

Multifamily Housing Program Draft Guidelines

Effective TBD, 2019



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MULTIFAMILY HOUSING PROGRAM GUIDELINES

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Article 1. General

Section 7300. Purpose and Scope

- (a) These guidelines implement and interpret Chapter 6.7 (commencing with Section 50675) of Part 2 of Division 31, Health and Safety Code, which establishes the Multifamily Housing Program (MHP) administered by the California Department of Housing and Community Development (Department).
- (b) These guidelines establish terms, conditions and procedures for funds awarded after the effective date of these guidelines, authorized by the Veterans and Affordable Housing Bond Act of 2018 (Proposition 1 of 2018).

NOTE: Authority cited: Sections 50406(n), 50675.1(c) and 50675.11, Health and Safety Code. Reference: Sections 50406 and 50675, Health and Safety Code.

Section 7300.1. Uniform Multifamily Underwriting and Program Rules.

- (a) Subchapter 19 of Title 25, Division 1, Chapter 7 (commencing with Section 8300) is hereby incorporated by reference into this subchapter and shall apply to rental housing developments receiving assistance under MHP.
- (b) In the event of a conflict between the provisions of Subchapter 19 and these guidelines, the provisions of these guidelines shall prevail.

NOTE: Authority cited: Sections 50406(n), 50675.1(c) and 50675.11, Health and Safety Code. Reference: Sections 50675.1, 50675.2, 50675.4, 50675.5, 50675.6, 50675.7, 50675.8, Health and Safety Code.

Section 7301. Definitions.

In addition to the definitions found in Chapter 2 (commencing with Section 50050), of Part 1 of Division 1 of the Health and Safety Code, and Health and Safety Code Section 50675.2, the following definitions and those found in the Uniform Multifamily Regulations (“UMR”) (Chapter 7, Subchapter 19, Section 8301) shall apply to these guidelines. In the event of a conflict between the following definitions and those cited above, the following definitions prevail for the purposes of these guidelines. The defined terms will be capitalized as they appear in the guideline text. References to code sections refer to sections of these guidelines unless otherwise noted.

- (a) "Affordable Rents" means Rents established for Assisted Units in accordance with Section 7312.
- (b) "Area Median Income" or "AMI" means the most recent applicable county median family income published by California Tax Credit Allocation Committee (TCAC).
- (c) "Article XXXIV" means the Article of the California Constitution (Health and Safety Code Section 37000) that requires advance voter approval of certain publicly funded low-rent housing Projects.

- (d) "Chronically Homeless" means the same as defined under the federal Continuum of Care Program, at 24 CFR 578.3. It also includes individuals and families:
- (1) Residing in a place not meant for human habitation, emergency shelter, or safe haven, after experiencing chronic homelessness as defined in 24 CFR 578.3 and subsequently residing in a permanent housing project within the last year;
 - (2) Residing in transitional housing who were experiencing chronic homelessness as defined in 24 CFR 578.3 prior to entering the transitional housing;
 - (3) Residing and has resided in a place not meant for human habitation, a safe haven, or emergency shelter for at least 12 months in the last three years, but has not done so on four separate occasions; or
 - (4) Receiving assistance through the Department of Veterans Affairs (VA)-funded homeless assistance programs and met one of the above criteria at intake to the VA's homeless assistance system.
- (e) "Disabled Household" means a household in which a member has an orthopedic disability impairing personal mobility or a physical disability affecting his or her ability to obtain employment, or in which a person requires special care or facilities in the home. "Disabled Household" also includes a household in which a member has a developmental disability specified in subdivision 4512(a) of the Welfare and Institutions Code, or a mental disorder, which would render him or her eligible to participate in programs of rehabilitation or social services conducted by or on behalf of a public agency, or a single person with such a developmental disability or mental disorder.
- (f) "Coordinated Entry System" or "CES" means a centralized or coordinated process developed pursuant to 24 CFR Section 578.7(a)(8), as that section read on May 1, 2016, designed to coordinate program participant intake, assessment, and provision of referrals. A centralized or coordinated assessment system covers the geographic area, is easily accessed by individuals and families seeking housing or services, is well advertised, and includes a comprehensive and standardized assessment tool.
- (g) "Efficiency Unit" means a Unit containing only one habitable room. A room in a structure that is a single-family house at the time of application will not be considered to be an Efficiency Unit eligible for program funds.
- (h) "Eligible Households" means households whose incomes do not exceed 60 percent of AMI, calculated in accordance with the regulations and procedures governing the low-income housing tax credit program, as administered by TCAC, or other, lower income limits agreed to by a Project Sponsor and the Department. In non-Special Needs Population projects, household income will be calculated on the basis of Units in accordance with TCAC rules and procedures. In Special Needs Populations Projects, household income may be calculated on the basis of bedrooms within a single-family house and bedrooms within an apartment Unit, provided all Project Units are located on the same parcel or on contiguous parcels and the bedrooms are: (1) occupied by a single individual who is a member of a Special Needs Populations, or an individual member of a Special Needs Populations and his or her relatives or caretaker and (2) subject to an individual rental or occupancy agreement. In transitional Special Needs

Populations Projects, household income may be calculated on the basis of each occupant of each bedroom provided all Project Units are located on the same parcel or on contiguous parcels and no more than two unrelated persons are occupying a bedroom.

- (i) "Fiscal Integrity" means that the total Operating Income plus funds released pursuant to the Regulatory Agreement from the operating reserve account is sufficient to: (1) pay all current Operating Expenses; (2) pay all current debt service (excluding deferred interest); (3) fully fund all reserve accounts (other than the operating reserve account) established pursuant to the Regulatory Agreement; and (4) pay other extraordinary costs permitted by the Regulatory Agreement. The ability to pay any or all of the permitted annual Distributions shall not be considered in determining Fiscal Integrity.
- (j) "Fund" means the Housing Rehabilitation Loan Fund established pursuant to Section 50661 of the Health and Safety Code.
- (k) "Frail Elderly" means individuals who qualify for either:
 - (1) Eligibility under either of two Medicaid Waiver programs, the Multipurpose Senior Services Program (MSSP) or the Assisted Living Waiver;
 - (2) Eligibility for services under the Program of All Inclusive Care for the Elderly; or
 - (3) Eligibility for 20 or more personal care hours per week under the In Home Supportive Services Program (IHHS).

Eligibility for these programs must be established by the agency responsible for determining eligibility for the benefits provided by them.

- (l) "Homeless" means individuals and households who are either:
 - (4) Moving from an emergency shelter; or
 - (5) Moving from transitional housing; or
 - (6) Currently homeless, which means:
 - (A) An individual or household who lacks a fixed, regular and adequate nighttime residence; or
 - (B) An individual or household who has a primary nighttime residence that is:
 - i A supervised publicly or privately-operated shelter designed to provide temporary living accommodations (including welfare hotels, congregate shelters, and transitional housing for the mentally ill); or
 - ii An institution that provides a temporary residence for individuals intended to be institutionalized; or
 - iii A public or private place not designed for, or ordinarily used as, a regular

sleeping accommodation for human beings.

“Homeless” includes “Chronically Homeless.”

- (m) "Initial Operating Year" means the initial period of operation of the Rental Housing Development, beginning at the time of the initial occupancy of the completed Project and ending on the last day of the fiscal year for the development.
- (n) “Manager’s Unit” means a Unit in which the on-site manager of the Project resides. A Manager’s Unit will not be considered to be an MHP Assisted Unit, nor will it be considered to be a Restricted Unit for the purpose of calculating allowable Distributions. A Manager’s Unit will be considered a Restricted Unit for the purpose of allocating development costs and may qualify for a loan amount up to the amount applicable to the 60 percent of AMI level.
- (o) "Nonprofit Corporation" means the same as defined in Section 50091 of the Health and Safety Code.
- (p) “Refinance” means to pay off all or a portion of existing debt secured by the Project with the proceeds of a Program loan or other financing also secured by the Project.
- (q) "Rehabilitation" means the term as defined in Section 50096 of the Health and Safety Code, including improvements and repairs made to a residential structure acquired for the purpose of preserving its affordability.
- (r) "Rent" means the same as “gross Rent,” as defined in the Internal Revenue Code (26 USC 42(g)(2)(B)). It includes all mandatory charges, other than deposits, paid by the tenant for the use and occupancy of an Assisted Unit, plus a utility allowance established in accordance with TCAC regulations. For units assisted under the U.S. Department of Housing and Urban Development (HUD) Section 8 or similar rental subsidy program, Rent includes only the tenant contribution portion of the contract rent.
- (s) “Rental Housing Development” means the same as defined in Section 50675.2 of the Health and Safety Code, which describes it as, “a structure or set of structures with common financing, ownership, and management, and which collectively contain five or more dwelling units, including efficiency units. No more than one of the dwelling units may be occupied as a primary residence by a person or household who is the owner of the structure or structures.”
- (t) "Rent-Up Costs" means costs incurred in connection with marketing and preparing an Assisted Unit for occupancy while the Unit is on the housing market but not yet rented to its first tenant.
- (u) "Residential Hotel" means any building that contains six or more Residential Hotel Units, where a majority of the Units are Residential Hotel Units. Single-family houses are not considered Residential Hotels.
- (v) “Residential Hotel Unit”, also referred to as a single room occupancy Unit or an SRO, means an Efficiency Unit that: (1) is occupied as a primary residence, and (2) is subject to state landlord-tenant law pursuant to Chapter 2 (commencing with Section 1940) of

Title 5 of Part 4 of Division 3 of the Civil Code. The term also includes a unit in an “SRO Project” as described in California Code of Regulations, Title 4, Section 10325(g)(3).

- (w) “Restricted Unit” means the same as that term is defined in UMR Section 8301, excluding units restricted at levels above 60 percent of AMI.
- (x) "Special Needs Populations" means Disabled Households, agricultural workers, single-parent households, survivors of physical abuse, homeless persons or persons at risk of becoming homeless, chronically ill persons including those with HIV and mental illness, displaced teenage parents (or expectant teenage parents), homeless youth as defined in Government Code section 12957, individuals exiting from institutional settings, chronic substance abusers, Frail Elderly persons, or other specific groups with unique housing needs as determined by the Department. “Special Needs Populations” do not include seniors unless they otherwise qualify as a Special Needs Population.
- (y) "State Median Income" means the most recent total median family income for California issued by HUD. For the purposes of assigning point scores and establishing income limits for Assisted Units, State Median Income (SMI) percentages will be expressed as a percentage of AMI rounded up to the next highest five percent increment as calculated annually by the Department.
- (z) "Substantial Rehabilitation" means a Rehabilitation Project where the contract for Rehabilitation work equals or exceeds \$25,000 per unit.
- (aa) “TCAC” means the California Tax Credit Allocation Committee, established by Revenue and Taxation Code Section 18410.2.
- (bb) “TCAC/HCD Opportunity Area Map” means the map or maps approved periodically by TCAC as the TCAC/HCD Opportunity Area Map.

NOTE: Authority cited: Sections 50406(n), 50675.1(c) and 50675.11, Health and Safety Code. Reference: Sections 50675, 50675.1(c), 50675.2, Health and Safety Code

Article 2. Program Requirements

Section 7302. Eligible Project.

Proposed Projects are eligible only if:

- (a) the Project includes the new construction or Rehabilitation of a Rental Housing Development or conversion of a nonresidential structure to a Rental Housing Development; for purposes of calculating Program loan amounts and for the purpose of determining compliance with Program requirements that a Rental Housing Development contain five or more Units, a single-family house is considered to be one Unit, and an apartment Unit in an apartment building is considered to be one Unit regardless of the number of bedrooms within the apartment Unit;
- (b) other development funding sources, including all tax credit equity generated by the Project, are insufficient to cover Project development costs;

- (c) at the time of the application due date, the construction or Rehabilitation work has not commenced, except for emergency repairs to existing structures required to eliminate hazards or threats to health and safety;
- (d) the Project does not use federal 9 percent low income housing tax credits, except for Projects qualifying both as Supportive Housing under subsection (e) hereof and as a homeless assistance project under CCR Section 10325 (the TCAC regulations);
- (e) the Project qualifies as one or more of the following project types:
 - (1) Large family, where of the Restricted Units at least 25 percent have three or more bedrooms, and at least an additional 25 percent have two or more bedrooms. Large Family new construction Projects located in an area shown on the TCAC/HCD Opportunity Area Map as “High Segregation and Poverty” must have 20 percent or more of total units either unrestricted or restricted at levels above 60 percent of AMI;
 - (2) Special Needs, where at least 25 percent of the Restricted Units are restricted to occupancy by Special Needs Populations, and the Project complies with the integration requirements specified in subdivision (g) hereof;
 - (3) Senior, where all units are restricted to residents who are 62 years of age or older under applicable provisions of California Civil Code Section 51.3 and the federal Fair Housing Act (except for projects utilizing federal funds whose programs have differing definitions for senior projects), and further be subject to state and federal fair housing laws with respect to senior housing;
 - (4) Supportive Housing, where at least 15 percent of the Restricted Units, and not less than ten units, are restricted to occupancy by Chronically Homeless individuals and families, and where the Project meets the requirements set forth in subsection (f) below. Where the local Coordinated Entry System prioritizes placements in supportive housing using an acuity measure that considers factors beyond chronic homelessness, the local measure may be employed, in lieu of requiring occupancy by Chronically Homeless individuals and families.
 - (5) At High Risk, meaning Projects that meet the requirements for at-risk projects set for in CCR Section 10325 (TCAC regulations), with the following additional characteristics:
 - (A) For Projects receiving financial assistance from HUD or Department of Agriculture, and not subject to restrictions associated with financial assistance from other sources:
 - i the Project is not assisted under either the HUD 811 or HUD 202 program or subject to the Low-Income Housing Preservation and Resident Homeownership. Act of 1990 (LIHPRHA); and either:
 - ii the current Sponsor is organized on a for-profit basis and the weighted average contract rent for units in the Project is less than or equal to 0.75 times the weighted average Fair Market Rent published by HUD for these

units; or

- iii the Project owner previously opted out of an agreement with a public agency that restricted tenant incomes and tenant-paid rents in the Project.

(B) For Projects not receiving federal assistance:

- i the current Sponsor is organized on a for profit basis, or is a nonprofit Sponsor of fewer than three affordable Rental Housing Developments; and
- ii the Department projects that the owner could pay off all current secured debt with the proceeds of a new commercial mortgage, assuming that rents were set at Fair Market Rent levels.

(C) For Projects receiving financial assistance from HUD or Department of Agriculture, and subject to restrictions associated with financial assistance from other sources, the Project must meet the requirements of both subdivision (A) and (B).

(f) Supportive Housing must:

- (1) Have a Sponsor with at least two years' experience owning or operating (under a long-term master lease or similar arrangement) a rental housing development with units restricted to occupancy by homeless individuals or families, with substantial supportive services.
- (2) Be managed by a property manager that has managed for at least three years' rental housing developments with units restricted to occupancy by homeless individuals or families, with substantial supportive services.
- (3) Utilize a lead service provider with at least three years' experience providing services to homeless people that includes comprehensive case management (individualized services planning and the provision of connections to mental health, substance abuse, employment, health, housing retention, and similar services) in at least two publicly-assisted supportive housing projects or through a tenant-based housing assistance program. A written agreement between the lead service provider and Sponsor or project owner satisfactory to the Department, must be submitted with the Program application.
- (4) Follow tenant screening, property management, and service delivery practices for the Supportive Housing units in accordance with the core components of Housing First set forth in Welfare and Institutions Code Section 8255. As of 2018, these core components are:
 - (A) Tenant screening and selection practices that promote accepting applicants regardless of their sobriety or use of substances, completion of treatment, or participation in services.
 - (B) Applicants are not rejected based on poor credit or financial history, poor or lack of rental history, criminal convictions unrelated to tenancy, or behaviors

that indicate a lack of “housing readiness.”

- (C) Acceptance of referrals directly from shelters, street outreach, drop-in centers, and other parts of crisis response systems frequented by vulnerable people experiencing homelessness.
 - (D) Supportive services that emphasize engagement and problem solving over therapeutic goals and service plans that are highly tenant-driven without predetermined goals.
 - (E) Participation in services or program compliance is not a condition of permanent housing tenancy.
 - (F) Tenants have a lease and all the rights and responsibilities of tenancy, as outlined in California’s Civil, Health and Safety, and Government codes.
 - (G) The use of alcohol or drugs in and of itself, without other lease violations, is not a reason for eviction.
 - (H) Case managers and service coordinators who are trained in and actively employ evidence-based practices for client engagement, including, but not limited to, motivational interviewing and client-centered counseling.
 - (I) Services are informed by a harm-reduction philosophy that recognizes drug and alcohol use and addiction as a part of tenants’ lives, where tenants are engaged in nonjudgmental communication regarding drug and alcohol use, and where tenants are offered education regarding how to avoid risky behaviors and engage in safer practices, as well as connected to evidence-based treatment if the tenant so chooses.
 - (J) The project and specific apartment may include special physical features that accommodate disabilities, reduce harm, and promote health and community and independence among tenants.
- (5) Fill vacancies for Supportive Housing units with referrals of Chronically Homeless or high acuity households from the local Coordinated Entry System, where this system is actively referring households to supportive housing.
 - (6) Provide on-site comprehensive case management services, with a resident to case manager ratio for Supportive Housing units not exceeding 20 to 1.
 - (7) Be operated in accordance with property management and supportive service plans approved by the Department, initially at time of application and then at such later time or times prior to occupancy as the Department may require.
 - (8) Comply with the integration requirements specified in subdivision (g) hereof.
 - (9) Track and provide annual reports to the Department on tenant characteristics as specified in Section 7325.

- (g) Special Needs and Supportive Housing Projects must demonstrate integration of targeted disabled populations with the general public by:
- (1) Physically integrating Assisted Units restricted to disabled persons with other units, and not separating them onto separate floors.
 - (2) In Projects with more than 20 units, have no more than 49 percent of total units restricted to occupancy by disabled populations by Department programs. This limitation shall not be interpreted to preclude occupancy of any Project Units by persons with disabilities, or restrictions by other funding sources, including but not limited to TCAC, that result in more than 49 percent of total Project Units being restricted to persons with disabilities. It shall also not apply to projects complying with alternative requirements for demonstrating Olmstead compliance adopted by counties and approved by the Department.
- (h) Multiple Department Funding Sources
- (1) Use of multiple Department funding sources on the same Assisted Units (subsidy stacking) is prohibited, with the exception of grants for infrastructure and uses other than housing development, including grants under the Infill Infrastructure Grant program (IIG) and Affordable Housing Sustainable Communities program (AHSC), and projects originally developed with Department assistance and now being re-syndicated.
 - (2) No more than two Department funding sources may be used on a single Project, with the same exceptions specified in the previous subsection.
 - (3) "Department funding sources" include funds awarded to individual Projects by the Department or the Strategic Growth Council, but not state or federal funds provided by the Department to local agencies and subsequently awarded to individual Projects.

NOTE: Authority cited: Sections 50406(n), 50675.1(c) and 50675.11, Health and Safety Code. Reference: Sections 50675.2(d), 50675.4, 50675.7, Health and Safety Code.

Section 7303. Eligible Sponsor.

- (a) A Sponsor shall be any individual, joint venture, partnership, limited partnership, trust, corporation, limited liability corporation, local public entity, duly constituted governing body of an Indian reservation or Rancheria, or other legal entity, or any combination thereof which meets the requirements of subsection(c), below.
- (b) A Sponsor shall be organized on a for-profit, including limited profit, or nonprofit basis.
- (c) In order to be eligible for funding, a Sponsor must demonstrate experience relevant to owning and developing affordable rental housing through one or more of the following:
 - (1) successful prior ownership and development of affordable rental housing;
 - (2) employment of a staff with demonstrated experience owning and developing

affordable rental housing.

- (d) If the Sponsor is a joint venture, and qualifies as an eligible Sponsor under the preceding subsections based on the experience of only one joint venture partner, that partner must have a controlling interest in the joint venture and a substantial and continued role in the Project's ongoing operations, as evidenced in the documents governing the joint venture.

NOTE: Authority cited: Sections 50406(n), 50675.1(c) and 50675.11, Health and Safety Code. Reference: Sections 50675.6 and 50675.7(c)(3), Health and Safety Co

Section 7304. Eligible Uses of Funds.

- (a) Funds shall be used only for approved eligible costs that are incurred on the Project as set forth in this section, including the Refinance of interim loans used to pay such costs. 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.
- (b) Eligible costs include the following:
- (1) property acquisition, not to exceed the actual cost of the last arm's length acquisition between unaffiliated parties;
 - (2) refinancing of existing long-term debt, only in connection with a Project involving Substantial Rehabilitation, and only to the extent necessary to reduce debt service to a level consistent with the provision of Affordable Rents in Assisted Units and with the Fiscal Integrity of the Project;
 - (3) land lease payments; future payments must be discounted to present value;
 - (4) construction and rehabilitation work;
 - (5) off-site improvements, such as sewers, utilities and streets, directly related to, and required by the Rental Housing Development;
 - (6) on-site improvements related to the Rental Housing Development;
 - (7) 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;
 - (8) development costs of a residential Unit reserved for an on-site manager, childcare facilities, and after-school care and social service facilities integrally linked to, and addressing the needs of the tenants of the Assisted Units;
 - (9) a reasonable developer fee subject to the provisions of UMR Section 8312;
 - (10) Rent-Up Costs;

- (11) 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;
 - (12) building permits and state and local fees;
 - (13) capitalized operating and capitalized replacement reserves up to the amount of the initial deposit required by the Department pursuant to UMR Sections 8308(b) and 8309(b);
 - (14) escrow, title insurance, recording and other related costs;
 - (15) costs for items intended to assure the completion of construction, such as contractor bond premiums;
 - (16) environmental hazard reports, surveys, and investigations;
 - (17) costs of relocation benefits and assistance required by law; and
 - (18) any other costs of Rehabilitation or new construction approved by the Department.
- (c) Except as provided in subsection (b)(8), above, no Program funds shall be used for costs associated exclusively with non-Restricted Units or Commercial Space. A Manager's Unit may be considered to be a Restricted Unit for the purpose of allocating development costs. If only a portion of the Rental Housing Development consists of Restricted Units, the program loan amount shall not exceed the sum of the following:
- (1) the costs of all items specified in subsection (b), above, associated exclusively with the Restricted Units;
 - (2) a share of the costs of common areas used primarily by residential tenants. This share shall be in direct proportion to the ratio between the gross floor area of the Restricted Units and the gross floor area of all residential units; and
 - (3) a share of the cost of other items such as roofs that cannot specifically be allocated to Restricted Units, non-Restricted Units, or Commercial Space. This share shall be in direct proportion to the ratio between:
 - (A) the gross floor area of the Restricted Units, plus a share of the gross floor area of common areas used primarily by residential tenants in direct proportion to the ratio between the gross floor area of the Restricted Units and the gross floor area of all Units; and
 - (B) the total gross floor area of the structure or structures.

NOTE: Authority cited: Sections 50406(n), 50675.1(c) and 50675.11, Health and Safety Code. Reference: Sections 50675.2(e) and (h), and 50675.5, Health and Safety Code.

Section 7305. [Reserved]

Section 7306. Type and Term of Loan.

- (a) Program funds shall be used for post-construction, permanent financing only.
- (b) The initial term of the loan shall be 55 years, commencing on the date of recordation of the program loan documents.
- (c) The Program loan shall be secured by the Project real property and improvements, subject only to liens, encumbrances and other matters of record approved by the Department pursuant to UMR Section 8315 The Program loan shall have priority over loans provided by the Affordable Housing Program administered by the Federal Home Loan Bank.
- (d) Where the requirements of federal funding for a project, or the requirements of the low-income housing tax credits used in a project, would cause a violation of the requirements of these guidelines, the requirements of these guidelines may be modified as necessary to ensure program compatibility. Where the requirements of federal funding or tax credits create what are deemed to be minor inconsistencies as determined by the director of the Department, the Department may waive the requirements of these guidelines as deemed necessary to avoid an unnecessary administrative burden. Any such modifications or waivers shall be included in the Regulatory Agreement or other documents governing the MHP loan.

NOTE: Authority cited: Sections 50406(n), 50675.1(c) and 50675.11, Health and Safety Code.
Reference: Sections 50675.1(b), 50675.6, 50675.8, Health and Safety Code

Section 7307. Maximum Loan Amounts.

- (a) The loan amount shall not exceed the total eligible costs required, when considered with other available financing and assistance, including the full amount of any tax credit equity generated by the Project, in order to:
 - (1) enable the acquisition, development and construction or Rehabilitation of the Rental Housing Development;
 - (2) ensure that Rents for Assisted Units comply with Program requirements; and
 - (3) operate in compliance with all other Program requirements.
- (b) The loan amount is further limited to the sum of:
 - (1) a base amount per Restricted Unit; plus
 - (2) the amount per Restricted Unit required to reduce Rents from 30 percent of 60 percent of AMI to the actual maximum restricted Rent for the Unit, assuming that the Rent reduction will be achieved by substituting Program funds for private amortized debt, and calculated by the Department based on private market multifamily rental loan terms available at the time of issuance of each notice of funding availability.

The initial base amount shall be \$30,000 per Restricted Unit utilizing 9 percent credits, and \$150,000 per other Restricted Unit. The Department may periodically adjust this amount as necessary to ensure a sufficient volume of applications that meet the objectives of the Program, as evidenced by high rating scores received under Section 7320(b). In making adjustments to the base amount, the Department shall consider (A) demand evidenced in previous funding rounds; (B) the total amount of Program funds available for award; (C) trends in Project development costs; and (D) trends in the terms and availability of supplemental development funding sources.

- (c) For a Project subject to an inclusionary housing ordinance, units required under the ordinance shall not be counted in determining applicable loan limits, except for units restricted under the Program at a lower rent level than required by the ordinance, in which case the loan amount shall be limited to the amount required to reduce rents from the level required under the ordinance to the program-restricted amount, calculated using the loan limit tables published by the Department.
- (d) For loan limit calculations, Unit count shall include the number of single-family houses plus the number of Units within an apartment building or Residential Hotel regardless of whether bedrooms are rented individually.

For Units receiving rental assistance under renewable rental subsidy contracts, the loan amount will be based on the level of income restriction that will apply following the closing of the Program loan.

- (e) In each notice of funding availability, the Department shall establish a maximum per Project loan amount. This maximum shall be set at a level that ensures sufficient demand for Program funds while meeting the Program's geographic and other distribution goals, taking into account the demand evidenced in previous funding rounds, the availability of other sources of rental subsidy financing and the total amount of Program funds available for award.

NOTE: Authority cited: Sections 50406(n), 50675.1(c) and 50675.11, Health and Safety Code. Reference: Sections 50675.1 and 50675.6(e), Health and Safety Code.

Section 7308. Interest Rate and Loan Repayments.

- (a) Loans shall bear simple interest on the unpaid principal balance at a rate that is the lesser of:
 - (1) 3 percent per annum; or
 - (2) the maximum rate that allows the Program loan to be treated as debt for federal or state low-income housing tax credit purposes, or that avoids the inability to syndicate due to projected negative capital account balances, but not less than 0.42 percent.
- (b) Interest shall accrue from the date that funds are disbursed by the Department to or on behalf of the Sponsor.

- (c) The Department may require a third-party tax professional to verify the necessity for reducing the interest rate below 3 percent, pursuant to subdivision (a)(2), the cost of which shall be borne by the sponsor.
- (d) For the first 30 years of the loan term, payments in the amount of 0.42 percent of the outstanding principal loan balance shall be payable to the Department commencing on the last day of the Initial Operating Year and continuing on each anniversary date thereafter. The balance of accrued interest shall be payable out of Operating Income remaining after payment of approved Operating Expenses, debt service on other loans, reserve deposits, and Sponsor Distributions. Commencing on the 30th anniversary of the last day of the Initial Operating Year, interest shall be payable in an amount equal to the lesser of: (1) the full amount of interest accruing on the outstanding principal loan amount; or (2) the amount determined by the Department to be necessary to cover the costs of continued monitoring of the Project for compliance with the requirements of the Program. HUD Section 811 and 202 projects will be subject to the requirements of this subsection.
- (e) Except for the required payment of 0.42 percent of the outstanding principal loan balance, the Department shall permit the deferral of accrued interest for such periods and subject to such conditions as will enable the Sponsor to maintain Affordable Rents, maintain the Fiscal Integrity of the Project, and pay allowable Distributions pursuant to UMR Section 8314.
- (f) All Program loan payments (including the 0.42 percent loan payment) shall be applied in the following order: (1) to any expenses incurred by the Department to protect the property or the Department's security interest in the property, or incurred due to the Sponsor's failure to perform any of the Sponsor's covenants and agreements contained in the deed of trust or other loan documents; (2) to the payment of accrued interest; and (3) to the reduction of principal.
- (g) The total outstanding principal and interest, including deferred interest, shall be due and payable in full to the Department at the end of the loan term including any extension granted by the Department. The Department shall, at the end of the loan term, forgive that portion of the Program loan, including principal and deferred interest, applied to the costs of developing childcare facilities provided that such facilities have been operated for childcare purposes for a period of not less than ten years.

NOTE: Authority cited: Sections 50406(n), 50675.1(c) and 50675.11, Health and Safety Code. Reference: Sections 50675.1 and 50675.6(c), Health and Safety Code.

Section 7309. Appraisal and Market Study Requirements.

- (a) As a condition of funding, the Department may require an appraisal or market study, or both, to:
 - (1) establish a market value for the land to be purchased or leased as part of the Project for purposes of evaluating the reasonableness of the purchase price or lease terms pursuant to Section 7304;
 - (2) assist with establishing other reasonable development costs pursuant to Section

7304;

- (3) assess Fiscal Integrity;
 - (4) verify an adequate tenant market.
- (b) Any appraisal required by the Department shall be prepared at the Sponsor's expense by an individual or firm which:
- (1) has the appropriate license and the knowledge and experience necessary to competently appraise low-income residential rental property;
 - (2) is aware of, understands, and correctly employs those recognized methods and techniques that are necessary to produce a credible appraisal;
 - (3) in reporting the results of the appraisal, communicates each analysis, opinion and conclusion in a manner that is not misleading as to the true value and condition of the property; and
 - (4) is an independent third party having no identity of interest with the Sponsor, the partners of the Sponsor, the intended partners of the Sponsor, or with the general contractor.
- (c) Any market study required by the Department shall be prepared at the Sponsor's expense by an individual or firm which:
- (1) has the knowledge and experience necessary to conduct a competent market study for low-income residential rental property;
 - (2) is aware of, understands, and correctly employs those recognized methods and techniques that are necessary to produce a credible market study;
 - (3) in reporting the results of the market study, communicates each analysis, opinion and conclusion in a manner that is not misleading as to the true market needs for low-income residential rental property; and
 - (4) is an independent third party having no identity of interest with the Sponsor, the partners of the Sponsor, the intended partners of the Sponsor, or with the general contractor.

NOTE: Authority cited: Sections 50406(n), 50675.1(c) and 50675.11, Health and Safety Code. Reference: Sections 50675.1(c) and 50675.7(b)(3), Health and Safety Code.

Section 7310. [Reserved]

Section 7311. Over-income Households.

For Assisted Units:

- (a) If, at the time of recertification, a tenant household's income exceeds the limit for an

income level applicable to new tenants that is greater than the income limit designated for the household, and, to the extent a rent increase for the household is permitted by statutes and regulations governing the low-income housing tax credit program, the Sponsor:

- (1) shall redesignate the tenant's Unit as a Unit at the higher income level;
- (2) shall increase the tenant's Rent to the level applicable to Units at the higher income level; and
- (3) shall designate the next available comparable Unit as a Unit at the income level originally applicable to the household until the Unit mix required by the Program regulatory agreement is achieved. A Unit shall be deemed "comparable" if it has the same number of bedrooms as the original Unit.

For example, in a Project where the income limits utilized to qualify new tenants are 20 percent, 40 percent, and 50 percent of AMI, if the income of a household occupying a Unit designated as a 20 percent Unit increases to 48 percent of AMI, the Sponsor must redesignate the household's Unit as a Unit at the 50 percent level, increase the tenant's Rent to the level applicable to Units at the 50 percent level, and designate the next available comparable Unit as a Unit at the 20 percent income level.

- (b) If at the time of recertification, a tenant household's income exceeds the income limit designated for the household's Unit, but does not exceed the limit for a higher income level applicable to new tenants, the Sponsor may increase the household's Rent to an amount not exceeding the Rent limit applicable to the household's income level at the time of recertification. For purposes of this subsection, income levels shall not be limited to those applicable to new tenants, and shall consist of 5 percent increments of AMI. Continuing with the example described in the subsection (a), the income levels utilized to establish Rent limits upon recertification would be 20 percent, 25 percent, 30 percent, 35 percent, etc. A household occupying a Unit in this project with a 20 percent limit whose income, upon recertification, had increased to 32 percent of AMI could have their Rent increased to the Rent level applicable to the 35 percent income level.

NOTE: Authority cited: Sections 50406(n), 50675.1(c) and 50675.11, Health and Safety Code. Reference: Sections 50675.2(b), 50675.7 and 50675.8, Health and Safety Code.

Section 7312. Rent Standards.

The Department shall establish Rent limits for Assisted Units in each Project in accordance with the following:

- (a) Rent limits for initial occupancy and for each subsequent occupancy by a new Eligible Household shall be based on Unit type, applicable income limit, and area in which the Project is located, following the calculation procedures used by TCAC and using income limits in 5 percent increments of AMI, including the income limits utilized by the Program for this purpose pursuant to Section 7320(b)(1). The maximum Rent limit shall be 30 percent of 60 percent of AMI for the appropriate Unit size.
- (b) Rents will be further restricted in accordance with Rent and income limits submitted by

the Sponsor in its application for the Program loan, approved by the Department, and set forth in the Regulatory Agreement. Rents shall not exceed 30 percent of the applicable income eligibility level.

- (c) Rents in Assisted Units may be adjusted no more often than annually. The amount and method of adjustment for Assisted Units shall be in accordance with the regulations and procedures used by TCAC.
- (d) The Department may permit an annual Rent increase greater than that permitted by this section if the Project's continued Fiscal Integrity is jeopardized due to factors that could not be reasonably foreseen.
- (e) For Units receiving HUD Section 8 or other similar rental assistance, the rules of the rental assistance program pertaining to Rent increases will prevail for as long as the rental assistance remains in place. Changes in the tenant contribution amounts may occur more often than annually as required by the rental assistance program.
- (f) Where a project is receiving renewable Project-based rental assistance:
 - (1) the Sponsor shall in good faith apply for and accept all renewals available;
 - (2) the Sponsor shall fund a transition reserve to be used in the event the rental assistance contract is terminated. The transition reserve shall be in an amount sufficient to prevent, for one year, Rent increases for Units that formerly received rental assistance and were restricted to households with incomes not exceeding a percentage of SMI, expressed as a percentage of AMI. The transition reserve may be capitalized or funded from annual project cash flow in amounts to be approved by the Department. Use of funds in the reserve shall be subject to the review and approval of the Department; and
 - (3) if the Project-based rental assistance is terminated, Rents for Units previously covered by this assistance may be increased above the levels allowed pursuant to subsection (c), above, but only to the minimum extent required for Fiscal Integrity, as determined by the Department. In addition, Rents for such Units restricted to households with incomes not exceeding a percentage of SMI, expressed as a percentage of AMI, shall not in any event be increased to an amount in excess of 30 percent of 60 percent of AMI, adjusted by number of bedrooms in accordance with TCAC requirements.
 - (4) Based on an analysis of the risk associated with specific rental assistance programs, the Department may modify the requirements of subsections (2) and (3) above. This modification may include adjusting the amount of the required reserve, setting different amounts for different rental assistance programs to reflect the relative risk associated with these programs, allowing the reserve to be funded and controlled by a locality, establishing a reserve funded and held by the Department rather than the Sponsor, or adjusting the level to which rents may be increased upon subsidy termination.

NOTE: Authority cited: Sections 50406(n), 50675.1(c) and 50675.11, Health and Safety Code. Reference: Sections 50675.2(b) and (c) and 50675.8, Health and Safety Code.

Section 7313. [Reserved]

Section 7314. [Reserved]

Section 7315. Relocation Requirements.

- (a) The Sponsor of a Project resulting in displacement of residential tenants shall be solely responsible for providing the assistance and benefits set forth in this section and in applicable state and federal law, and shall agree to indemnify and hold harmless the Department from any liabilities or claims for relocation-related costs.
- (b) All tenants of a property who are displaced as a direct result of the development of a Project shall be entitled to relocation benefits and assistance as provided in Title 1, Division 7, Chapter 16 of the Government Code, commencing at Section 7260, and Subchapter 1 of Chapter 6 of Title 25 of the California Code of Regulations, commencing at Section 6000. Displaced tenants who are not replaced with Eligible Households under this Program shall be provided relocation benefits and assistance from funds other than Program funds.
- (c) The Sponsor shall prepare a relocation plan in conformance with the provisions of California Code of Regulations, Title 25, Section 6038. The relocation plan shall be subject to the review and approval by the Department prior to the disbursement of Program funds.
- (d) All Eligible Households who are temporarily displaced as a direct result of the development of the Project shall be entitled, upon initial occupancy of the Rental Housing Development, to occupy Assisted Units meeting the tenant occupancy standards set forth in UMR Section 8305.
- (e) All in-Eligible Households who are temporarily displaced as a direct result of the development of the Project shall be entitled, upon initial occupancy of the Rental Housing Development, to occupy any available non-Assisted Units for which they qualify.
- (f) Notwithstanding the preceding subsections, tenants who are notified in writing prior to their occupancy of an existing Unit that the Unit may be demolished as a result of funding provided under the Program shall not be eligible for relocation benefits and assistance under this section. The form of any notices used for this purpose shall be subject to Department approval.

NOTE: Authority cited: Sections 50406(n), 50675.1(c) and 50675.11, Health and Safety Code. Reference: Government Code, Title 1, Division 7, Chapter 16 (commencing with Section 7260).

Section 7316. Construction Requirements.

- (a) The Department may review Project plans and specifications to ensure the following objectives:

Maintenance, repair, and replacement costs shall be minimized during the useful life of

the Rental Housing Development through use of durable, low maintenance materials and equipment and design features that minimize wear and tear.

- (1) Operating costs shall be minimized during the useful life of the Rental Housing Development.
 - (2) Tenant security shall be enhanced through features such as those designed to prevent or discourage unauthorized access and to allow for ready monitoring of public areas.
 - (3) Unit sizes, amenities, and general design features shall not exceed the standard for new developments rented at or below the market rent in the area of the Project.
- (b) The Sponsor shall ensure that the construction work for the Project is performed in a competent, professional manner at the lowest reasonable cost consistent with the Project's scope, design and locality and not in excess of the total funds available.
 - (c) The Sponsor shall enter into a written contract for the construction or Rehabilitation work with a contractor having the appropriate state license.
 - (d) The construction contract shall be a completely integrated agreement containing all the understandings, covenants, conditions and representations between the parties and shall specify a total contract price consistent with the Project budget approved by the Department.
 - (e) The Sponsor shall ensure that the construction contract requires compliance with state prevailing wage law (Chapter 1 of Part 7 of Division 2 of the Labor Code, commencing with Section 1720). The construction contract shall require the contractor to maintain labor records as required by law, and to make these records available to any enforcement agency upon request. Prior to the close of the Program loan, the Sponsor shall provide to the Department a certification that prevailing wages have been paid or will be paid, and that the records shall be available consistent with the requirements of this subsection.

NOTE: Authority cited: Sections 50406(n), 50675.1(c) and 50675.11, Health and Safety Code. Reference: Sections 50675.5 and 50675.7, Health and Safety Code.

Article 3. Application Procedures

Section 7317. Application Process.

- (a) The Department shall periodically issue a Notice of Funding Availability (NOFA) that specifies, among other things, the amount of funds available, application requirements, the allocation of rating points, minimum eligibility threshold point scores, the deadline for submittal of applications, the schedule for rating and ranking applications and awarding funds, and the general terms and conditions of funding commitments. A NOFA may declare as ineligible those Project applications for which the Department has issued, or concurrently will issue, a special NOFA pursuant to subsection (b)(4), below. Applications selected for funding shall be approved at loan amounts, terms, and conditions specified by the Department. For each Project selected for funding, the

Department shall issue an award letter and standard agreement.

- (b) In order to implement goals and purposes of the Program, the Department may adopt measures to direct funding awards to designated Project types including, but not limited to, Rural Area Projects, Projects located in areas needing additional funding to achieve a reasonable geographic distribution of Program funds, Projects preserving continued affordability, and Projects with specified funding characteristics, including, but not limited to, Projects receiving an award of tax credits from TCAC. These measures may include, but are not limited to:
- (1) Issuing a special NOFA for designated Project types.
 - (2) Awarding bonus points within a particular NOFA to designated Project types.
 - (3) Reserving a portion of funds in the NOFA for designated Project types.
 - (4) Notwithstanding anything in these guidelines to the contrary, a special NOFA issued pursuant to this subsection may establish an over-the-counter application process, meaning the Department continuously accepts and rates applications according to minimum threshold criteria published in a NOFA for the process, and makes loans to Projects that meet or exceed these criteria until the funding available for the process is exhausted. At a minimum, a special NOFA shall include a description of the application process and funding conditions, shall require compliance with Section 7320(a), and shall establish minimum funding threshold criteria based on the rating criteria set forth in Section 7320(b).

NOTE: Authority cited: Sections 50406(n), 50675.1(c) and 50675.11, Health and Safety Code. Reference: Sections 50675.1(c), 50675.6, 50675.7, Health and Safety Code.

Section 7318. Application Requirements.

- (a) Application shall be made on a form made available by the Department requesting the information required by MHP guidelines.
- (b) An application shall be deemed complete when the Department is able to review the application and assess the proposed project's feasibility pursuant to UMR Section 8310 and to determine from the information provided whether the project is eligible for rating and ranking pursuant to Section 7320.
- (c) Submission of an application by the applicant and a co-applicant must be authorized by resolutions of the governing boards of both the applicant and co- applicant, unless the applicants are individuals.

NOTE: Authority cited: Sections 50406(n), 50675.1(c) and 50675.11, Health and Safety Code. Reference: Sections 50675.6 and 50675.7, Health and Safety Code.

Section 7319. [Reserved]

Section 7320. Project Selection.

- (a) Projects shall not be eligible for an award of funds unless the application demonstrates that all of the following conditions exist:
- (1) The applicant is an eligible Sponsor pursuant to Section 7303;
 - (2) The Project involves an eligible Project pursuant to Section 7302;
 - (3) All proposed uses of Program funds are eligible pursuant to Section 7304;
 - (4) The application is complete pursuant to Section 7318;
 - (5) The Project will maintain Fiscal Integrity consistent with proposed Rents in the Assisted Units and is feasible pursuant to UMR Section 8310;
 - (6) The Project site is free from severe adverse environmental conditions, such as the presence of toxic waste that is economically infeasible to remove and that cannot be mitigated;
 - (7) The Project site is reasonably accessible to public transportation, shopping, medical services, recreation, schools, and employment in relation to the needs of the Project tenants;
 - (8) In Projects targeting Special Needs Populations, or including Supportive Housing Units, the Project will provide services suitable to the needs of the tenants, and the application demonstrates a specific, feasible plan for delivery and funding of those services including identification of service partners and funding sources; and
 - (9) The Project complies with the requirements of UMR Sections 8302 and 8303.
- (b) Applications shall be reviewed by the Department to determine compliance with subsection (a), above, and shall be rated and ranked in accordance with this subsection (b). Applications shall be ranked in the order of their point scores. The Department may establish a preliminary point score and ranking for applications prior to determining their compliance with subsection (a), above. If an application will not be within a fundable range as indicated by the preliminary ranking, the Department is not required to determine the application's compliance with subsection (a), above. Additional or alternative scoring may be implemented in particular NOFA's for designated Project types as described above in Section 7317(b).

The criteria detailed below and summarized in the following table shall be used to rate applications:

Criterion	Maximum Score
Serving Lowest Income Levels	35
Addressing Most Serious Local Housing Needs	10
Development and Ownership Experience	20
Serving Families or Special Need Populations, and At High-Risk Projects	35
Leverage of Other Funds	20

Readiness	15
Adaptive Reuse / Infill / Proximity to Amenities/ Sustainable Building Methods	15
Total	150

(1) **The extent to which the Project serves households at the lowest income levels – 35 points maximum.**

Applications will be scored based on the percentage of Restricted Units limited to various percentages of the SMI, expressed as a percentage of AMI and adjusted by household size, and in accordance with the following schedules:

High Income Areas

For purposes of this subchapter, “high income areas” means counties with AMIs that exceed 110 percent of the SMI.

- (A) Three quarter points will be awarded for each percent of Restricted Units that are Restricted Units for households with incomes less than or equal to 40 percent of SMI, expressed as a percentage of AMI.
- (B) One point will be awarded for each percent of Restricted Units that are Restricted Units for households with incomes less than or equal to 35 percent of SMI, expressed as a percentage of AMI.
- (C) One and half points will be awarded for each percent of Restricted Units that are Restricted Units for households with incomes not exceeding 20 percent of SMI (adjusted by the Department to avoid exclusion of working CalWORKs recipients and individuals receiving SSI and expressed as a percentage of AMI) for the first 10 percent of total Restricted Units; then one point for each subsequent percent of total Restricted Units.
- (D) One and half points will be awarded for each percent of Restricted Units that are restricted to occupancy by Homeless households referred by the local Coordinated Entry System at an income level not to exceed 30 percent of AMI. In order to receive these points, it must be demonstrated to the Department's satisfaction that the income level of at least 25 percent of all Homeless households within the local Coordinated Entry System database exceeds the income level specified in the previous subsection (C).

Point scores will be rounded to the nearest one hundredth point in this category.

Other Areas

- (A) Three quarter points will be awarded for each percent of Restricted Units that are Restricted Units for households with incomes less than or equal to 35 percent of SMI, expressed as a percentage of AMI.
- (B) One point will be awarded for each percent of Restricted Units that are Restricted Units for households with incomes less than or equal to 30 percent

of SMI, expressed as a percentage of AMI.

- (C) One and half points will be awarded for each percent of Restricted Units that are Restricted Units for households with incomes not exceeding 20 percent of SMI (adjusted by the Department to avoid exclusion of working CalWORKs recipients and individuals receiving SSI and expressed as a percentage of AMI) for the first 10 percent of total Restricted Units; then one point for each subsequent percent of total Restricted Units.
- (D) One and half points will be awarded for each percent of Restricted Units that are restricted to occupancy by Homeless households referred by the local Coordinated Entry System at an income level not to exceed 30 percent of AMI. In order to receive these points, it must be demonstrated to the Department's satisfaction that the income level of at least 25 percent of all Homeless households within the local Coordinated Entry System database exceeds the income level specified in the previous subsection (C).

In Projects that rely on renewable project-based rental assistance contracts to maintain Fiscal Integrity consistent with the targeted income limits (and associated tenant Rents), scores will be based on the income limits and Rents applicable under the rent subsidy contract.

Point scores will be rounded to the nearest one hundredth point in this category.

(2) The extent to which the Project addresses the most serious identified local housing needs – 10 points maximum.

Five points will be awarded for each of the following conditions met by the Project:

- (A) Location in a "High Resource" or "Highest Resource" area (Large Family new construction projects only) as shown on the TCAC/HCD Opportunity Area Map.
- (B) Qualifying as both a Senior and a Special Needs Project.
- (C) Having at least 10 percent of the Restricted Units restricted under the Program regulatory agreement for occupancy by Homeless households, with vacancies filled by referrals from the local coordinated entry system, when and where this system is actively referring households to housing.
- (D) Meeting one or more of the following conditions:
 - (1) At the time of application submittal, not being an existing rent- and income- restricted affordable housing development.
 - (2) Qualifying as At High Risk, or involving the conversion of single occupancy units without kitchens and bathrooms to units with kitchens and bathrooms.
 - (3) The Program loan amount is limited to the amount necessary to reduce

rents below existing levels, to create new Restricted Units, or to make accessibility improvements necessary for occupancy by disabled persons.

(3) The development and ownership experience of the Project Sponsor –20 points maximum.

- (A) Applications will be scored based on the number of subsidized Rental Housing Developments (including tax credit Projects) that the Sponsor has completed over the last five years and whether they have identified performance problems.
- (B) A Sponsor may include the experience of its affiliated entities or its principals (e.g., employees responsible for managing development activities), but not the experience of non-management board members. A Sponsor may include the experience of a partner in order to gain experience points; however, the experienced partner must have a controlling interest in the partnership and a substantial and continued role in the Project's ongoing operations, as evidenced in partnership documents. In such cases, points will be awarded based only on the experience of the more experienced partner. Any dissolution of the partnership or withdrawal of the more experienced partner will require prior written approval by the Department.
- (C) To be counted towards experience pursuant to subsection (b)(3), above, completed Projects cited for experience points must contain 10 or more Units, except if the proposed Project contains less than 15 units and at least 70 percent of the total Units in the proposed Project are reserved for Special Needs Populations, completed Projects submitted for experience points must contain at least 5 Units.
- (D) Four points will be awarded for each Project completed in the five years preceding the application due date, up to a maximum of 20 points.
- (E) Where at least 70 percent of the Units in the proposed Project are reserved for Special Needs Populations, the Sponsor may elect to have its application scored based on the lesser of:
 - (a) The number of subsidized Rental Housing Developments that the Sponsor's development consultant or contracted developer has completed in the last five years; or
 - (b) The number of subsidized Rental Housing Developments that the Sponsor, or affiliates or principals of the Sponsor either own or operate under a long-term lease or other arrangement that involves all responsibilities commensurate with ownership.

To qualify for scoring under this alternative, the Sponsor must contract with the developer or development consultant for comprehensive development services, including financial packaging, selection of other consultants, selection of the

construction contractor and property management agent, oversight of architectural design, construction management, and other major aspects of the development process.

Applications scored under this alternative shall be awarded four points per Rental Housing Development, up to a maximum of 20 points.

- (F) Five points will be deducted for each occurrence or event in the following categories, with a maximum deduction of 10 points per category and a maximum total deduction of 50 points:
- (a) removal or withdrawal under threat of removal as general partner as a consequence of failing to comply with contractual obligations;
 - (b) failure to submit, when due, compliance documentation required under the Department program;
 - (c) use of reserve funds for Department-assisted Projects in a manner contrary to Program requirements, or failure to deposit reserve funds as required by the Department;
 - (d) failure to provide promised supportive services to a Special Needs Population or other tenants of a publicly funded Project without just cause;
 - (e) other significant violations of the requirements of Department programs or of the programs of other public agencies, such as the failure to adequately maintain a Project or the books and records thereof.

Events occurring in connection with Projects under the control of the Sponsor shall be used as the basis for point deductions. Such events shall have had a detrimental effect on the Project or the Department's ability to monitor the Project, as determined by the Department.

Events shall not result in the deduction of points if they have been fully resolved as determined by, or to the satisfaction of, the Department as of the application due date.

(4) The percentage of units for families or Special Needs Populations and "At High-risk" Rental Housing Developments – 35 points maximum.

Thirty-five points will be awarded to applications that qualify as Large Family, Special Needs, Supportive Housing or At High Risk, pursuant to Section 7302(c).

(5) Leverage of other funds, in those jurisdictions where they are available – 20 points maximum.

- (A) Applications will be scored based on the leverage of other funds, meaning the amount of funds other than Department housing funds for permanent funding

of the development costs attributable to the Restricted Units as a percentage of the requested amount of Program funds.

- (B) “Funds other than Department housing funds” includes, among other things, state and federal resources allocated to individual projects by local public agencies, and grants for infrastructure provided under the Infill Infrastructure Grant (IIG) and Affordable Housing and Sustainable Communities (AHSC) programs. Deferred developer fees will not be counted as leveraged funds. Land donations will be counted as leveraged funds where the value is established with a current appraisal, with the amount discounted to reflect any fees, residual receipt payments, or other payments required as a condition of the donation.
 - (C) For projects not utilizing 9 percent low-income housing tax credits, and located in an area shown on the TCAC/HCD Opportunity Area Map as “High Resource” or “Highest Resource”, two points will be awarded for each full 5 percentage point increment above 50 percent. A Project where other funds equal 100 percent of Program funds will receive twenty points.
 - (D) For projects not utilizing 9 percent low-income housing tax credits, not located in an area shown on the TCAC/HCD Opportunity Area Map as “High Resource” or “Highest Resource”, and including Supportive Housing units, points will be awarded based on the mix of Supportive Housing and other units. The number of points awarded for each full 5 percentage point increment above 50 percent will be computed by multiplying the percentage of total Restricted Units that are Supportive Housing units by 2, and adding this to the fraction of total Restricted Units that are not Supportive Housing units. For example, a Project where 20 percent of total Restricted Units are Supportive Housing units, 1.2 points will be awarded for each full 5 percent increment $[(.2 \times 2) + .8 = 1.2]$. With this unit mix, a project where other funds equal 135 percent of program funds will receive twenty points.
 - (E) For a project including Supportive Housing units and utilizing 9 percent competitive tax credits, one-half point will be awarded for each full 5-percentage point increment above 100 percent. For example, a Project where other funds are equal to 100 percent of requested Program funds will receive zero points, a Project where other funds equal 150 percent will receive five points, a Project where other funds equal 250 percent will receive fifteen points, and a Project where other funds equal 300 percent of requested Program funds will receive the maximum twenty points.
 - (F) For projects not utilizing 9 percent low-income housing tax credits, not located in an area shown on the TCAC/HCD Opportunity Area Map as “High Resource” or “Highest Resource”, and not including Supportive Housing Units, one point will be awarded for each full 5 percentage point increment above 50 percent. For example, a project where other funds equal 150 percent of requested funds will receive twenty points
- (6) **Project Readiness – 15 points maximum.**

Points will be awarded to projects for each of the following circumstances as documented in the application and as indicated below. If a particular category is not applicable, full points shall be awarded in that category.

- (a) Three points will be awarded for obtaining enforceable commitments for all construction financing, not including tax-exempt bonds, tax credits, and funding to be provided by another Department program. Funds from other Department programs proposed for construction financing for the Project must be awarded prior to final rating and ranking for the MHP application;
- (b) Three points will be awarded for adoption or certification of all necessary environmental reviews (California Environmental Quality Act and National Environmental Policy Act);
- (c) Land use approvals.
 - (i) Three points will be awarded for obtaining all necessary land use approvals or entitlements necessary prior to issuance of a building permit, including any required discretionary approvals, such as site plan review or design review;
 - (ii) Two points will be awarded for submission of a complete application to the relevant local authorities for land use approval under a nondiscretionary local approval process, where the application has been neither approved or disapproved;
 - (iii) One point will be awarded for a letter signed by a planner certified by the American Institute of Certified Planners indicating that, in their opinion, the project meets all of the requirements for approval under a nondiscretionary local approval process, where an application has not been approved or disapproved by the local authorities.
 - (iv) A “nondiscretionary local approval process” is one that includes little or no subjective judgement by the public official, and is limited to ensuring that the proposed development meets a set of objective zoning, design review and/or subdivision standards in effect at the time the application is submitted to the local government. A “nondiscretionary local approval process” includes Streamlined Ministerial Approval Processing under to Chapter 366, Statutes of 2017 (SB 35), By-Right Processing for Permanent Supportive Housing under Chapter 753, Statutes of 2018 (AB 2162)), housing element law (Government Code Section 65583.2(i), or other local process that meets the definition of non-discretionary approval process.
- (d) Three points will be awarded if either:

- (i) the Sponsor has fee title ownership to the site or a long-term leasehold securing the site meeting the criteria for program site control; or
 - (ii) the Sponsor can demonstrate subject to Department's approval in its sole discretion that the working drawings are at least 50 percent complete, as certified by the Project architect;
- (e) Three points will be awarded for obtaining commitments for all deferred-payment financing, grants and subsidies, in accordance with TCAC requirements and with the same exceptions as allowed by TCAC. Deferred-payment financing, grant funds and subsidies from other Department programs proposed for project financing must be awarded prior to final rating and ranking for the MHP application.

(7) Adaptive Reuse / Infill / Proximity to Amenities/ Sustainable Building Methods –15 points maximum.

Applications will receive five points for meeting each of the following three conditions, up to a maximum of fifteen points.

(A) Infill development, including adaptive reuse of vacant or underutilized commercial or industrial building located in a developed area served with public infrastructure. The Project will be:

- (i) located on a site where either:
 - a at least 75 percent of the site was previously improved (including areas where improvements have been demolished) or used for any use other than open space, agriculture, forestry, or mining waste storage; or
 - b at least 75 percent of the perimeter of the site's adjoining parcels that are developed with Urban Uses (residential, commercial, industrial, public institutional, transit or transportation passenger facility use, or retail use, or any combination of those uses, but not including lands used for agricultural uses or parcels in excess of 15,000 square feet in size and containing only one single family residence, or is separated from parcels that are developed with Urban Uses only by an improved public right-of-way. In calculating this percentage, perimeters bordering navigable bodies of water and improved parks shall not be included; or
 - c the combination of at least 50 percent of site area as previously improved (including areas where improvements have been demolished) or used for any use other than open space, agriculture, forestry or mining waste storage, and at least 50 percent of the perimeter of the site adjoining parcels that are developed with urban uses, or is separated from parcels that are developed with urban uses only by an improved public right-of-way. In calculating this percentage, perimeters bordering navigable bodies of water and improved parks shall not be included. and

- (ii) developed at average residential Net Densities on the parcels to be developed that are equal to or greater than the densities described in Subparagraph (B) of Paragraph (3) of Subdivision (c) of Section 65583.2 of the Government Code, except that in a Rural Area the average residential Net Densities on the parcels to be developed shall be at least ten units per acre. Minimum densities for localities that are not Rural Areas may be found at Appendix 1 of the Housing Element Law memorandum issued by the Department on “Inventory and Suitability of Sites/Default Densities (AB 2348)”, dated June 9, 2005 and found at <http://www.hcd.ca.gov/community-development/housing-element/housing-element-memos.shtml>. “Net Density” means the total number of dwelling units per acre of land to be developed for residential or mixed use, excluding allowed deductible areas. Allowed deductible areas are public dedications of land which are for public streets, public sidewalks, public open space, and public drainage facilities. Non-allowed deductible areas include utility easements, setbacks, private drives and walkways, landscaping, common areas and facilities, off street parking, drainage facilities exclusive to a development project, and any other related mitigation space required for development.
- (B) Proximity to amenities. The Project would be eligible to receive the maximum number of points available for site amenities under TCAC regulation Section 10325(c)(4)(A) or successor regulation
 - (C) Sustainable building methods. Five points will be awarded for projects achieving the maximum possible score available for using sustainable building methods under the TCAC regulations, Section 10325(c)(5) or successor regulation.
 - i. In the event of tied point scores, the Department shall rank tied applications based on the lowest weighted average affordability of Restricted Units, which shall be computed as follows:
 - a. Multiplying each income limit applicable to the Project by the number of Units restricted at that income level.
 - b. Adding the products calculated pursuant to the previous subsection.
 - c. Dividing the sum calculated pursuant to the previous subsection by the number of Restricted Units in the Project.

Article 4. Program Operations

Section 7321. Legal Documents.

- (a) Upon the award of Program funds to a Project, the Department shall enter into one or more agreements with the Sponsor, which may be in the form of a conditional commitment letter issued by the Department and accepted by the Sponsor, which shall

commit monies from the Fund in an amount sufficient to fund the approved loan amount. The agreement or agreements shall contain the following:

- (1) a description of the approved Project and the permitted uses of Program funds;
 - (2) the amount and terms of the loan;
 - (3) the regulatory restrictions to be applied to the Project through the Regulatory Agreement;
 - (4) provisions governing the construction work and, as applicable, the acquisition of the Project site, and the disbursement of loan proceeds;
 - (5) special conditions imposed as part of Department approval of the Project;
 - (6) requirements for the execution and the recordation of the agreements and documents required under the Program;
 - (7) terms and conditions required by federal or state law;
 - (8) requirements regarding the establishment of escrow accounts for the deposit of documents and the disbursement of loan proceeds;
 - (9) the approved schedule of the Project, including land acquisition if any, commencement and completion of construction or Rehabilitation work, and occupancy by Eligible Households;
 - (10) the approved Project development budget and sources and uses of funds and financing;
 - (11) requirements for reporting to the Department;
 - (12) terms and conditions for the inspection and monitoring of the Project in order to verify compliance with the requirements of the Program;
 - (13) provisions regarding tenant relocation;
 - (14) provisions relating to the erection and placement on or in the vicinity of the Project site a sign indicating that the Department has provided financing for the Project. The Department may also arrange for publicity of the Program loan in its sole discretion; and
 - (15) other provisions necessary to ensure compliance with the requirements of the Program.
- (b) The Department shall enter into a Regulatory Agreement with the Sponsor for not less than the original term of the loan that shall be recorded against the Project property title prior to the disbursement of funds. The Regulatory Agreement shall include, but not be limited to, the following:

- (1) the number, type and income level of Assisted Units pursuant to UMR Section 8304;
- (2) standards for tenant selection pursuant to UMR Section 8305;
- (3) provisions regulating the terms of the rental agreement pursuant to UMR Section 8307;
- (4) provisions related to an annual operating budget approved by the Department pursuant to Section 7326;
- (5) provisions related to a management plan pursuant to Section 7324;
- (6) provisions related to a Rent schedule, including initial Rent levels for Assisted Units and non-Assisted Units pursuant to subsections (a) and (b) of Section 7312;
- (7) conditions and procedures for permitting Rent increases pursuant to Section 7312;
- (8) provisions for limitations on distributions pursuant to UMR Section 8314;
- (9) provisions relating to annual reports, inspections and independent audits pursuant to Section 7325;
- (10) provisions regarding the deposit and withdrawal of funds to and from reserve accounts;
- (11) assurances that the Rental Housing Development will be maintained in a safe and sanitary condition in compliance with state and local housing codes and the management plan, pursuant to Section 7324;
- (12) description of the conditions constituting breach of the Regulatory Agreement and remedies available to the parties thereto;
- (13) provisions governing use and operation of non-Assisted Units and common areas to the extent necessary to ensure compliance with program requirements;
- (14) provisions relating to enforcement of program requirements by tenants;
- (15) special conditions of loan approval imposed by the Department;
- (16) provisions specifying that the Regulatory Agreement shall be binding on all assigns and successors in interest of the Sponsor and that all sales, transfers, and encumbrances shall be subject to Section 7322;
- (17) for Projects serving Special Needs Populations and/or providing services to the general tenant population, provisions regarding the implementation and maintenance of services and facilities for the targeted Special Needs Population group and/or general tenant population; and
- (18) other provisions necessary to assure compliance with the requirements of

the Program.

- (c) All loans shall be evidenced by a promissory note payable to the Department in the principal amount of the loan and stating the terms of the loan consistent with the requirements of the Program. The note shall be secured by a deed of trust on all of the sites comprising the Project property naming the Department as beneficiary or by other security acceptable to the Department; this deed of trust or other security shall be recorded junior only to such liens, encumbrances and other matters of record approved by the Department and shall secure the Department's financial interest in the Project and the performance of Sponsor's program obligations.

NOTE: Authority cited: Sections 50406(n), 50675.1(c) and 50675.11, Health and Safety Code. Reference: Sections 50675.1, 50675.6 and 50675.8, Health and Safety Code.

Section 7322. Sales, Transfers, and Encumbrances.

- (a) A Sponsor shall not sell, assign, transfer, or convey the Rental Housing Development, or any interest therein or portion thereof, without the express prior written approval of the Department. A sale, transfer or conveyance shall be approved only if all of the following requirements are met:
 - (1) the existing Sponsor is in compliance with the Regulatory Agreement, or the sale, transfer or conveyance will result in the cure of any existing violations;
 - (2) the successor-in-interest to the Sponsor agrees to assume all obligations of the existing Sponsor pursuant to the Regulatory Agreement and the program;
 - (3) the successor-in-interest is an eligible sponsor and demonstrates to the Department's satisfaction that it can successfully own and operate the Rental Housing Development and comply with all Program requirements; and
 - (4) no terms of the sale, transfer, or conveyance jeopardize either the Department's security or the successor's ability to comply with all Program requirements.
- (b) If the Sponsor or its successor-in-interest is a partnership, the Sponsor shall not discharge or replace any general partner or amend, modify or add to its partnership agreement, or cause or permit the general partner to amend, modify or add to the organizational documents of the general partner, without the prior written approval of the Department. The Sponsor may transfer limited partnership interests without the prior written approval of the Department.
- (c) The Department shall grant its approval of a sale, assignment, transfer, or conveyance subject to such terms and conditions as may be necessary to preserve or establish the Fiscal Integrity of the Project. Such conditions may include:
 - (1) the deposit of sales proceeds, or a portion thereof, to maintain required reserves, or to offset negative cash flow;
 - (2) the recapture of syndication proceeds or other funds in accordance with special conditions included in any agreement executed by the Sponsor; or

- (3) such conditions as may be necessary to ensure compliance with the Program requirements.
- (d) The Sponsor shall not encumber, pledge, or hypothecate the Rental Housing Development, or any interest therein or portion thereof, or allow any lien, charge, or assessment against the Rental Housing Development without the prior written approval of the Department. The Department may permit refinancing of existing liens or additional financing secured by the Rental Housing Development to the extent necessary to maintain or improve the Fiscal Integrity of the Project, to maintain Affordable Rents, or to decrease Rents.

NOTE: Authority cited: Sections 50406(n), 50675.1(c) and 50675.11, Health and Safety Code. Reference: Sections 50675.1 and 50675.8, Health and Safety Code.

Section 7323. Defaults and Loan Cancellations.

- (a) In the event of a breach or violation by the Sponsor of any of the provisions of the Regulatory Agreement, the promissory note, or the deed of trust, or any other agreement pertaining to the Project, the Department may give written notice to the Sponsor to cure the breach or violation within a period of not less than 15 days.

If the breach or violation is not cured to the satisfaction of the Department within the specified time period, the Department, at its option, may declare a default under the relevant document(s) and may seek legal remedies for the default including the following:

- (1) The Department may accelerate all amounts, including outstanding principal and interest, due under the loan and demand immediate repayment thereof. Upon a failure to repay such accelerated amounts in full, the Department may proceed with a foreclosure in accordance with the provisions of the deed of trust and state law regarding foreclosures.
 - (2) The Department may seek, in a court of competent jurisdiction, an order for specific performance of the defaulted obligation or the appointment of a receiver to operate the Rental Housing Development in accordance with program requirements.
 - (3) The Department may seek such other remedies as may be available under the relevant agreement or any law.
- (b) If the breach or violation involves charging tenants Rent or other charges in excess of those permitted under the Regulatory Agreement, the Department may demand the return of such excess Rents or other charges to the respective households. In any action to enforce the provisions of the Regulatory Agreement, the Department may seek, as an additional remedy, the repayment of such overcharges.
 - (c) The Department may cancel Loan commitments under any of the following conditions:
 - (1) the objectives and requirements of the Program cannot be met;

- (2) implementation of the Project cannot proceed in a timely fashion in accordance with the approved plans and schedules;
- (3) special conditions have not been fulfilled within required time periods; or
- (4) there has been a material change, not approved by the Department, in the Project or the principals or management of the Sponsor or Project.

The Department, in writing and upon demonstration by the Sponsor of good cause, may extend the date for compliance with any of the conditions in this subsection.

- (d) Upon receipt of a notice from the Department of intent to cancel the loan, the Sponsor shall have the right to appeal to the Director.
- (e) The Department may use amounts in the Fund to cure or avoid a Sponsor's default on the terms of any loan or other obligation that jeopardizes the Fiscal Integrity of a Project or the Department's security in the Project. Such defaults may include defaults or impending defaults in payments on mortgages, failures to pay taxes, or failures to maintain insurance or required reserves. The payment or advance of funds by the Department pursuant to this subsection shall be solely within the discretion of the Department and no Sponsor shall be entitled to or have any right to payment of these funds. All funds advanced pursuant to this subsection shall be part of the Program loan and, upon demand, due and payable to the Department. Where it becomes necessary to use the Fund to assist a Project to avoid threatened defaults or foreclosures, the Department shall take those actions necessary, including, but not limited to, foreclosure or forced sale of the Project property, to prevent further, similar occurrences and ensure compliance with the terms of the applicable agreements.

NOTE: Authority cited: Sections 50406(n), 50675.1(c) and 50675.11, Health and Safety Code. Reference: Sections 50675.1, 50675.8 and 50675.10, Health and Safety Code.

Section 7324. Management and Maintenance.

- (a) The Sponsor shall be responsible for all management functions of the Rental Housing Development including selection of the tenants, annual recertification of household income and size, evictions, and collection of Rent.
- (b) The Sponsor is responsible for all repair and maintenance functions of the Rental Housing Development, including ordinary maintenance and replacement of capital items. The Sponsor shall ensure maintenance of residential units, Commercial Space and common areas in accordance with local health, building, and housing codes, and the management plan.
- (c) The Sponsor shall ensure that the Rental Housing Development is managed by an entity approved by the Department that is actively in the business of managing low-income housing. Any management contract entered into for this purpose shall be subject to Department approval and contain a provision allowing the Sponsor to terminate the contract upon 30-days' notice. The Sponsor shall terminate said contract as directed by the Department upon determination that management does not comply with Program requirements.

- (d) The Sponsor shall develop a management plan subject to Department approval prior to loan closing. Any change to the plan shall be subject to the approval of the Department. The plan shall be consistent with Program requirements and shall include the following:
- (1) the role and responsibility of the Sponsor and its delegation of authority, if any, to the managing agent;
 - (2) personnel policy and staffing arrangements;
 - (3) plans and procedures for publicizing and achieving early and continued occupancy;
 - (4) procedures for determining tenant eligibility and selecting tenants and for certifying and annually recertifying household income and size;
 - (5) plans for carrying out an effective maintenance and repair program;
 - (6) Rent collection policies and procedures;
 - (7) a program for maintaining adequate accounting records and handling necessary forms and vouchers;
 - (8) plans for enhancing tenant-management relations;
 - (9) the management agreement, if any;
 - (10) provisions for periodic update of the management plan;
 - (11) appeal and grievance procedures;
 - (12) plans for collections for tenant-caused damages, processing evictions and terminations; and
 - (13) for Projects serving Special Needs Populations and/or providing special services to the general tenant population, a supportive services plan, that includes:
 - (A) a description of the services to be provided;
 - (B) a preliminary services budget;
 - (C) funding source(s);
 - (D) identification of the organization(s) that will provide services;
 - (E) a preliminary staffing plan;
 - (F) location of services to be provided off site; and
 - (G) any special eligibility requirements for the services.

NOTE: Authority cited: Sections 50406(n), 50675.1(c) and 50675.11, Health and Safety Code.
Reference: Sections 50675.1 and 50675.8, Health and Safety Code.

Section 7325. Reporting.

- (a) No later than 90 days after the end of each Project fiscal year, the Sponsor shall submit an independent audit of the Rental Housing Development prepared by a certified public accountant in accordance with Department audit requirements, as periodically updated and incorporated by reference. Upon a determination that the cost of meeting this requirement exceeds the potential benefits from it to the Department and to the tenants of the Rental Housing Development, the Department may:
 - (1) reduce the required frequency of the audit;
 - (2) accept an audited financial statement in lieu of the audit; or
 - (3) waive this requirement completely.
- (b) Projects with Supportive Housing units and units restricted to Homeless persons shall report client data on local Homeless Management Information Systems (HMIS), if such systems are available, and must comply with local continuum of care HMIS requirements.
- (c) Projects with Supportive Housing units and units restricted to homeless persons shall also report annually to the Department on all occupants of these units, indicating for each their referral source, previous living situation, whether the occupant was Chronically Homeless, a military veteran, or senior, length of stay, residence after exiting, and similar information.

NOTE: Authority cited: Sections 50406(n), 50675.1(c) and 50675.11, Health and Safety Code.
Reference: Sections 50675.1 and 50675.8, Health and Safety Code.

Section 7326. Operating Budget.

- (a) Prior to loan closing, the Sponsor shall submit an initial operating budget to the Department. Such budget shall show all anticipated income; expenses for management, operations and maintenance; debt service; and reserve deposits for the initial Operating Year.
- (b) For as long as deemed necessary by the Department to ensure compliance with Program requirements, the Sponsor shall submit to the Department for its approval, 60 days prior to the end of each Project fiscal year, a proposed operating budget. The proposed operating budget shall set forth the Sponsor's estimate of the Project's Operating Income, Operating Expenses, debt service for the upcoming year, and any proposed Rent increases pursuant to Section 7312. In lieu of the requirement for submission of complete proposed operating budgets, the Department may require submission of limited budget information, such as a proposed Rent schedule, proposed management fees, and reserve deposit amounts. The Department may re-impose the requirement for submission of complete operating budgets where necessary to ensure

compliance with program requirements.

- (c) The initial and subsequent proposed operating budgets, where required, shall be subject to the approval of the Department based on its determination that the budget line items are reasonable and necessary in light of costs for comparable Rental Housing Developments and prior year budgets. Actual expenditures in excess of the approved budget amount shall be subject to Department approval.
- (d) The initial operating budget and subsequent proposed operating budgets shall include periodic deposits to the operating reserve, replacement reserve, and any other reserve account required by the Department in accordance with the requirements of UMR Sections 8308 and 8309.
- (e) For Projects with non-Assisted Units or Commercial Space, all budgets submitted pursuant to this section shall show income and uses of income allocated among Assisted Units, Restricted Units, non-Restricted Units, and Commercial Space. The allocation method used for each budget line item shall be subject to Department approval and shall apportion income and expenses in a manner that accurately reflects the particular physical, operational and economic characteristics of the Project.

NOTE: Authority cited: Sections 50406(n), 50675.1(c) and 50675.11, Health and Safety Code.
Reference: Sections 50675.1 and 50675.8, Health and Safety Code.