

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

California Department of Housing
and Community Development
April 2022





Housekeeping

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



PRP Team

	Lindy Suggs	Branch Chief
	Rebecca Weber	CRP Section Chief
	Brian Johnston	Transactions Unit Section Chief
	Hasmik Mnatsakanyan	Transactions Unit Manager
	Carter Bennett	Senior Specialist
	Mai Le	Specialist



Agenda

Overview

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PRP OVERVIEW





PRP Funding

- New funding to preserve and rehabilitate Legacy Projects in HCD's Portfolio.
- Approximately \$285 million available under this NOFA.
- Extends the affordability of these projects and extends the useful life through rehabilitation.



Authorizing Legislation

- Assembly Bill 140 (chapter 111, statutes of 2021) created the statutory basis for the PRP by adding chapter 5.5, commencing with HSC section 50606.
- MHP final guidelines, effective June 19, 2019 are incorporated by reference.
- UMRs, effective November 15, 2017 are incorporated by reference.



Timeline

ACTIVITY	DATES
PRP NOFA Release:	March 28, 2022
Application Release:	April 8, 2022
Application submission period:	April 29 – July 29, 2022
Award Announcements:	Continuously but no later than February 15, 2023
Funds encumbered through an executed Standard Agreement:	No later than June 30, 2024
Capitalized Operating Subsidy Reserve expenditure deadline:	June 30, 2026
Permanent loan conversion:	No later than August 31, 2026

Eligible Projects





Project Eligibility

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

All HCD regulatory agreement(s) have expired or will expire on or before 12/31/2026

HCD regulatory agreement has not been terminated by HCD

Project's rehab will not be funded through LIHTC

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

Construction period rehabilitation financing provided by other lender(s)

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

Eligible Sponsors/Applicants





Eligible Sponsor

Applicant must be an Eligible Sponsor as described below:

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



Eligible Applicants

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



Change of Ownership

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



When Applicant is not the Current Owner

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

Financial Resources

Office, payroll and qualified staff

Ownership/Development within last 10 years

Complies with Preservation Notice Law

Eligible Uses of Funds





List of Eligible Uses

- Rehabilitation work to extend the useful life of the Project through the end of the PRP loan term;
- Site improvements that are required by a regulatory agency;
- Architectural, appraisal, engineering, legal and other consulting costs and fees, which are directly related to the planning and execution of the Project, and which are incurred through third-party contracts;
- Environmental hazard reports, surveys, and investigations;
- Costs of relocation benefits and assistance required by law;
- Carrying costs during construction, including insurance, construction financing fees and interest;



List of Eligible Uses

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



Administrative Allowance

PRP funds can be used to fund administration of the rehabilitation activity up to the lesser of:

- 5% of the PRP rehabilitation loan amount; or
- \$750,000



Developer Fee

If there is a Developer Fee paid by another funding source, the Developer Fee and PRP administrative allowance, shall, in the aggregate, be subject to the Developer Fee limit set forth in UMR Section 8312(a).

- PRP administrative allowance is considered to be part of the Developer Fee and counts toward the Developer Fee limit;
- The administrative allowance is capped at \$750,000.

Threshold Requirements





Threshold Requirements

Completed application submitted by deadline

Authorizing Resolution

Submittal of Property Condition Assessment (PCA)

Must be in compliance with HCD

Ability to commence rehab within 180 days of award

Achieve Fiscal Integrity by 10th year after recordation

Rent and Affordability Rules





Affordability for Existing Tenants

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

Units originally designated as:	AMI Level
Low Income	60% AMI
Very Low Income	30% AMI– HCD may re-designate units up to 50% AMI to achieve Fiscal Integrity

Units not originally assisted:	AMI Level
Sponsor chooses to make Assisted under PRP	Up to 60% AMI



Affordability for Existing Tenants

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



Assisted Vacant Units

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



Rent Rules for Existing Tenants

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



Rent Rules for Existing Tenants

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



Over-Income Tenants

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



Notice Requirements

**Six months
notice
prior to
estimated
rent
increase**

**90 days
notice
prior to
actual rent
increase**

**Governed
by other
funding
sources**

Capitalized Operating Subsidy Reserve (COSR)





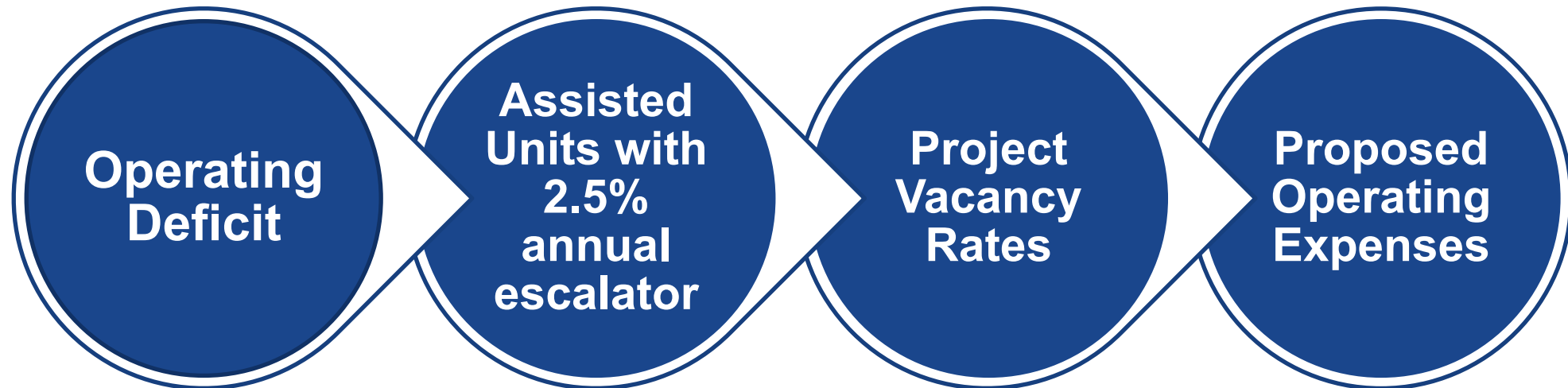
COSR

- The purpose of the COSR is to address Project operating deficits associated with Assisted Units.
- The total COSR funding amount will be the lesser of 25% of the PRP rehabilitation loan or the amount needed to pay anticipated operating deficits attributable to the Assisted Units from construction loan closing through June 30, 2026.



COSR Project Factors

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





COSR Disbursements

- Initial disbursement may be advanced at construction close.
- Subsequent disbursements will be based on HCD's review and approval of the Project's prior year operating deficits.
- The final reconciliation will be based on operating deficits attributable to Assisted Units as determined from HCD's review and approval of the Project's unaudited income statements, on forms provided by the Department, covering the period from the first day of the Fiscal Year through June 30, 2026.



COSR Forgivable Loan

- If the Project meets the requirements of the PRP rehabilitation loan and complies with the PRP COSR requirements, the COSR forgivable loan will be forgiven.
- Only available in conjunction with PRP rehabilitation loan.
- COSR loans must be fully expended by the Project Sponsor by June 30, 2026.
- Final reconciliation must be submitted to the Department by August 15, 2026.

Funding Amounts and Terms





PRP Loan Limits

- Maximum loan amount is the lesser of \$20 million, or \$200,000/per Assisted Unit.
- Minimum project loan amount is \$250,000.
- All loan limits exclude any COSR funding.



PRP Set-Aside Loan Limits

\$50M Small Project

- 5-20 Units
- Maximum loan amount is the lesser of \$2.5 Million or \$200,000/Assisted Unit.

\$100M Residential Hotel/SRO

- Maximum loan amount is the lesser of \$20 million or \$200,000/Assisted Unit.



Per Unit Limit Boosts

- Projects applying outside the Small Project Set-Aside can qualify for a maximum of two high-cost boosts. Total Project Award remains capped at \$20 million.
- Projects that meet certain conditions may get a boost of 25% for:
 - Relocation
 - Elevators
 - Seismic
 - Structural
 - Environmental
 - Accessibility

Rehabilitation Loans and Application





Rehabilitation Loans

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



Application

- The PRP application and all required supporting documents must be uploaded to the Department's online application portal.
- Applications will be evaluated on a first-come, first-served basis starting on April 29, 2022 through July 29, 2022, or until all available funds are exhausted.
- The Department will evaluate applications for compliance with the minimum requirements set forth in the PRP NOFA.



State Law: Preservation Noticing

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

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

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

Questions? Contact the Division of Housing Policy Development

preservation@hcd.ca.gov

(916) 263-2911



Next Steps – Post Award

- Award date is the start of the 180-day clock until start of construction.
- Review and execute HCD Standard Agreement.
- Execute construction contract.
- Execute COSR loan documents (if any) and amendments to Original HCD loan documents, if needed.
- Close construction financing.



Contact Information

Please email questions to our Team!

PortfolioReinvestment@hcd.ca.gov

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



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Q&A

