MEMORANDUM FOR: Stakeholders and Potential Applicants for HCD Multifamily Development Funding Programs

FROM: Jennifer Seeger, Deputy Director
Division of State Financial Assistance

SUBJECT: Multifamily Finance Super NOFA and 2022 Final Guidelines Release

The California Department of Housing and Community Development (Department or HCD) is pleased to announce publication of the final Guidelines and Super Notice of Funding Availability (Super NOFA).

This Super NOFA and its applicable Guidelines are intended to advance the State’s goal of creating 2.5 million homes by 2030 according to the 2022 Statewide Housing Plan, and in particular assist in producing the more than 1 million homes needed for Californians experiencing homelessness and people with low and very low incomes.

Together, the Guidelines and Super NOFA have these primary goals:

1. Produce more affordable and climate smart housing,
2. Act with urgency to address homelessness and housing stability,
3. Consolidate and streamline State affordable housing programs,
4. Reduce time and cost to develop housing,
5. Prioritize equitable State policy objectives in the creation of more homes in the State, and
6. Harmonize those State policy objectives with the broader affordable housing finance system.

The final Guidelines modify the original program Guidelines currently in effect for the multifamily development programs outlined below. This stakeholder memo offers guidance for stakeholders in reviewing the final Guidelines and NOFA, as well as response to the major themes HCD heard through public comments.

BACKGROUND

On September 28, 2020, Governor Gavin Newsom signed Assembly Bill 434 (AB 434), which requires the Department to consolidate and streamline its funding process for six
Multifamily housing programs: ¹

- Multifamily Housing Program (MHP)
- Housing for a Healthy California (HHC)
- Infill Incentive Grant Program of 2007 (IIG-2007)
- Joe Serna, Jr. Farmworker Grant Program (Serna or FWHG)
- Transit Oriented Development (TOD) Implementation Program
- Veterans Housing and Homelessness Prevention Program (VHHP)

Under AB 434, the Department must make multifamily funds for these programs available at the same time as MHP, rate and rank applications consistent with MHP, and administer the funds consistent with MHP. Thus, the MHP Guidelines become “universal” guidelines governing the competition and use of all program funds. However, distinctive features of IIG, Serna, and VHHP are retained in their threshold criteria and additional program-specific guideline content necessary to meet statutory requirements and fundamental programmatic goals.

**PROCESS**

On June 22, 2021, the Department issued draft MHP Guidelines for a public comment period. During this time, the Department conducted five stakeholder engagement webinars and received more than 200 comments on individual guidelines sections from more than 90 stakeholders. During the next four months, staff worked to develop a more comprehensive rating and ranking system in consideration of the public comments. At the same time, the Department initiated a Housing Finance Roundtable with representation from developers, local governments, and affordable housing advocacy groups, and conducted several working sessions to solicit thoughts and feedback from those Roundtable members.

As a result of significant revisions, the draft MHP Guidelines were issued for a second public comment period in late 2021. AB 434 compliant guidelines for IIG, Serna, and VHHP were also issued for concurrent, simultaneous public comment periods. Additional information for the NOFA itself (which is not typically made available for public comment) was also provided for stakeholder review in the form of a draft Scoring Appendix.

During the second public comment period, from December 13, 2021, through January 10, 2022, the Department hosted four webinars to present the key changes, solicit feedback, and answer questions. The sessions explained program alignment changes, the rating and ranking system, and the funding allocation method. The Department received over

¹ Only those programs with funding available in 2022, specifically, MHP, IIG, Serna, and VHHP, are the subject of this stakeholder memo, guidelines release, and NOFA. TOD and HHC are not included, as no multifamily development funding will be available through these programs in 2022.
800 public comments from more than 50 stakeholders during this period and continued internal analysis and legal review. Consultation with stakeholder groups, California Debt Limit Allocation Committee (CDLAC) and California Tax Credit Allocation Committee (TCAC) have been ongoing throughout the process.

The final Guidelines and Super NOFA aim to streamline and maximize consistency between the programs affected by AB 434 and to improve compatibility with CDLAC and TCAC criteria. HCD also aims to reflect the Department’s ongoing commitment to affordability, access to opportunity, equity, and housing the homeless. This memo summarizes the most substantive changes to the guidelines and scoring system.

SUPER NOFA FORMAT

The MHP Guidelines are the central source for most programmatic requirements for all four Super NOFA programs. Red Font is used in MHP Guidelines and across each set of program guidelines for content that is identical across the AB 434 programs, thus much of the MHP guidelines are in Red Font.

Since the non-MHP programs have distinctive population targeting, eligible uses, threshold requirements, and other statutory requirements, program-specific features are contained in the individual program guidelines in Black Font.

Definitions are pulled out into one consolidated definitions appendix that is attached to all guidelines as reference. That appendix has some definitions that are program-specific, but to the extent possible, definitions are universally applicable. Universally applicable definitions are indicated in Black Font, while definitions that are only applicable to IIG, FWHG, or VHHP, have their own font color to distinguish them.

The Universal Scoring criteria and tiebreaker system is outlined in the Super NOFA and is applicable to all Super NOFA programs. Additionally, information on loan and grant limits, funding strategy, including set-asides, and rating and ranking are also contained in the NOFA, which is being issued simultaneously with the guidelines.

The application will be issued in mid-April on the Department’s new Super NOFA Application Portal (SNAP) with additional guidance and details for submission.

SUMMARY OF CHANGES

Funding Goals

The proposed funding and scoring system aims to accomplish the following goals:

- Minimize incentive to apply to multiple programs solely to increase funding levels
- Minimize the number of partially-funded projects seeking gap funding through other
HCD funding programs

- Ensure VHHP and Serna funds are utilized
- Ensure high-quality projects are awarded, regardless of funding sources requested
- Eliminate reviewer subjectivity in rating, ranking, award levels, or award types
- More efficient use of time and resources, for both applicants and HCD

In response to stakeholder requests, all previously existing IIG, Serna, and VHHP scoring criteria have been integrated into the general MHP scoring system or converted into threshold requirements for those specific programs. This will allow the Department to implement Universal Scoring criteria for all applications, resulting in a single ranked list of projects eligible for award. This was an important and substantive request from stakeholders, and HCD hopes the change moves the department towards a more transparent and efficient award process.

Funding Limits

The following changes to loan limits were made in response to public feedback:

- Total Department multifamily loan funds were increased and are now capped at $35 million per project, rather than $30 million per project. This loan cap is applicable to all Department loan programs for onsite development and capital improvements both within and outside of the Super NOFA programs. The same loan limits per-project and per-unit will apply to all HCD funds moving forward, regardless of the number of programs awarded.

- Grant programs, including IIG and Affordable Housing and Sustainable Communities grants, are excluded from the $35 million per-project loan cap.

- The per-sponsor funding limit has been increased from $70 million to $80 million per Super NOFA. Per-sponsor funding limits are specific to the 2022 Super NOFA and includes grant funds, e.g., IIG.

- To incentivize partnership with Emerging Developers and Tribal Entities, such partnerships are exempted from the per-sponsor cap.

- Per-unit loan limits have been increased to remove the need and incentive to stack multiple program funding sources and to reduce delays in applying to CDLAC and TCAC.
  - Increase from $95,000 to $150,000 for projects funded with 9% tax credits
  - Increase from $150,000 to $200,000 for projects funded with 4% tax credits
  - Setting a limit of $225,000 for projects funded without tax credits
Increasing the base amounts above by $25,000 for: being located in a high or highest resource area, special needs housing type projects with 45 percent or more Restricted Units for Special Needs Population(s), or co-applications that include an experienced and Emerging Developer

- These per-unit loan amounts are further limited to a percent of total development cost to account for the 9% and 4% tax credit equity sources.

- A non-tax credit set-aside of 15 percent of total Super NOFA funds to incentivize developers to speed production of housing units in projects that are feasible without tax credits

**Targets and Set-Aside Goals**

The NOFA establishes the following geographic targets:

- 44 percent of the total funds to projects in Southern California
- 28 percent to Northern California
- 18 percent to projects in Rural areas
- 10 percent shall not be subject to a specific geographic distribution

The Department will also have the following set-aside goals:

- 5 percent of total NOFA funds for Tribal Entities
- 15 percent for Emerging and Community-Based Developers, with one-third of this set-aside reserved for Emerging Developers
- 15 percent for non-Tax-Credit projects
- 20 percent of MHP funds for Senior Housing projects in accordance with MHP statutory requirements

**Scoring Criteria and Tie-Breaker**

To achieve a scoring method that works for all AB 434 programs and balances numerous state priorities, the Department has further modified the general MHP scoring system. The overview below highlights refinements HCD made to the Universal Scoring system after receiving feedback in the second round of public comment.

- Serving Lowest Income Levels
  - For any points under this category, applicants were previously required to have a
minimum of 20 percent of the units targeting households earning at or below 30 percent AMI. This posed challenges for lease-up for some farmworker housing and family housing in low AMI areas. Now applicants can achieve points with a minimum bar of 10 percent of the units at or below 30 percent AMI.

- **State Policy Priorities**
  
  - This section awards points for three current state policy priorities.
  
  - Projects located in High or Highest Resource Areas according to the TCAC/HCD Opportunity Map

  - Projects serving Special Needs populations or Agricultural Households

  - Projects located on excess state-owned property
  
  - The following changes have been made:

    - To align with CDLAC and ensure a variety of housing types are built in high opportunity locations, the points for High and Highest Resource Area locations are no longer available to most Senior Projects.

    - Projects located in High or Highest Resource Areas will now compete for other points in the State Policy Priorities section, rather than being exempted from points for Special Needs targeting.

    - To prevent displacement of existing tenants, preservation projects that are at high risk of exiting affordability will not compete for points under the Special Needs targeting category, as that could incentivize evictions in order to fill vacant units with Special Needs tenants.

    - High/Highest Resource Area points will now be distributed across all programs by including a 50 percent soft cap for VHHP and FWHG funds as well as all Super NOFA funds.

- **Readiness**
  
  - Additional time is provided for documenting federal environmental requirements per the National Environmental Policy Act (NEPA).

- **Infill/Proximity to Amenities/Sustainable Building Methods**
  
  - In order to more fully align with IIG and CDLAC, this category has been altered to have an additional competitive point for close proximity (1/4 mile) to transit and new density point-scoring options
• **Tie-Breaker**

  o Under the Super NOFA, the Tie-Breaker is less determinative than in past MHP rounds. The Super NOFA contains numerous sub-competitions for set-asides, targets, soft-caps, and funding priorities including Emerging Developers, Community-Based Developers, Tribal Entities, Non Tax-Credit Projects, High/Highest Opportunity Area projects, VHHP projects, FWHG projects, and three geographic regions. These categories overlap, creating even smaller subsets of projects within the sub-competitions, such as High/Highest Opportunity area projects that are also VHHP applicants. Identically scoring applications within sub-competitions are less likely than if points were the only strategy used to achieve policy priorities.

  o Additionally, the scoring has been intentionally structured to make it nearly impossible to achieve 100 percent of the possible points, ensuring a greater range of point scores. That said, HCD may need to utilize a Tie-Breaker in some circumstances. As in the draft guidelines for public comment, the final Tie-Breaker includes three factors: Affordability; Leverage; Additional Cost Containment. The Tie-Breaker has been refined in the following ways:

  1. Due to concerns about the accuracy of the Cost Containment methodology, and in the absence of better data, HCD reduced the weight of Cost Containment in the calculation. In the next year, the Department hopes to innovate, with input from developers and other stakeholders, a more accurate method for rewarding efficient use of state resources. It is one of the Department’s most central responsibilities to minimize waste and reward efficiency in use of taxpayer dollars. However, HCD must do so without undermining project quality, supportive services, geographic equity, proximity to amenities, or access to opportunity.

  2. There is no longer a separation of project-types for tie-breaker purposes. Instead, if one project type (e.g., Special Needs Housing) performs exceptionally well on the Tie-Breaker, resulting in an imbalance of funded projects, then the Department will remedy that imbalance by using a skipping strategy (skipping over higher scoring projects if they are an over-represented project type).

  3. Projects are given an affordability “floor” to encourage a balance between affordability and operationally-sustainable rent and income targeting. To align with the CDLAC Tie-Breaker, the “floor” for project-wide average affordability will be 40 percent AMI unless there are project-based voucher commitments. In that case, properties may receive tie-breaker credit for 30 percent AMI units.
**Promoting Equity in Development and Reducing Barriers to Housing**

To promote equity and provide additional opportunity for Community-Based Developers, Emerging Developers, and Tribal Entities, HCD made the following changes:

- Set asides were established at 5 percent of NOFA funds for Tribal Entities and 15 percent of NOFA funds for Community-Based and Emerging Developers.

- Experience points are not counted for projects competing within the Tribal or Emerging/Community-Based Developer Set Asides.

- HCD made refinements to the types of Community-Based projects able to compete in the set-aside to ensure this year’s limited funds target place-based organizations rooted in the neighborhood or community. Per the NOFA: Community-Based Developers may compete in the set-aside if they meet BOTH of the following:

  1. Maintain their corporate headquarters within 10 miles of the proposed project site or have three deed-restricted affordable housing projects within 10 miles of the proposed project site; AND

  2. Directly provide at least two community benefit programs accessible to the public within 10 miles of the proposed project.

- Tribal Entities, Community-Based Developers, and Emerging Developers may contract or partner for experience points or to meet threshold Sponsor experience requirements.

- Adding incentives for experienced developers to partner with Tribal Entities and Emerging Developers, including increased cash-out developer fee, loan limits, and option to purchase the project in the future.

- Providing additional alternate options for Tribal Entities such as use of federal AMI standards, and highlighting the ability to request modifications and waivers pursuant to AB 1010.

To improve access for people facing barriers to housing, HCD made the following changes:

- HCD expanded service provider experience and tenant service delivery requirements to all homeless households. These were previously required for chronically homeless only. In the coming year, HCD will assess how the Department can further improve our support for quality services in affordable housing.
• To ensure all properties are aware of and compliant with their obligations to serve individuals with disabilities, HCD re-stated existing state and federal accessibility and integration requirements.

• Accessibility requirements have been strengthened and more clearly stated in the guidelines:
  
  o At least 15 percent of new restricted units must be accessible (above the 5 percent required by state code).
  
  o Existing buildings being rehabilitated must be retrofitted with accessible units and features to the extent structurally possible.
  
  o Senior Housing type projects must make accessible at least 50 percent of restricted units to support aging in place.
  
  o Common area and integration requirements for accessible units have been more clearly stated.

• The Department more explicitly details supportive housing requirements including tenant selection plans, tenants’ rights, communication protocols, reasonable accommodations, and owner written non-discrimination policies.

• The Department established project owner and internal record-keeping requirements, in addition to annual tenant demographic data collection, to ensure that the Department and our developer partners are held accountable to equitably housing individuals and families with diverse backgrounds, identities, and abilities.

NEXT STEPS

The AB 434 application is targeted for release by April 20, 2022, with an application deadline of June 28, 2022. The Department will host a series of workshops and office hours in May. HCD aims to offer both in-person and online options for webinar attendance if possible.

For the Super NOFA Application, workshop dates and details, and guidelines, visit HCD’s website AB 434 Multifamily Finance Super NOFA. To receive information regarding online workshops and other updates, please subscribe to the Super NOFA email list.

This Memo is not intended to be a comprehensive summary of the MHP Guidelines or the Super NOFA, nor does it capture every change. Readers interested in a deeper dive should refer to these additional resources located on the HCD’s website AB 434 Multifamily Finance Super NOFA:

• Final MHP Guidelines
• Final Serna Guidelines
• Final IIG QIP Guidelines
• Final VHHP Guidelines
• Super NOFA with Scoring Appendix

If you have further questions, please contact SuperNOFA@hcd.ca.gov.

Thank you for your partnership. Together, we can ensure that housing in California is affordable, accessible, and sustainable for people of all income levels.