory Agreement is recorded.
- After the PRP Regulatory Agreement is recorded, the AMI-Based Rent and Income limits shall apply.



# Rent Rules for Existing Tenants

PRP NOFA and Guidelines §IIE

Household Income	Maximum Rent Increase
Less than or equal to 35% AMI	5%
Greater than 35% AMI	10%
Rent is greater than or equal to 50% of household income	No rent increase is permitted



# Rent Rules for Existing Tenants

PRP NOFA and Guidelines §IIE

- The rules governing annual rent increases will continue until an existing tenant's rent reaches the published Rent limit for that unit.
- After that, the unit's Rent will be restricted solely by the published AMI-Based Rent and will no longer be subject to PRP's Rent increase rules for Existing Tenants.
- After the unit converts to the AMI-Based Rent, there is no further evaluation or prohibition concerning whether the existing tenant's rent exceeds 50% of the tenant's household income.



# Over-Income Tenants

PRP NOFA and Guidelines §II E

- Existing tenants with household incomes that exceed 80% of AMI will be required to pay 30% of their actual household income.
- Tenants who move into the Project after the PRP application is submitted and whose incomes increase to more than 60% of AMI after the PRP Regulatory Agreement is recorded will be required to pay 30% of their actual household income.



# Preservation Notice Law Requirements

PRP NOFA and Guidelines §IIE





# Rehabilitation and Capitalized Operating Subsidy Reserve (COSR) Loans





# Rehabilitation Loans

## PRP NOFA and Guidelines §IIG5

- For permanent financing provided at permanent loan conversion.
- Bears simple interest at 3% per annum on the unpaid principal balance.
- Annual .42% mandatory loan payment.
- Loan term of 30 to 55 years.
- **PRP permanent loan conversion must occur by August 31, 2026.**



# COSR

PRP NOFA and Guidelines §IIG5

- The purpose of the COSR is to address Project operating deficits associated with Assisted Units.
- The total COSR funding amount will be the lesser of 25% of the PRP rehabilitation loan or the amount needed to pay anticipated operating deficits attributable to the Assisted Units from construction loan closing through December 31, 2026.
- The Department may allow any remaining COSR funds to be deposited into the Project operating reserve at the end of the COSR term\*



# COSR Forgivable Loan

PRP NOFA and Guidelines §II G5

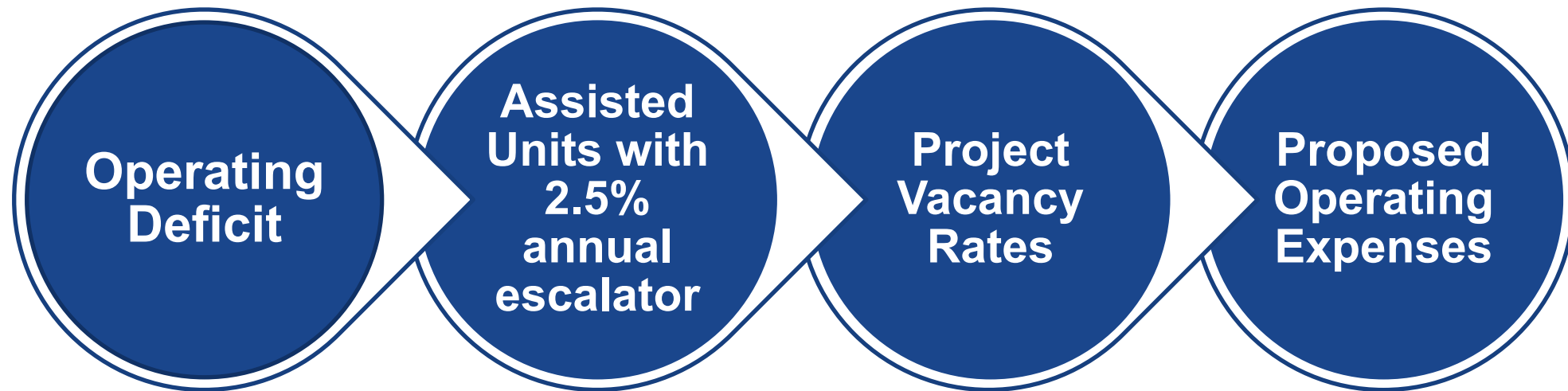
- If the Project meets the requirements of the PRP rehabilitation loan and complies with the PRP COSR requirements, the COSR forgivable loan will be forgiven.
- Only available in conjunction with PRP rehabilitation loan.
- COSR loans must be fully expended by the Project Sponsor by December 31, 2026.
- Final reconciliation must be submitted to the Department within 3 months after the fiscal year end.



# COSR Project Factors

PRP NOFA and Guidelines §IIG5

In determining the operating deficit amount, the Department shall consider individual Project factors, including, but not limited to the following:





# COSR Disbursements

PRP NOFA and Guidelines §IIG5

- Initial disbursement may be advanced at construction close.
- Subsequent disbursements will be based on HCD's review and approval of the Project's prior year operating deficits.
- The final reconciliation will be based on operating deficits attributable to Assisted Units as determined from HCD's review and approval of the Project's audited income statements, on forms provided by the Department.

# PRP Evaluation Process





# Application

- The PRP application and all required supporting documents must be uploaded to the Department's online application portal.
- Applications will be evaluated on a first-come, first-served basis through **November 30, 2022\***, or until all available funds are exhausted.
- The Department will evaluate applications for compliance with the minimum requirements set forth in the PRP NOFA.





# PRP Process

- Threshold Review
- Financial Feasibility Review and Underwriting
- Prepare Project Reports
- Project Approval and Award Announcements
  - Award date is the start of the 180-day clock for start of construction
- Route and Execute HCD Standard Agreement
- Execute Construction Contract
- Execute Loan Documents (if applying for COSR)
- Close Construction Financing
- Rehabilitate Project
- Fund and Close the Permanent Loan
- Long-Term Monitoring



# Threshold Requirements

PRP NOFA and Guidelines §IID

**Completed application submitted by deadline**

**Must be in compliance with HCD**

**Submittal of Property Condition Assessment (PCA)**

**Must meet Debt Service Coverage Ratio\***

**Ability to commence rehab within 180 days of award**

**Achieve Fiscal Integrity by 10<sup>th</sup> year after recordation**



# State Law: Preservation Noticing

Note that California's preservation notice requirements materially changed effective January 1, 2021.

For more information, visit Housing Policy Development's website:

<https://www.hcd.ca.gov/policy-research/preserving-existing-affordable-housing.shtml>

Questions? Contact the Division of Housing Policy Development

[preservation@hcd.ca.gov](mailto:preservation@hcd.ca.gov)

(916) 263-2911

# Resources





## Helpful Information

- PRP Office Hours are available upon request.
- PRP Application Training on September 13.
- HCD PRP Website includes
  - NOFA and Application;
  - List of Potential Eligible PRP projects;
  - Resolution Templates;
  - Webinars and Frequently Answered Questions (FAQs);
  - MHP Final Guidelines and UMR Regulations; and
  - Reporting and Compliance documents.



# Contact Information

Please email questions to our PRP Team!

[PortfolioReinvestment@hcd.ca.gov](mailto:PortfolioReinvestment@hcd.ca.gov)

Our mailbox is monitored by staff and is the best place to send questions.



## Follow HCD on Social Media



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# Acknowledgements

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- **Samuel Salmanyanyan** HCD Representative
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# Q&A

