State of California

Department of Housing and Community Development

Community Development Block Grant - Disaster Recovery

DR21 Disaster Recovery Multifamily Housing Program

Policies and Procedures Manual

Version 1.0

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Table of Contents

Section 1. General

1.1 Purpose and Scope

The State of California Department of Housing and Community Development ("the Department" or HCD) is the lead and Responsible Entity for administering Community Development Block Grant – Disaster Recovery (CDBG-DR) funds in accordance with the goals and objectives set forth in the state's initial United States Department of Housing and Urban Development (HUD)-approved Action Plan for 2020 and 2021 disasters ("2020 and 2021 DR-Action Plan").

This Disaster Recovery Multifamily Housing Program (DR-MHP) Policies and Procedures Manual establishes policies and procedures governing the use of $9,671,053 in federal CDBG-DR funds allocated to the state under the HUD-approved 2020 and 2021 DR-Action Plan to implement DR-MHP projects in Plumas County, California. These funds were allocated to HCD by HUD in response to FEMA DR-4610, as authorized by Public Law 117-43 and the Federal Register Vol. 87, No. 100, May 24, 2022 (87 FR 31636), as well as Public Law 117-180 and the Federal Register Vol. 88, No. 11, January 18, 2023 (88 FR 3198).

1.1.2 Uniform Multifamily Regulations

The Uniform Multifamily Regulations (UMR) (Cal. Code Regs., tit. 25, Section 8300 et seq), effective November 15, 2017, and as subsequently amended, are hereby incorporated by reference. In the event of any conflict between any provision of the UMRs and any provision of these Policies and Procedures, the provisions of these Policies and Procedures shall prevail.

1.2 Program Description

Pursuant to the 2020 and 2021 DR-Action Plan, the 2021 Multifamily Housing Program (DR-MHP) for FEMA DR-4610 in Plumas County will consist of new development of rental housing through implementation of one scattered-site project designed to address the unmet rental housing need, including the long-term recovery needs of individuals displaced from rental mobile homes, single family and multifamily rental units, individuals made homeless because of the wildfire disaster, and Housing Choice Voucher holders.

A scattered-site project is a development with five or more units under common ownership and management located on one or more contiguous or non-contiguous sites.

The scattered-site project selected by the County of Plumas will not only address the need for additional rental housing units in the community but will also mitigate potential future damage through hardening measures incorporated into the construction scope of work for newly constructed structures and by creating defensible space zones at each site.

1.3 Program Timeline

Applications for DR-MHP Funds must be received by the Department within 90 days of the publication of Version 1.0 of these Policies and Procedures.

The Department anticipates selecting a scattered-site project and its project Sponsor by the third quarter of 2026 and entering into a Standard Agreement by the fourth quarter of 2026, subject to completion of the required National Environmental Policy Act (NEPA) review for the project, which must account for project aggregation such that each of the sites included in the project is evaluated in compliance with 24 CFR Part 58.

Construction on the first of the scattered sites is expected to commence within 180 days of the Standard Agreement execution, with completion and full lease-up anticipated before the end of the grant term.

1.4 Defined Terms

Action Plan: the Department's CDBG-DR HUD-approved Action Plan for 2020 and 2021 disasters ("DR-Action Plan").

Affordable Rents: the annual Multifamily Tax Subsidy Projects (MTSP) Regular Income and Rent Limits published by HCD annually for each county to determine rent limits.

Affordable Units: a Residential Unit that is used as a primary residence by its occupants that earns less than 70 percent of AMI adjusted for household size as published by HCD annually in the MTSP Regular Income and Rent Limits.

Affordability Period: the period of time that Affordability Restrictions must be kept in place based on the amount of grant funds received which shall be set forth in the Standard Agreement, or Regulatory Agreement.

Annual Income: annual income as defined at 24 CFR Part 5.609.

Applicant: the legal entity or entities applying to the Department for DR-MHP Funds. Upon receiving an Award of DR-MHP Funds, the Applicant or Co-Applicants will, both individually and collectively, be referred to as "Sponsor" in the Department's legal documents relative to an Award.

Application: a formal document used to assess eligibility and viability of an individual project and includes identification and documentation of all funding sources, authorizing resolutions, and documentation showing an Applicant's capacity for and compliance with state and federal regulations.

Area Median Income (AMI): the median family income for specific geographic areas, adjusted for household size, as calculated by HCD MTSP Regular Income and Rent Limits.

Authority to Use Grant Funds (AUGF): The official written notification from the HUD or

HCD authorizing a project to incur costs and expend grant funds for a project. An AUGF confirms that environmental review requirements are satisfied.

Authorizing Resolution: a formal resolution of the Applicant's/Sponsor's highest governing authority, including but not limited to Boards, Commissions, authorizing the Applicant to accept the CDBG-DR funding and the responsibilities that attach, thereto, in general and authorizing persons performing specific roles to act on its behalf, including, but not limited to being a signatory of the HCD Standard Agreement and other supporting documents.

Award: the commitment of DR-MHP Funds to a Sponsor.

Award Letter: a commitment letter (preliminary award letter) signed by the Director of the Department and Sponsor indicating that the Department has reserved DR-MHP Funds for a project.

Borrower/Ultimate Borrower: the borrowing entity and Owner of the Development. The Sponsor determined by HCD as having sufficient capacity and experience to develop, own and operate the Development, or its wholly-controlled affiliate, shall have continuing control of the Development.

CALGreen: California's first green building code and first in the nation state-mandated green building code. It is formally known as the California Green Building Standards Code, Title 24, Part 11, of the California Code of Regulations.

California Environmental Quality Act (CEQA): the state statute that requires state and local agencies to identify significant environmental impacts of their actions and to avoid or mitigate those impacts, if feasible, pursuant to Public Resources Code section 21000 et seq.

CDBG-DR funds: funds allocated to the State of California by HUD pursuant to a Public Law and Federal Register Notice(s) for disaster relief, long term recovery, restoration of infrastructure and housing, economic revitalization in the most impacted and distressed areas resulting from a major disaster pursuant to the Robert T. Stafford Disaster Relief and Emergency Assistance Act at 42 USC 5121 et seq.

Co-Applicant: the non-profit, limited liability company and/or limited partnership that applied for an Award of DR-MHP Funds with the Eligible Applicant.

Code of Federal Regulations (CFR): the body of the general and permanent rules that the federal government's executive departments and agencies publish in the Federal Register.

Construction Loan Closing: the closing of all loans funding acquisition, rehabilitation and the construction of a project.

Contractor: a contract is for the purpose of obtaining goods and services for the non-federal entity's own use and creates a procurement relationship with the Contractor, pursuant to 2 CFR section 200.331. See the definition of contract in §200.1 of Part 200. Characteristics indicative of a procurement relationship between the non-federal entity and a Contractor are when the Contractor meets at least one of the following:

- Provides the goods and services within normal business operations.
- Provides similar goods or services to many different purchasers.
- Normally operates in a competitive environment.
- Provides goods or services that are ancillary to the operation of the federal program.
- Is not subject to compliance requirements of the federal program as a result of the agreement, though similar requirements may apply for other reasons.

Cross-Cutting Federal Requirements: the federal regulations that apply to any project or program receiving federal funds, including HUD funding. These federal requirements pertain to financial management, procurement, environmental, labor, acquisition, relocation, fair housing, and non-discrimination.

Davis-Bacon Wage Requirements: the Davis-Bacon and Related Acts (DBRA) which requires that all contractors and subcontractors performing work on federally assisted contracts in excess of $2,000 for construction, alteration, or repair (including painting and decorating) to pay their laborers and mechanics not less than the prevailing wage rates and fringe benefits for corresponding classes of laborers and mechanics employed on similar Projects in the area. For housing projects receiving DR-MHP Funds, the DBRA wage requirements apply to projects that include eight (8) or more dwelling units. The prevailing wage rates and fringe benefits are determined by the Secretary of Labor for inclusion in covered contracts. Contractors and subcontractors on DBRA prime contracts in excess of $150,000, or related DBRA contracts in excess of $100,000, are also required, pursuant to the Contract Work Hours and Safety Standards Act, to pay laborers and mechanics one and one-half times their basic rates of pay for all hours over 40 worked on a covered contract in a workweek.

Department: the State of California Department of Housing and Community Development, which shall serve as Grantee as defined below.

Department of Housing and Urban Development (HUD): the federal department through which CDBG-DR funds are distributed to HCD.

Developer: a private nonprofit organization or that owns or has site control over real property and arranges for design, financing, professional, technical, and construction services in connection with a housing project to develop affordable housing. A nonprofit organization formed as a special purpose entity in compliance with UMR Section 8313.2, by a Non-Federally Recognized Tribe (NFRT) as defined herein, may be considered a Developer, if the NFRT meets all other Developer eligibility requirements. See also: Sponsor.

Director: the director of the Department.

Disability or Persons with Disabilities: a person meeting the definition set forth in 24 C.F.R. § 5.403. In addition to this definition, Disability means meeting the definitions of disability in the Americans with Disabilities Act ("ADA") (42 USC §12102) or the California Fair Employment and Housing Act (Part 2.8 (commencing with §12900) of Division 3 of Title 2 of the Government Code), where applicable.

Disaster Recovery Multifamily Housing Program (DR-MHP): the CDBG Disaster Recovery Multifamily Housing Program administered by the Department.

DR-MHP Funds: the CDBG-DR funds allocated for the DR-MHP Program in a Disaster Recovery Action Plan and amendments prepared by the Department and approved by HUD.

DR-MHP Loan: the loan provided by the Department to the Ultimate Borrower to fund the construction of the Project set out in the DR-MHP application submitted by the Applicant.

DR-MHP Assisted Unit or Restricted Unit: an Affordable Unit that is subject to rent and occupancy restrictions as a result of the financial assistance provided by DR-MHP, that is rented at an Affordable Rent to a household that earns less than 70 percent of AMI adjusted for household size as published by HCD annually in the MTSP Regular Income and Rent Limits. The DR-MHP Assisted Unit or restricted unit shall be restricted at the AMI level specified in the submitted and scored application.

Duplication of Benefits (DOB): any person, business concern, or other entity receiving financial assistance from multiple sources for a cumulative amount that exceeds the total need for the same recovery purpose as the CDBG-DR funds per Section 312 of the Stafford Act.

Eligible Applicant: any nonprofit entity that applies for funds pursuant to the Eligible Applicant section.

Environmental Review Record (ERR): a permanent set of files containing all documentation pertaining to the environmental review compliance procedures conducted and environmental clearance documents as required by CEQA and National Environmental Policy Act (NEPA) regulations. (See CEQA and NEPA).

Fair Market Value (FMR): the hypothetical price that a willing buyer and seller agree upon when they are acting freely, carefully, and with complete knowledge of the situation.

Federal Emergency Management Agency (FEMA): the agency of the United States Department of Homeland Security. The agency's primary purpose is to coordinate the response to a disaster that has occurred in the United States and that overwhelms the resources of local and state authorities.

Federal Register: the daily journal of the federal government containing federal regulations, proposed rules, executive orders, proclamations, and other Presidential documents.

Federally-Assisted Construction Contract: in the context of CDBG-DR funds used for multifamily housing developments that include eight (8) or more dwelling units, the use of CDBG-DR funds to pay for construction contract costs, construction loan principal or interest, charges or fees to reduce the interest rate on a construction loan, or any other financing mechanism that pays for construction contracts, including provision of funds for permanent financing following construction. Pursuant to HUD's Factors of Labor Standards Applicability, CDBG-DR funds used for real property acquisition, architectural and engineering fees, legal services, accounting services, construction management services, and other similar soft costs that are not a construction contract do not trigger Davis-Bacon.

Fiscal Integrity: the total operating income plus funds released pursuant to the Regulatory Agreement, from the operating reserve account is sufficient to do the following:

1. Pay all current operating expenses;
2. Pay all current debt service (excluding deferred interest);
3. Fully fund all required reserve accounts (other than the operating reserve account) established pursuant to the Regulatory Agreement;
4. Pay other extraordinary costs permitted by the Regulatory Agreement; and
5. The ability to pay any or all of the permitted annual distributions pursuant to UMR Section 8314 shall not be considered in determining fiscal integrity.

Grantee: "HCD" or the "Department."

Housing: any structure which is currently available for residential use, or proposed residential use, in whole or in part.

Household: one or more persons occupying a housing unit.

HSC: the acronym for the California Health and Safety Code.

HUD-Identified MID Area: those cities, counties or other jurisdictions or geography identified by HUD as most impacted and distressed areas based on analysis of FEMA and state data as a result of major disasters.

Initial Operating Year: 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 first fiscal year for the development.

Lease Rider: an amendment to a lease or Ground Lease that encumbers the real property, and such Lease Rider must have superior rights to any other instrument(s) that may encumber the Project's leasehold interest, and, grants the Department rights under the lease including but not limited to the right to cure lease defaults and, authorizes the Department to either take over the lease terms as the new lessee or arrange for a transferee to assume the lease terms and take over the leasehold estate. The Lease Rider is recorded against the fee estate (fee legal description) and requires a signature of the lessor, lessee/borrower, and the Department.

Leverage: all documented monetary and non-monetary contributions, other than DR-MHP Funds, which have been assigned a measurable value and which are applied to the specific DR-MHP Project. Leverage does not include contributions toward the cost of non-low income units and commercial space.

Limited English Proficiency (LEP): is a designation for persons that are unable to communicate effectively in English because their primary language is not English, and they have not developed fluency in the English language. A person with Limited English Proficiency may have difficulty speaking or reading English. A LEP person benefits from an interpreter who translates to and from the person's primary language. A LEP person may also need documents written in English translated into his or her primary language so that person can understand important documents related to health and human services.

Low- to Moderate-Income (LMI): low to moderate income people having incomes not more than the "moderate-income" level (80 percent of Area Median Family Income) set by the federal government for the HUD-assisted housing programs. This income standard changes from year to year and varies by household size, county and the metropolitan statistical area.

Minority- and/or Women-Owned Business Enterprise (M/WBE): a business that is owned and controlled (minimum of 51 percent ownership) by a member of a minority group, or women.

Monthly Activity Reports: reports submitted by the Sponsor that describe Project progress and/or beneficiaries served during a given reporting period.

Monthly Financial Reports: the forms and processes required for a Sponsor to request DR-MHP Funds.

Most Impacted and Distressed (MID): is an area that meets the definition of Most Impacted and Distressed set by HUD in the Federal Register Notices incorporated herein. For purposes of the unmet needs' allocation, HUD has defined Most Impacted and Distressed as an area (county) that meets the following criteria:

1. Individual Assistance/Individual and Households Program (IHP) designation. HUD has limited allocations to those disasters where FEMA had determined the damage was sufficient to declare the disaster as eligible to receive IHP funding.
2. Concentrated damage. HUD has limited its estimate of serious unmet housing need to counties with high levels of damage, collectively referred to as ''most impacted areas''.

For 2021 DR-MHP Funds, the HUD-defined MID area is Plumas County, California.

Multifamily Project: A multifamily project or multifamily development is the same as Rental Housing Development defined below.

National Environmental Policy Act (NEPA): the federal law establishing a broad national framework for protecting the environment. NEPA's basic policy is to assure that all branches of government consider the environment prior to undertaking any major federal action that could significantly affect the environment. The governing statutes are contained in 42 U.S.C. sections 4321-4347 and the implementing regulations at 24 C.F.R. Parts 50 and 58.

National Flood Insurance Program (NFIP): the program created by Congress in 1968 to reduce future flood damage through floodplain management and to provide people with flood insurance through individual agents and insurance companies. FEMA manages the NFIP.

Nonprofit: the same as "Nonprofit Corporation" defined in H.S.C. §50091.

Performance Milestones: the development schedule and/or milestones proposed by the Sponsor at time of application and as set forth in the Standard Agreement.

Program: the Disaster Recovery Multifamily Housing Program (DR-MHP).

Program Income (PI): gross income that is directly generated from Sponsor's repayment of the DR-MHP loan to the Department. Program Income is subject to the CDBG-DR rules until grant closeout, at which time, the CDBG rules shall apply to PI in perpetuity.

Program Portal: is a web-based portal to the DR-MHP overview, program-specific documents, and Project application.

Project: a Rental Housing Development, which may include mixed-used development components. This also includes Scattered Site Projects as defined below.

Project Completion Report: the report that conveys the Project completion information for inputting into DRGR.

Project Report: the HCD staff report presented to and approved by the Department's Internal Loan Committee. The Project Report sets forth the Project criteria approved by the Department at the time of the Award of program loan funds. The Project criteria may be amended only upon HCD's written approval in its sole discretion.

Regulatory Agreement: a legal document that the Department shall use to set forth the DR-MHP terms and affordability restrictions on rent and occupancy for a specific awarded Project for the development of affordable multifamily housing units in a manner consistent with the DR-MHP Program. The Regulatory Agreement shall be recorded against each Project's real property in the official records of the county or counties in which the Project is located and shall have priority over all other liens, encumbrances and other matters of record for the duration of the 55-year affordability period except as may be approved by the Department.

Rental Housing Development: means a structure or set of structures which collectively contains five (5) or more units, as provided in the UMR, Section 8301. “Rental Housing Development” does not include any “health facility” as defined by Section 1250 of the Health and Safety Code or any “alcoholism or drug abuse recovery or treatment facility” as defined by Section 11834.02 of the Health and Safety Code.

Rental New Construction Project: means the development of a specific multifamily project on a specific site using CDBG-DR funds.

Responsible Entity (RE): means the agency receiving CDBG assistance as described in the ERR requirements at 24 CFR Part 58. The RE must complete the environmental review process. The RE is responsible for ensuring compliance with NEPA and the federal laws and authorities, for issuing the public notification, for submitting the request for release of funds and certification, when required, and for ensuring the Environmental Review Record (ERR) is complete. For the purposes of the DR-MHP Program, HCD is the RE.

Scattered Site Project: means a Project with five (5) or more units on one or more contiguous or non-contiguous sites that meet the additional requirements in UMR Section 8303(b)(1)-(5).

Senior Housing: means housing where all units are restricted to residents who are 62 years of age or older under applicable provisions of Section 51.3 of the California Civil Code and the federal Fair Housing Act (except for Projects utilizing federal funds whose programs have differing definitions for senior projects, or have the Rehabilitation of occupied developments restricted to residents 55 or older, or have Supportive Housing or Special Needs Projects also restricting occupancy to residents who are 55 years of age or older), and further be subject to state and federal fair housing laws with respect to senior housing.

Small Business Administration (SBA): means the SBA’s Office of Disaster Assistance (ODA), which provides affordable, timely and accessible financial assistance to homeowners, renters, and businesses, as well as other Eligible Applicants. The SBA low-interest, long-term loans are the primary form of federal assistance for the repair and rebuilding of non- farm, private sector disaster losses.

Special Needs or Special Needs Populations: Special Needs or Special Needs Population(s) means one or more of the following groups who need Supportive Services to maintain and stabilize their housing: (1) people with disabilities; (2) At Risk of Homelessness, as defined in 24 CFR Part 578.3; (3) individuals with substance use disorders; (4) frequent users of public health or mental health services, as identified by a public health or mental health agency; (5) individuals who are fleeing domestic violence, sexual assault, and human trafficking; (6) individuals who are experiencing Homelessness and individuals experiencing Chronic Homelessness as defined under the federal Continuum of Care Program at 24 CFR Part 578.3; (7) homeless youth as defined in Government Code Section 12957, subdivision (e)(2); (8) families in the child welfare system for whom the absence of housing is a barrier to family reunification, as certified by a county;

(9) individuals exiting from institutional settings or at risk of placement in an institutional setting;(10) Older Adults in Need of Supportive Services; or (11) other specific groups with unique housing needs as determined by the Department. Special Needs Populations does not include “seniors or veterans” unless they otherwise qualify as a “Special Needs Population” as required by other statutory laws.

Sponsor: the legal entity or combination of legal entities with continuing control of the Rental Housing Development. For the DR-MHP Program, the Sponsor is the recipient and borrower of DR-MHP Funds. Where the borrowing entity is or will be organized as a limited partnership, Sponsor includes the general partner or general partners who have effective control over the operation of the partnership, or, if the general partner is controlled by another entity, the controlling entity. Sponsor does not include the seller of the property to be developed as the Project, unless the seller will retain control of the Project for the period of time necessary to ensure Project feasibility as determined by the Department.

Standard Agreement (SA): the written contractual agreement between the Department and the Sponsor to formally commit the DR-MHP Funds to a Project, which sets forth the terms and conditions by which CDBG-DR-MHP Funds are utilized in accordance with the DR-MHP PNP and applicable laws.

Supportive Housing: housing with no limit on length of stay, that is occupied by the target population and is linked to onsite or offsite services that assist the Supportive Housing resident that needs support in retaining the housing, improving his or her health status, and maximizing his or her ability to live and, when possible, work in the community.

Supportive Services: social, health, educational, income support and employment services and benefits, coordination of community building and educational activities, individualized needs assessment, and individualized assistance with obtaining services and benefits.

Uniform Relocation Assistance and Real Property Acquisition Act (URA): the federal law that establishes minimum standards for federally-funded programs and Projects that require the acquisition of real property (real estate) that result in the displacement of persons from their homes, businesses, or farms and entitles these displaced persons to relocation benefits and assistance.

UMR: Uniform Multifamily Regulations, which are located at 25. C.C.R., Section 8300 et seq. and that have been incorporated by reference herein.

Unit: a residential Unit that is used as a primary residence by its occupants, including efficiency Units as defined in the California Building Code.

Section 2. Administration of Funds

2.1 Eligible Applicant

The Department will select one scattered-site project to receive DR-MHP Funds based on the requirements listed below. HCD will contract directly with the selected Project Sponsor.

To be considered eligible for a DR-MHP Award, applicants must be a nonprofit 501(c)(3) housing developer that is a) eligible to receive federal funds, and b) not listed on the government-wide exclusions in the System for Award Management (SAM).

Eligible Applicants may submit Project applications in accordance with the eligibility requirements outlined in the sections below.

Procedures:

To determine Applicant eligibility, review the submitted application and attachments to:

1. Confirm the Applicant is a nonprofit Developer; and
2. Confirm the Applicant is not listed on the government-wide exclusions in the SAM.

2.2 Eligible Project

California faces a severe shortage of affordable housing, which has been further worsened by wildfire disasters that destroyed housing stock, including many rental units. As a result, the development of affordable rental housing through multifamily new construction is critical to recovery and is an eligible activity under this program. The selected Project will not only address the need for additional rental housing units in the community but will also mitigate potential future damage through hardening measures incorporated into the construction scope of work for newly constructed structures and by creating defensible space zones at each site.

The eligibility of housing projects is established in the Consolidated Notice, 87 FR 6370, which requires HCD to address unmet housing recovery needs with CDBG-DR Funds. New housing construction is eligible as established in the Consolidated Notice, 87 FR 6371, paragraph B.1 of Section II.

HUD requires that 80 percent of CDBG-DR funding be spent within areas designated as Most Impacted and Distressed (MID areas). HCD will spend 100 percent of the 2021 DR Allocation in the HUD MID area, which consists of Plumas County.

2.3 Threshold Requirements

Projects shall be eligible for an Award of funds provided the application meets each of the following threshold requirements.

2.3.1 Project Threshold Criteria

1. The proposed Project must be located in the Most Impacted and Distressed area, DR-4610.
2. If the proposed Project is a scattered-site Project, it must have:
    a. A minimum of five total units under common ownership and management;
    b. The application shall identify the proposed sites or parcel(s) included in the Project; and
    c. The Applicant may update this section of the application submission if site assemblage is not complete at the time of initial application.
3. The proposed Project must not have closed on construction financing or started construction at the time of application.
4. The application must include a letter providing prior notification to the local legislative body, pursuant to HSC Section 50675.7(e).
5. The application must include a letter or resolution of support for the proposed Project from the local legislative body where the proposed Project is located.
6. All sources of funding required to complete the Project must be identified, including the status of the funds (e.g., applied for funds – pending decision, applying for funds, or funds secured and fully committed to the Project).
7. The proposed Project must be cost reasonable, which is what a reasonable person would pay in the same or similar circumstances for the same or similar item or service. Cost reasonableness may be documented by comparing costs between vendors or by comparing submitted costs to an independent cost estimate.
8. The proposed Project must conform to the Construction Standards set forth in Section 3.1 of this document.
9. Per Administrative Notice No. 23-01, if a Project has a federally-originated rental assistance or operating subsidies, or rental subsidies operated by the City and County of San Francisco, or the City of Los Angeles, the Project must make a one-time Transition Reserve Fee payment at permanent loan closing in the amount of fifteen percent (15 percent) of the first year's maximum subsidy amount.
10. **Environmental Threshold Requirements -** In addition to the Project Threshold Criteria above, the proposed Project must meet the following environmental eligibility requirements:

a. Each site must contain no more than four dwelling units. All sites must be located more than 2,000 feet apart to qualify under 24 CFR § 58.35(a)(4). Projects that do not meet these requirements may be deemed ineligible.
b. The Applicant must complete and submit to the Department an acceptable Tier 1 Environmental Review, the Department must receive Authority to Use Grant Funds from HUD, and the Applicant must submit an acceptable Tier 2 Environmental Review to the Department that is executed by the Department prior to incurring costs or obligating any funds (See Section 2.10).
c. The Project must not have undertaken any choice-limiting actions, as defined in 24 CFR § 58.22, including acquisition without proper environmental contingency provisions, demolition, or construction prior to environmental clearance.

11. **Affordability Threshold Requirements -** To be considered eligible, Project applications must meet the following Affordable Rent and Tenant Income requirements:
    a. The maximum Affordable Rent shall not exceed the [MTSP Regular Income Rent Limit] published annually by HCD for Plumas County.
    b. Each parcel included in the Project shall be deed-restricted by a Regulatory Agreement for a minimum affordability period of 55 years. The HCD Regulatory Agreement shall be recorded and it shall have priority over all other liens, encumbrances, and other matters of record except as may be approved by the Department in its sole and absolute discretion. Exceptions to the lien priority of the DR-MHP Regulatory Agreement must be approved in writing and in advance by the Department.
    c. The proposed Project must have a minimum of five (5) affordable Units or 51 percent of units must be Affordable Units, whichever is greater. CDBG-DR funds are limited to low to moderate income housing units. Proposed Projects may have mixed-income units, but CDBG-DR funds must only be applied to the Affordable Units for occupation by Low- to Moderate- Income (LMI) Households.
    d. Each unit receiving DR-MHP Funds covered by the Regulatory Agreement shall be occupied by a household earning up to 70 percent of the Area Median Income (AMI) at an Affordable Rent.

Procedures:

To determine compliance:

1. The Department will review the submitted application workbook and attachments to determine if the application meets the threshold criteria listed above.

2.3.2 Maximum Loan Amounts

Awards of CDBG-DR funds shall not exceed the lesser of the demonstrated need of the Project or the calculation based on Figure 1 below. The DR-MHP per-unit maximum loan assistance is consistent with the Basic Statutory Mortgage Limits, Section 234, adjusted for high-cost areas as published by the Federal Housing Administration (FHA). As a statewide program with a variety of housing markets and corresponding costs, HCD uses the FHA limits as a federally established industry standard and safe harbor for cost reasonableness on a per-unit basis for housing serving low-income households.

Consistent with other HUD affordable housing funding sources, these per-unit loan limits ensure an appropriate level of federal investment in Multifamily projects on a per-unit basis. This policy encourages leveraging with HOME, Low Income Housing Tax Credits (LIHTC), state MHP, and other available affordable housing resources.

Table 1: Disaster Recovery Multifamily Housing Program Maximum Per-Unit Loan Limit (2026)

Bedrooms	Maximum Subsidy
0	$215,970
1	$247,577
2	$301,061
3	$389,478
4	$427,521

For DR-MHP loan limit calculations, the unit count may include the number of DR-MHP Assisted Units within the Project, including units with other long-term, low-income or occupancy restrictions imposed by HCD or other public agencies and restricted at no greater than 70 percent of AMI. Awards of CDBG-DR funds shall not exceed the lesser of the demonstrated need or the DR-MHP Maximum Per-Unit Loan Limit calculation.

Procedures:

To determine the maximum DR-MHP loan to a Project:

1. Validate the demonstrated funding gap without DR-MHP funding.
2. Verify no Duplication of Benefits.
3. Perform a cost allocation of units by bedroom count and value from Figure 1, above, to determine the minimum number of units to be DR-MHP Assisted Units.

2.3.3 Eligible Project Costs

Eligible costs for a DR-MHP project include:

- Activity delivery costs for HCD to administer and monitor the DR-MHP program, including allocable direct and indirect staff costs and consultant costs;
- Property acquisition costs;
- Architectural, appraisal, design, engineering, environmental, 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;
- Escrow, title insurance, recording, and other related costs;
- Building permits, and state and local fees;
- Local development impact fees;
- Developer fees;
- Mobilization, site prep, and clean up;
- Residential construction costs;
- Hazard mitigation costs; and
- On-site improvements related to the Project.

Ineligible project costs include:

- Costs incurred between the date of application and environmental clearance / Authority to Use Grant Funds (AUGF) that constitute an adverse environmental impact or that limit the choice of reasonable alternatives pursuant to 24 CFR 58.22(a);
- Application development costs;
- Advances of any type, including construction;
- Interest and financing costs;
- Facility operating or maintenance expenses;
- Reserves and contingencies;
- Furnishings;
- Offsite improvements, except where the improvement is contiguously adjacent to the project parcel and serves the housing;
- Construction or any other costs related to any non-residential component of the Project; and

- Reimbursement of Sponsor’s capital investment or prepaid expenses.

HCD reserves the right to question the applicability and eligibility of costs on a per-application basis. HCD will also ensure that construction costs are reasonable and consistent with current market costs for the area where the multifamily construction will take place.

Procedures:

To determine eligible and ineligible costs:

1. Review the submitted application workbook and/or the development sources and uses by source to determine if the planned use of DR-MHP Funds is consistent with Section 2.3.3 of this document.
2. Validate the financial gap without DR-MHP funding.

2.3.4 Calculating Duplication of Benefits (DOB)

In accordance with the Robert T. Stafford Disaster Relief and Emergency Assistance Act (42 U.S.C. 5121-5207) (Stafford Act) and Federal Register Notice published June 20, 2019 (84 FR 28836) requirements, all activities funded with CDBG-DR dollars must undergo a Duplication of Benefits review and calculation prior to Project Award and prior to Project closeout. DOB occurs when a program beneficiary receives disaster assistance from multiple sources for the same recovery purpose, and the total assistance received for that purpose is more than the total need. This includes all benefits available to a person or entity for the same recovery purpose, including cash and other resources such as insurance proceeds, grants, FEMA assistance, SBA loans, other local, state, or Federal program funds, and private or nonprofit organization funds.

It is HCD’s responsibility to ensure that the DR-MHP Program provides assistance only to the extent that the disaster recovery need has not been fully met by funds that have already been paid, or will be paid, from another source. The Project application must document all funds obtained from any source from the date of the disaster until the date of the application and any funds which the Applicant believes may be forthcoming after Application is submitted.

Additionally, HCD shall perform a check for DOB prior to issuing an Award and pre-Project closeout to ensure that duplicative assistance is not provided for multifamily housing. HCD also reserves the right to perform additional DOB checks throughout the course of the Project’s performance period to ensure there is no duplicative assistance throughout the course of the Project.

To address any potential duplication of benefits, the Standard Agreement will include provisions requiring repayment of any assistance later received for the same purpose as the CDBG–DR funds. The Standard Agreement must also include the following language: *“Warning: Any person who knowingly makes a false claim or statement to HUD may be* *subject to civil or criminal penalties under 18 U.S.C. 287, 1001 and 31 U.S.C. 3729.''*

Please reference HCD's Grant Administration Manual, Section XI for additional guidance on DOB, including potential sources, calculation, and verification.

Procedures:

1. HCD will perform a DOB check prior to issuing an Award.
2. HCD will verify no DOB prior to loan closing.
3. HCD will verify no federal funding supplantation prior to loan closing by comparing the application to the final (updated) proforma sources and uses.
4. If DOB is determined, HCD with either reduce final Award amount.

2.3.5 Appraisal and Market Study Requirements

As part of the application submission, the Applicant/Sponsor must submit an appraisal and market study to:

1. Establish a 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.
2. Assist with establishing other reasonable development costs pursuant to Section 2.3.3 herein.
3. Assess Fiscal Integrity.
4. Verify an adequate tenant market.

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 multifamily rental property;
2. Is aware of, understands, and correctly employs those recognized industry 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, or financial investment in, the Sponsor, the partners of the Sponsor, the intended partners of the Sponsor, the general Contractor, or the Project.

Any market study required by the Department shall conform to the market study guidelines adopted by TCAC and be prepared at the Applicant/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 property; and
4. Is an independent third party having no identity of interest with, or financial investment in, the Sponsor, the partners of the Sponsor, the intended partners of the Sponsor, the general Contractor, or the Project.

Procedures:

1. HCD will review the appraisal and market study to determine compliance with Section 2.3.5 of this document.

2.3.6 Tenant Selection Plan Requirement

The Applicant shall prepare and submit the tenant selection criteria and processes with their application. Such tenant selection criteria shall comply with all applicable state and federal fair housing laws, where applicable, as required in UMR Section 8305.

The Applicant/Sponsor must comply with Title IV of the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (Public Law 104-193) (PRWORA), as applicable. Pursuant to Executive Order 14218, the use of a federally-approved system equivalent to the Systematic Alien Verification for Entitlement (SAVE) used by government agencies may be required to verify immigration status and naturalized/acquired U.S. citizenship of tenants residing in DR-MHP Units.

Procedures:

1. HCD will review the Tenant Selection Plan submitted with the application to determine compliance with UMR Section 8305.
2. HUD is working to create rules and systems for individual Applicant/Sponsors to use a federally-approved system equivalent to the SAVE system to verify the immigration status of tenants. As more information becomes available, this section will be updated with specific compliance procedures to the extent those become available from HUD.

2.4 Type and Term of Loan

Program funds shall be used for construction phase financing only, and may not be held for use until permanent financing. Loan funds shall be provided in the form of a forgivable loan, with terms of 0.42 percent interest for 20 years, with no residual receipts or periodic principal payment requirements during the life of the DR-MHP loan.

The DR-MHP loan shall be secured by the Project's real property and improvements, subject only to liens, encumbrances and other matters of record approved by the Department pursuant to [UMR Section 8315](). The DR-MHP loan shall have priority over loans provided by the Affordable Housing Program administered by the Federal Home Loan Bank.

The Department reserves the right to record the subject instruments in the county recording system having jurisdiction over the property. If a Department loan is recorded against a fee interest, then there must be a restriction preventing that land from being put into trust until the affordability term of the Department loan expires.

2.4.1 Maximum Loan Amount

HCD will use the DR-MHP Maximum Per-Unit Loan Limits for appropriate loan sizing. Awards of CDBG-DR funds shall not exceed the lesser of the demonstrated need or the DR-MHP Maximum Per-Unit Loan Limit. The per unit loan limits are defined in Section 2.3.2 of this document.

When sizing the loan, the Department will also consider all other available financing and assistance, including the full amount of any tax credit equity generated by the Project. In addition, the loan amount shall not exceed the total costs that are eligible uses of funds pursuant to Section 2.3.3.

If the DR-MHP Sponsor or Borrower (if a separate entity) receives bonds and/or low income housing tax credits or other funding awards subsequent to the award of DR-MHP funds for the Project, the DR-MHP award will be canceled or reduced in the Department's sole discretion.

2.4.2 Loan Disbursement

DR-MHP funds will be disbursed as needed for eligible project costs incurred and as documented in Monthly Financial Reports and substantiated on forms acceptable to the Department. Each disbursement shall be subject to a 10 percent retention.

2.4.3 Monitoring Fee

For the first 20 years of the loan term, interest payments in the amount of 0.42 percent of the original 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 payment shall remain constant for the first 20 years regardless of any paydown of the original loan amount. The balance of accrued interest shall be payable out of Operating Income remaining after payment of approved Operating Expenses, debt service on other loans, and reserve deposits.

Commencing on the 20th anniversary of the last day of the Initial Operating Year, and continuing annually thereafter, the monitoring fee shall be payable annually in 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 which amount shall in no event be less than that in effect for the immediately preceding year. HUD Sections 811 and 202 projects will be subject to the requirements of this subsection.

2.4.4 Loan Payments

The DR-MHP loan shall have no residual receipts or periodic principal payment requirements during the life of the DR-MHP loan. DR-MHP loan payments shall be applied in the following order:

- To satisfy the 0.42 percent interest monitoring fee during the first 20 years of the loan;
- 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;
- Payment of accrued interest; and
- Reduction of principal.

2.4.5 Loan Forgiveness

The loan principal will be forgiven by the Department at the end of the 20-year loan term as long as all of the following conditions are satisfactorily met, as determined by the Department in its sole and absolute discretion:

- The Sponsor and Borrower (if a separate entity) remains in good standing with agencies, departments, and instrumentalities of the State of California, including the California Secretary of State;
- The Project is not in default under the terms of any of the Department's loan documents or Standard Agreement(s) for that project;
- Negative points have not been assessed against the Sponsor and Borrower (if a separate entity) during the previous five (5) years in connection with any Department-assisted project; and
- The Project met the Low- to- Moderate- Income National Objective for the entire term of the DR-MHP loan.

2.4.6 Full Repayment

The DR-MHP loan shall be subject to full repayment if, during the 20-year term, the Project or any portion thereof is (1) converted to market-rate housing; or (2) sold or refinanced with a distribution of net equity.

2.5 Verifying Program Income

HCD manages Program Income (PI) through the provisions in the Standard Agreement, which all Sponsors must sign to receive funding from HCD. In the unlikely event that a Project generates PI during the Project development phase, Sponsors must report the PI to HCD through their Monthly Financial Report and must expend PI prior to additional grant funds being drawn. PI may only be used for eligible Project costs related to the awarded Project. Per 87 FRN 6364, HCD must report all PI to HUD through the DRGR Quarterly Performance Report (QPR).

Any PI remaining at the end of a Standard Agreement shall be remitted to HCD during closeout where it is tracked and reported as revenue until it is obligated through a new Standard Agreement.

Repayments of loans pursuant to Section 2.4 of this document shall be used by HCD as an eligible cost for continued monitoring of the Project for compliance with the requirements of the Regulatory Agreement. Annual monitoring shall be conducted by the HCD Asset Management and Compliance (AMC) section.

2.7 Minimizing Land Acquisition/Relocation

If acquisition and/or relocation is required, Sponsor shall make every effort to minimize displacement of families from their home and/or neighborhood, according to the state's Residential Anti-Displacement and Relocation Assistance Plan ("RARAP"). A copy of the State's RARAP is located on the HCD website Disaster Grant Administration page. Additionally, compliance with Federal Acquisition and Relocation laws will be required. Please reference the state's CDBG-DR Grant Administration Manual, Section XIV for additional acquisition and relocation procedures and requirements.

Projects shall be designed with the established community in mind to lessen the displacement of families and must commit to the 55-year affordability period. Sponsors shall follow the state's RARAP to minimize displacement.

Sponsors shall comply with all applicable federal, state, and local relocation law. Pursuant to relocation law, a Sponsor must have a relocation plan prior to proceeding with any phase of a project or other activity that will result in the displacement of persons, businesses, or farm operations. To ensure that displaced persons and entities do not suffer a disproportionate impact as a result of projects which benefit the public, all notices to vacate and relocation services must be provided to them on a timely basis in strict accordance with applicable law. In addition, before the CDBG-DR Project funds will be disbursed, the Approved Project must have either:

- An HCD-approved relocation plan; or
- An HCD-issued Certification Regarding Non-Application of Relocation Benefits and Indemnification Agreement, which has been duly executed and approved by HCD.

If the parcel is vacant, a self-certification regarding Non-Application of Relocation Benefits and Indemnification Agreement on a form prepared by HCD shall be sufficient to document compliance with this requirement.

Where the Sponsor’s activities will or may result in displacement, the Sponsor’s development budget shall include sufficient funds to pay all costs of relocation benefits and assistance. Any modifications to the foregoing process requirements must be approved in advance by HCD in writing.

2.8 Marketing Plan

Sponsors must advertise Projects and units to fill vacant units or to develop a waiting list of interested applicants for the subsidized housing. DR-MHP applications, where applicable, must include a Marketing Plan. Sponsors shall prioritize marketing to disaster-impacted households for occupancy of units. Examples of renters impacted by the disasters include renters that have lost rental units or have been displaced due to the impacts of DR-4610. Sponsors shall also demonstrate within the Marketing Plan that state laws concerning non-discrimination and fair housing are observed and that proposed projects will increase housing options for low-income households.

2.9 Meeting a National Objective

In accordance with 24 CFR 570.208, all CDBG-DR funded activities must satisfy a national objective. For DR-MHP, all projects must meet the low to moderate income housing national objective, which requires that at least 51 percent of units are occupied by LMI households.

Proposed projects that do not have more that 51 percent of units occupied by LMI households may only be funded for the proportional amount of Assisted Units, however, pursuant to 24 CFR 570.483(b)(3), if the Project is a rehabilitation project or a senior new construction project, the Project must include at least 51 percent of units as LMI-occupied, or a waiver must be requested from HUD. All waiver requests must document legal and justifiable good cause. While proposed Projects may include mixed-income units, CDBG-DR funds are limited to the Affordable Units for occupancy by LMI Households.

2.10 Completing Environmental Review

2.10.1 Environmental Review Requirements

The development activities funded under this Program consist of individual actions involving no more than four dwelling units on any one site, with sites located more than 2,000 feet apart. Accordingly, these activities qualify as Categorically Excluded Subject to 24 CFR § 58.5 (CEST) pursuant to 24 CFR § 58.35(a)(4).

As CEST activities, the projects do not require preparation of an Environmental Assessment (EA) or Environmental Impact Statement (EIS). However, full compliance determinations under 24 CFR § 58.5 and all other applicable federal environmental laws and authorities are required.

HCD serves as the Responsible Entity under the National Environmental Policy Act and 24 CFR Part 58 and retains sole authority for all environmental determinations and environmental clearance decisions.

Prohibition on Choice-Limiting Actions

No work may begin on the proposed Project or proposed site acquisition before completion of the applicable federal and state environmental review processes, even if non-federal funds are used.

The Sponsor shall not undertake or commit HUD or non-HUD funds to any choice-limiting action prior to receipt of written environmental clearance from HCD.

“Choice-limiting actions” include acquisition of property (without proper contingency language), demolition, construction, rehabilitation, or any activity that would have an adverse environmental impact or limit the choice of reasonable alternatives.

Market studies, environmental studies, plan development, engineering or design costs, inspections, and tests are not considered choice-limiting actions.

Failure to comply with 24 CFR § 58.22 may result in loss of HUD assistance, cancellation of the Project, reimbursement of expended funds, or suspension of disbursements.

Any purchase agreement executed prior to environmental clearance must include appropriate environmental contingency provisions consistent with 24 CFR § 58.22.

Tiered Environmental Review Approach

To satisfy 24 CFR § 58.35(a)(4) requirements, HCD requires completion of a Tiered Environmental Review prior to engaging in any choice-limiting actions, as described above.

- **Tier 1 Review (Programmatic Level):** The Tier 1 Environmental Review shall cover Plumas County and address environmental factors that can be evaluated at a regional or programmatic level. The Applicant must complete and submit to the Department an acceptable Tier 1 Environmental Review, the Department must receive Authority to Use Grant Funds from HUD.
- **Tier 2 Reviews (Site-Specific Level):** A separate Tier 2 Environmental Review shall be completed for each individual property or site. No individual property or site may contain more than four dwelling units. Tier 2 reviews shall address all site-specific compliance factors required under 24 CFR § 58.5 and related authorities. The Applicant must submit an acceptable Tier 2 Environmental Review to the Department that is executed by the Department prior to incurring costs or obligating any funds.

Environmental clearance must be issued in writing by HCD for each site prior to any commitment of funds for physical development. The Sponsor cannot make an unconditional offer to purchase a property for development until the Tier 2 review for a given property is received and signed by HCD.

If any site exceeds four units, fails to maintain the required 2,000-foot separation between sites, or presents extraordinary circumstances indicating potential significant environmental impacts, HCD may require reevaluation and preparation of an Environmental Assessment in accordance with 24 CFR Part 58.

Developer Responsibilities

The selected Sponsor/Developer shall:

- Prepare the appropriate level of environmental review documentation required under this Program and, at its sole expense, retain a qualified environmental consultant to complete all required environmental review activities.
- Prepare complete Tier 1 and Tier 2 CEST environmental review documentation as required by HCD.
- Submit all environmental review documents to HCD for review, approval, and signature.
- Ensure all documentation includes appropriate citations, supporting analysis, and technical studies sufficient to demonstrate compliance with 24 CFR Part 58, the National Environmental Policy Act (NEPA), and all related federal laws, authorities, and executive orders, including those listed at 24 CFR § 58.5.
    - HUD provides guidance on preparation of ERRs on the HUD Exchange website.
- Provide any additional information or analysis requested by HCD to support environmental determinations.

HCD will review Sponsor-submitted ERRs for compliance with 24 CFR Part 58 requirements prior to issuing written environmental clearance.

State Environmental Review (CEQA)

Sponsors are responsible for coordinating with the City or County in which the Project is located to ensure compliance with the California Environmental Quality Act (CEQA), including submission of required documentation to the CEQA Clearinghouse, as applicable, with a copy to HCD.

Pursuant to 87 FR 6364, HCD may accept another federal agency's environmental review where applicable.

Section 3. General Requirements

In preparing and submitting applications covered by these Policies and Procedures, and during the term of any Standard Agreement awarded pursuant thereto, Sponsor shall at all times comply with the General Requirements of Section 3 of this document, as applicable.

3.1 Construction Standards/Requirements

All residential construction Projects, where applicable, must comply with the current published housing construction codes of the State of California. Housing construction codes for building in California follow federal and state laws, regulations, and adoptions for construction of single family and multifamily units.

All units developed under DR-MHP must meet these codes as well as any locally-adopted codes and ordinances. The building standards are published as the California Building Standards Code under the California Code of Regulations, Title 24, and construction standards in the Standard Agreement must meet or exceed all applicable requirements for housing or building construction.

Construction standards for HCD's housing projects can be referenced online at: https://www.hcd.ca.gov/building-standards-hcd.

3.1.1 California Building Codes (CBC)

All residential construction Projects, where applicable, shall comply with the housing construction codes of the State of California, including all units developed under DR-MHP. Housing construction codes for building in California follow federal and state laws, regulations, and adaptions for construction of single family and multifamily units.

3.1.2 California Green Buildings Standards Code (CALGreen)

CALGreen is California's first green building code, enacted as mandatory in 2011, and adopted to address five divisions of building construction and improve public health, safety and general welfare. The divisions addressed are as follows: planning and design, energy efficiency, water efficiency and conservation, material conservation and resource efficiency, and environmental quality. CALGreen applies to the planning, design, operation, construction, use, and occupancy of nearly every newly constructed building or structure in the state, as well as additions and alterations to existing buildings that increase the building's conditional area, interior volume, or size.

HCD determined that CALGreen meets the standards as equivalent comprehensive green building program per 87 FRN 6364, II.B.2.a. "Green and resilient building standard for new construction and reconstruction of housing" and has received HUD concurrence. As a mandatory standard, all Sponsors are required to follow CALGreen requirements for construction permits and approvals. Sponsors shall ensure access to local verifications that demonstrate CALGreen compliance in the Project plans and in the constructed development at construction closeout.

The most recent CAL Green code, guides, and checklists are available on the State website.

3.1.3 Wildland-Urban Interface Building Codes (WUI Codes)

California continues to be a national leader in implementing statewide policy to both prepare for climate change and reduce greenhouse gas emissions and has dedicated substantial resources to mitigating the impacts of climate change. Housing resilience measures are set forth in state legislation, including requirements for local building codes, such as the Wildland-Urban Interface building codes (WUI codes) addressing wildfire risk since 2005.

In accordance with the Federal Register Notice requirement to support the adoption and enforcement of modern and/or resilient building codes and mitigation of hazard risk, structures located in any Fire Hazard Severity Zone within State Responsibility Areas, any Local Agency Very-High Fire Hazard Severity Zone, or any Wildland Urban Interface Fire Area designated by the enforcing agency must comply with WUI codes, found in Title 24, Chapter 7a of the California Building Code, which offer specific material, design and construction standards to maximize ignition resistance.

3.1.4 Resilient Home Construction Standards

Sponsors are strongly encouraged to incorporate Resilient Home Construction Standards, meaning that Projects meet an industry-recognized standard such as those set by the FORTIFIED Home Silver and Bronze levels. The Department will consider any other standard that results in a discounted or reduced hazard insurance rate to be cost reasonable.

3.1.5 Americans with Disabilities Act and Physical Accessibility Requirements.

Sponsors shall ensure compliance with all applicable state and federal building codes and accessibility laws and standards. All developments shall adhere to the accessibility requirements set forth in: (i) California Building Code Chapters 11A and 11B; (ii) the federal Fair Housing Act (42 U.S.C. § 3601 et seq.) and its regulations at 24 Code of Federal Regulations part 100 (particularly 24 C.F.R. Section 100.205), and its design and construction requirements, including ANSI A117.1-1986, and the Fair Housing Accessibility Guidelines, March 6, 1991, in conjunction with the Supplement to Notice of Fair Housing Accessibility Guidelines: Questions and Answers About the Guidelines, June 28, 1994; and (iii) the Americans with Disabilities Act of 1990 (42 U.S.C. § 12101 et seq.) and its Title II and Title III regulations at 28 Code of Federal Regulations parts 35 and 36; and Section 504 of the Rehabilitation Act of 1973 (29 U.S.C. § 794) and the implementing HUD regulations at 24 Code of Federal Regulations part 8. In addition, developments shall adhere to either the Uniform Federal Accessibility Standards (UFAS) (24 C.F.R. Section 8.32), or HUD's Alternative Accessibility Standard.

3.2 Rent Standards

The maximum rent to be charged based on unit size shall be the annual MTSP Regular

Income Rent Limits, adjusted for household size and published by Plumas County. The rent to be charged for a DR-MHP assisted Unit shall correspond to the unit mix chart within the Project application, the Regulatory Agreement.

If an Affordable Unit receives a Federal or State project-based rental subsidy and a very low-income family pays as a contribution toward rent not more than 30 percent of the family's adjusted income, then the maximum rent (i.e., tenant contribution plus project-based rental subsidy) is the rent allowable under the Federal or State project-based rental subsidy program.

3.3 Use of Operating Income

A. Notwithstanding UMR Section 8314(a)(1), first-priority use of operating income remaining after payment of approved current and prior year operating expenses, reserve deposits and mandatory debt service shall be payment of any:

   1. Approved deferred Developer Fee, provided that the aggregate of the Developer Fee paid from sources and paid as deferred shall not exceed $3,500,000.

   2. Asset management, partnership management, and similar fees, including fees paid to investors, in an amount not to exceed the sum of:

      - An amount for the current year, equal to $42,318 for 2026 and increased at the rate of 3.5 percent for each subsequent year, plus

      - Unpaid asset management, partnership management, and similar fees accrued for a period not to exceed three project fiscal years following the year during which they are earned, up to the difference between the limit for the year and the amount paid for that year; and

      - Supportive Services Costs that the UMR would allow to be paid as operating costs, but that other funding sources do not.

B. Where there is a difference between the provisions of the UMR and these Policies and Procedures, the provisions of these Policies and Procedures shall prevail in the use of operating cash flow. Any operating income remaining after the payments listed in the previous subsection (A) shall be applied in accordance with UMR Section 8314(a)(2).

C. The requirements of UMR Section 8314(b) through 8314(h) shall apply.

3.4 State and Federal Laws, Rules, Guidelines, and Regulations

3.4.1 State Prevailing Wage

When applicable, Sponsor shall ensure that the requirements of California Labor Code Chapter 1, commencing with Section 1720, Part 7 pertaining to the payment of prevailing wages and administered by the California Department of Industrial Relations ("DIR") are met. Projects may be exempt from these requirements under State Prevailing Wage rules; accordingly, Sponsors should thoroughly evaluate the California Labor Code with their counsel and consult DIR as necessary to determine if the Project qualifies for any exemption based on the Project's unique attributes.

For the purposes of this requirement "construction work" includes, but is not limited to rehabilitation, alteration, demolition, installation, or repair done under contract and paid for, in whole or in part, through this Agreement. All construction work shall be done through the use of a written contract with a properly licensed building contractor incorporating these requirements (the "Construction Contract"). Where the Construction Contract will be between the Sponsor and a licensed building contractor, the Sponsor shall serve as the "awarding body" as that term is defined in the California Labor Code. Where the Sponsor will provide funds to a third party that will enter into the Construction Contract with a licensed building contractor, the third party shall serve as the "awarding body."

The applicable wage rate determination on construction work will be the more restrictive of the rate prescribed in the California Labor Code Sections 1770-1784 or the Davis-Bacon Wage Determination. HCD does not make determinations of any wage rates. The California DIR publishes prevailing wage rates for the State and the U.S. Department of Labor publishes the Davis-Bacon prevailing wage rates.

3.4.2 Federal Labor Standards

Federally-Assisted Construction Contracts trigger the Davis-Bacon and Related Acts. As required by Section 110 of the Housing and Community Development Act, and as outlined in HUD Handbook 1344.1 Rev 3, Federal Labor Standards Requirements in HUD Programs, Sponsors are responsible for ensuring compliance with Davis-Bacon (DBA) requirements as well as the Copeland Anti-Kickback Act, the Contract Work Hours and Safety Standards Act (CWHSSA) and the Fair Labor Standards Act (FLSA), collectively referred to herein as Davis-Bacon and Related Acts (DBRA). In general, DBRA requires payment of prevailing wages to laborers and mechanics on contracts, financed in whole or in part with CDBG-DR funds on residential Projects that include eight (8) or more units. Advertising for bids, bid solicitation and contracts are to incorporate Davis-Bacon Labor Standards and wage determinations, "Attention of Bidders" paragraph and CDBG-DR Compliance Provisions for Construction Contracts. Please reference the state's Grant Administration Manual, Section XII(E) for additional labor standards procedures and requirements.

3.4.3 Minority and Women Business Enterprise (M/WBE)

Per 2 CFR 200.321, Sponsors, contractors, and/or Developers, where applicable, should ensure that small businesses, minority businesses, women's business enterprises, veteran-owned businesses, and labor surplus area firms (see the U.S. Department of Labor's list) are considered when possible. Such consideration means:

1. These business types are included on solicitation lists;
2. These business types are solicited whenever they are deemed eligible as potential sources;
3. Dividing procurement transactions into separate procurements to permit maximum participation by these business types;
4. Establishing delivery schedules (for example, the percentage of an order to be delivered by a given date of each month) that encourage participation by these business types;
5. Utilizing organizations such as the Small Business Administration and the Minority Business Development Agency of the Department of Commerce; and
6. Requiring a contractor under a Federal award to apply this section to subcontracts.

Sponsor shall collect information from all contractors subcontractors and report all contracts and subcontracts awarded to minority businesses, women's business enterprises and labor surplus area firms to HCD on an annual basis.

3.4.4 Section 3 of the HUD Act of 1968

Section 3 is a provision of the HUD Act of 1968 (implementing regulation at 24 CFR Part 75) that helps foster local economic development, neighborhood economic development, and individual self-sufficiency. Section 3 requires recipients of HUD housing and community development financial assistance to provide job training, employment and contracting to the greatest extent feasible, for low- or very low-income residents in connection with projects and activities in their neighborhoods. Projects assisted with DR-MHP funds in excess of $300,000 trigger Section 3 requirements. When triggered, best efforts must be made to extend Section 3 opportunities to verified Section 3 residents and business concerns to meet these minimum numeric goals:

1. 25 percent of the total hours worked on a Section 3 project must be worked by Section 3 workers; and
2. Five percent of the total hours worked on a Section 3 project must be worked by Targeted Section 3 workers.

The Sponsor and the Sponsor's Contractors and consultants shall comply with Section 3 of the Housing and Urban Development Act of 1968 (12 U.S.C. 1701u) (HDA), and implementing regulation at 24 CFR, Part 75, where applicable.

The responsibilities outlined in 24 CFR Part 75.19 include:

Implementing procedures designed to notify Section 3 workers about training and employment opportunities generated by Section 3 covered assistance and Section 3 business concerns about contracting opportunities generated by Section 3 covered assistance.

Notifying potential Contractors for Section 3 covered projects of the requirements of Part 75, Subpart C and incorporating the Section 3 clause set forth below in all solicitations and contracts.

Section 3 Clause: "The work to be performed under this contract is subject to the requirements of Section 3 of the Housing and Urban Development Act of 1968, as amended, 12 U.S.C. 1701u (Section 3). The purpose of Section 3 is to ensure that employment and other economic opportunities generated by HUD assistance or HUD-assisted projects covered by Section 3, shall, to the greatest extent feasible, be directed to low- and very low-income persons, particularly persons who are recipients of HUD assistance for housing.

The parties to this contract agree to comply with HUD's regulations in 24 CFR. Part 75, which implement Section 3. As evidenced by their execution of this contract, the parties to this contract certify that they are under no contractual or other impediment that would prevent them from complying with the Part 75 regulations.

The contractor agrees to send to each labor organization or representative of workers with which the contractor has a collective bargaining agreement or other understanding, if any, a notice advising the labor organization or workers' representative of the contractor's commitments under this Section 3 clause, and will post copies of the notice in conspicuous places at the work site where both employees and applicants for training and employment positions can see the notice. The notice shall describe the Section 3 preference, shall set forth minimum number and job titles subject to hire, availability of apprenticeship and training positions, the qualifications for each; the name and location of the person(s) taking applications for each of the positions; and the anticipated date the work shall begin.

The contractor agrees to include this Section 3 clause in every subcontract subject to compliance with regulations in 24 CFR Part 75 and agrees to take appropriate action, as provided in an applicable provision of the subcontract or in this Section 3 clause, upon a finding that the subcontractor is in violation of the regulations in 24 CFR Part 75. The contractor will not subcontract with any subcontractor where the contractor has notice or knowledge that the subcontractor has been found in violation of the regulations in 24 CFR Part 75.

The contractor acknowledges that subrecipients, contractors, and subcontractors are required to meet the employment, training, and contraction requirements of 24 CFR 75.19, regardless of whether Section 3 language is included in recipient or subrecipient agreements, program Regulatory Agreement, or contracts.

The contractor will certify that any vacant employment positions, including training positions, that are filled (1) after the contractor is selected but before the contract is executed, and (2) with persons other than those to whom the regulations of 24 CFR Part 75 require employment opportunities to be directed, were not filled to circumvent the contractor's obligations under 24 CFR Part 75.

> Noncompliance with HUD's regulations in 24 CFR Part 75 may result in sanctions, termination of this contract for default, and debarment or suspension from future HUD assisted contracts.
>
> The contractor agrees to submit, and shall require its subcontractors to submit to them, annual reports detailing the total number of labor hours worked on the Section 3 project, the total number of labor hours worked by Section 3 Workers, and the total number of hours worked by Targeted Section 3 Workers, and any affirmative efforts made during the quarter to direct hiring efforts to low- and very low-income persons, particularly persons who are Section 3 workers and Targeted Section 3 workers."

The Sponsor's Project Completion Report shall also include a Section 3 Summary Report of the total number of labor hours worked by all contractors and subcontractors, the total number of labor hours worked by Section 3 workers, and the total number of labor hours worked by Targeted Section 3 workers, as required pursuant to 24 CFR 75.25(a). In the event that the number of Section 3 worker labor hours divided by the total labor hours worked by all workers on a Section 3 project does not meet or exceed HUD's twenty-five percent (25 percent) standard, and/or that the number of Section 3 targeted worker labor hours divided by the total labor hours worked by all workers on a Section 3 project does not meet or exceed HUD's five percent standard, Sponsor shall provide additional reporting on the qualitative nature of its activities and those its contractors and subcontractors pursued, as defined at 24 CFR 75.25(b).

The standards for hours worked by Section 3 Workers and Targeted Section 3 Workers are subject to change by HUD as published in the Federal Register.

3.4.5 National Floodplain Elevation Standards

Sponsors must comply with the national floodplain elevation standards for new construction, repair of substantially damaged structures, or substantial improvements to residential structures in flood hazard areas. All structures designed for residential use within a 100-year (or one percent annual chance) floodplain will be elevated with the lowest floor at least two feet above the base flood elevation level and comply with the requirements of 87 FRN 6364, Section II.B.2.c. "Elevation standards for new construction, reconstruction, and rehabilitation of substantial damage, or rehabilitation resulting in substantial improvements" as well as Executive Order 11988 and 24 CFR Part 55.

Additionally, Sponsors with Projects approved to build within a 100-year floodplain must obtain and maintain flood insurance in perpetuity, per part 24 CFR Part 58.6, as a condition of federal assistance.

3.4.6 Broadband Infrastructure

Per 87 FRN 6364, Section II.B.2.d. "Broadband infrastructure in housing" any substantial rehabilitation or new construction of a building with more than four rental units must include installation of broadband infrastructure, except where the Sponsor documents that: 1) The location of the Project makes installation of broadband infrastructure infeasible; 2) The cost of installing broadband infrastructure would result in a fundamental alteration in the nature of its program or activity or in an undue financial burden; or 3) The structure of the housing to be substantially rehabilitated makes installation of broadband infrastructure infeasible.

3.4.7 Uniform Relocation Assistance and Real Property Acquisition Act ("URA")

The URA contains requirements for carrying out real property acquisition or the displacement of a person, regardless of income status, for a project in which HUD financial assistance is provided. The implementing regulations, 49 CFR Part 24, include steps which must be taken with tenant occupants, including those who will not be impacted by the HUD assisted activity.

3.4.8 Section 104(d)

The one for one-replacement provisions of Section 104(d) of the Housing and Community Project Act of 1974 as amended are applicable, except that these requirements are waived for owner-occupied lower-income dwelling units that are damaged by the disaster and not suitable for rehabilitation, pursuant to Section IV.F.1 of 2020 CDBG-DR Federal Register/Vol. 87, No. 23 (PDF).

If a Project site is occupied at the time the CDBG-DR application is made, the application must include: 1) an exhibit explaining either that no relocation of tenants will result, or 2) that such relocation will be temporary (supported by an adequately documented estimate of relocation costs), or 3) a written commitment to submit a relocation plan to HCD for approval as a condition precedent to entering into the Standard Agreement, as further discussed in Section 2.7 of this document. In the event HCD determines that no relocation is required, the Sponsor will be required to execute and deliver to HCD a certificate of no relocation.

3.4.9 Prohibition Against Eminent Domain

Pursuant to 87 FR 31636,, CDBG-DR funds may not be used to support any Federal, State, or local projects that seek to use the power of eminent domain, unless eminent domain is employed only for a public use as defined in the Federal Register Notice, Section II.D.7.

3.4.10 Equal Opportunity Requirements and Responsibilities

Where applicable, the following Equal Opportunity Requirements and Responsibilities apply to the Project, unless exempted by other federal laws. Sponsors must comply with all of the following:

- **Title VI of the Civil Rights Act of 1964:** This act provides that no person shall be excluded from participation, denied program benefits, or subject to discrimination based on race, color, and/or national origin under any program or activity receiving federal financial assistance.
- **Title VII of the Civil Rights Act of 1968 (The Fair Housing Act):** This act prohibits discrimination in housing on the basis of race, color, religion, sex and/or

national origin. This law also requires actions which affirmatively promote fair housing.

- **Restoration Act of 1987:** This act restores the broad scope of coverage and clarifies the application of the Civil Rights Act of 1964. It also specifies that an institution which receives federal financial assistance is prohibited from discriminating on the basis of race, color, national origin, religion, sex, Disability or age in a program or activity which does not directly benefit from such assistance.
- **Section 109 of Title 1 of the Housing and Community Development Act of 1974 [42 U.S.C. 53091]:** This Section of Title 1 provides that no person shall be excluded from participation (including employment), denied program benefits, or subject to discrimination on the basis of race, color, national origin, or sex under any program or activity funded in whole or in part under Title 1 of the Act.
- **The Fair Housing Amendment Act of 1988:** This act amended the original Fair Housing Act to provide for the protection of families with children and people with disabilities, strengthen punishment for acts of housing discrimination, expand the Justice Department jurisdiction to bring suit on behalf of victims in federal district courts, and create an exemption to the provisions barring discrimination on the basis of familial status for those housing developments that qualify as housing for persons age 55 or older.
- **The Age Discrimination Act of 1975:** This act provides that no person shall be excluded from participation, denied program benefits, or subject to discrimination on the basis of age under any program or activity receiving federal funding assistance. Effective January 1987, the age cap of 70 was deleted from the laws. Federal law preempts any State law currently in effect on the same topic.
- **Section 504 of the Rehabilitation Act of 1973:** It is unlawful to discriminate based on Disability in federally assisted programs. This Section provides that no otherwise qualified individual shall, solely by reason of his or her Disability, be excluded from participation (including employment), denied program benefits, or subjected to discrimination under any program or activity receiving federal funding assistance. Section 504 also contains design and construction accessibility provisions for multi-family dwellings developed or substantially rehabilitated for first occupancy on or after March 13, 1991.
- **The Americans with Disabilities Act of 1990 (ADA):** This act modifies and expands the Rehabilitation Act of 1973 to prohibit discrimination against "a qualified individual with a Disability" in employment and public accommodations. The ADA requires that an individual with a physical or mental impairment who is otherwise qualified to perform the essential functions of a job, with or without reasonable accommodation, be afforded equal employment opportunity in all phases of employment.

- **Executive Order 11063:** This executive order provides that no person shall be discriminated against on the basis of race, color, religion, sex, or national origin in housing and related facilities provided with federal assistance and lending practices with respect to residential property when such practices are connected with loans insured or guaranteed by the federal government.
- **Executive Order 11259:** This executive order provides that the administration of all federal programs and activities relating to housing and urban development be carried out in a manner to further housing opportunities throughout the United States.
- **The Equal Employment Opportunity Act:** This act empowers the Equal Employment Opportunity Commission (EEOC) to bring civil action in federal court against private sector employers after the EEOC has investigated the charge, found "probable cause" of discrimination, and failed to obtain a conciliation agreement acceptable to the EEOC. It also brings federal, state, and local governments under the Civil Rights Act of 1964.
- **The Uniform Guidelines on Employee Selection Procedures adopted by the Equal Employment Opportunity Commission in 1978:** This manual applies to employee selection procedures in the areas of hiring, retention, promotion, transfer, demotion, dismissal and referral. It is designed to assist employers, labor organizations, employment agencies, licensing and certification boards in complying with the requirements of federal laws prohibiting discriminatory employment.
- **The Vietnam Era Veterans' Readjustment Act of 1974 (revised Jobs for Veterans Act of 2002):** This act was passed to ensure equal employment opportunity for qualified disabled veterans and veterans of the Vietnam War. Affirmative action is required in the hiring and promotion of veterans.

3.4.11 California's Preservation Notice Law

All Applicants, Sponsors, co-Sponsors, owners, and special purpose entities must, at all times, comply with, and not be in violation of, California's Preservation Notice Law (Gov. Code, §§ 65863.10, 65863.11, 65863.13).

3.4.12 Lead-Based Paint Hazards

Activity(ies) performed with assistance provided by HCD are subject to lead-based paint hazard regulations contained in Title 8 (Industrial Relations) and Title 17 (Public Health) of the CCR and 24 CFR, Part 35 (Lead Disclosure). Assistance provided under this program shall be made subject to the provisions for the elimination or mitigation of lead-based paint hazards under these regulations. The Sponsor shall be responsible for the notifications, inspections and clearance certifications required under these regulations.

Section 4. Application

4.1 Application Procedures

1. Applicants must use the Program Portal to submit project applications.
2. Applications must be received by the Department within 90 days of the publication of Version 1 of these Policies and Procedures.
3. Applications must be made on a form(s) made available by the Department, without modification, requesting the information deemed necessary by the Department to evaluate compliance with these Policies and all applicable statutes, regulations, guidelines, and similar rules.
4. An application shall be deemed complete when:
    a. The application meets all threshold requirements, as set forth in Section 2.3 of this document, and the application.
    b. The Department is able to review the application and assess the proposed project's feasibility pursuant to UMR Section 8310.

4.2 Application Review

HCD is solely responsible for making awards to the selected Project, facilitating execution of appropriate agreements, including regulatory agreements, to restrict DR-MHP units within the Project for a period of not less than 55 years.

During the application review, Department staff may request clarifying information. Failure to submit all required documents, as set forth in the application, may adversely affect the score of the application. Failure to submit documents necessary to demonstrate compliance with threshold requirements are grounds for rejecting an application. Information or documents received after the application submission deadline will not be considered unless specifically requested by the Department.

4.3 Developer Fee Calculations

1. For projects not utilizing low-income housing tax credits, Developer Fee payments shall be the lesser of 15 percent of the Project's unadjusted eligible basis and 15 percent of the basis for non-residential costs included in the Project allocated on a pro rata basis or two million five hundred thousand dollars ($2,500,000) pursuant to California Code of Regulations, Title 4, Division 17, Chapter 1, Section 10327, Paragraph (c), sub Paragraph (2), subsection (A).
2. For projects not utilizing low-income housing tax credits which restrict for Special Needs Population(s), the greater of 1) 15 Low-Income Units or 2) 25 percent of the Low-Income Units restricted in the Project, the Maximum Developer Fee is the lesser of 15

percent of the project's unadjusted eligible basis and 15 percent of the basis for non-residential costs included in the Project allocated on a pro rata basis or two million eight hundred thousand dollars ($2,800,000) pursuant to 4 CCR 10327 (c)(2)(A).

3. For projects utilizing either 9 percent or 4 percent competitive low-income housing tax credits, Developer Fee payments shall not exceed the amount that may be included in Project costs pursuant to California Code of Regulations, Title 4, Division 17, Chapter 1, Section 10327.

4.4 Internal Loan Committee

The Department will submit recommended Projects to the ILC for consideration and approval.

4.5 Award Letters

The Department will announce Project awards by issuing an Award Letter sent via email to the Applicant point of contact listed in the Application.

4.6 Complaints

Should any Applicant or member of the public have complaints concerning the award or administration of DR-MHP funds, complaints should be addressed in writing to:

Department of Housing and Community Development (HCD)
Attn: DR-MHP Section Manager
P.O. Box 952054 Sacramento, CA 94252-2054

An authorized person of the Department shall acknowledge the complaint in writing or electronic correspondence within 30 calendar days.

4.7 Providing Technical Assistance

HCD provides various types of technical assistance (TA) to Sponsors participating in DR-MHP. The objective of technical assistance is to develop a strong partnership with Sponsors and support the implementation of a successful program. TA also assists Sponsors to maintain their day-to-day compliance with federal and state regulations and program requirements as they develop DR-MHP Projects.

HCD will provide technical assistance to the Project Sponsor to ensure compliance with CDBG-DR requirements and consistency with the program DR-MHP Policies and Procedures. In addition, periodic risk-based monitoring of the Project will be conducted to test compliance and ensure timely project completion.

Section 5. Operations

5.1 Performance Deadlines

- Awarded projects shall have 24 months from the date of the DR-MHP Award to complete construction of the Project. HCD may, at its sole discretion, grant extensions if the Sponsor has been operating in good faith with the Department and the delay is based on factors impacting the Project Timeline that are determined to be outside of the Sponsor's control and that do not otherwise jeopardize the Project implementation or expose the Department to financial or legal risk.
- Projects will have six (6) months from completion of construction to submit Project closeout information, including the Project Completion Report discussed in Section 5.10.C. HCD may, at its sole discretion, grant extensions if the Sponsor has been operating in good faith with the Department and the delay is based on factors impacting the Project Timeline that are determined to be outside of the Sponsor's control and that do not otherwise jeopardize the Project implementation or expose the Department to financial or legal risk.
- The 55-year affordability period shall commence upon HCD's approval of the Sponsor's submitted Project closeout information.

The Department will include additional performance deadlines in the Standard Agreement for the awarded Project(s), as appropriate.

5.2 Conditions Precedent to the Standard Agreement

Once HCD selects projects and announces awards, the following conditions shall be met prior to entering into a Standard Agreement:

- All sources of funding required to develop and operate the Project with positive cashflow for the duration of the affordability period must be identified, documented as committed, and available.
- The proposed Project must successfully meet environmental review clearance and receive an Authority to Use Grant Funds (AUGF) or environmental clearance letter from the Department prior to the Department entering into a Standard Agreement.
- The Sponsor must provide an authorizing resolution from the Sponsor's governing board. The resolution must be approved by the Department prior to issuance of a Standard Agreement.
- Any other administrative actions identified by HCD that must be completed prior to entering into a Standard Agreement.

5.3 Legal Documents

1. HCD shall enter into a Standard Agreement with the Sponsor constituting a firm commitment of funds. This agreement defines programmatic and financial requirements as well as remedies to correct deficient or non-compliant Projects. The agreement also contains CDBG-DR recapture provisions for non-performance or breach of Sponsor responsibility of any requirements, including adherence to CDBG-DR requirements. The Standard Agreement shall contain, but not be limited to, the following:

- A description of the Sponsor's program implementation responsibilities, including but not limited to, Project development, marketing, lease-up, closeout, and long-term compliance;
- The amount and terms of the funding;
- The approved Project development budget and sources and uses of funds and financing;
- The approved Project development schedule establishing timelines and
- milestones;
- An implementation requirement to provide secure written approval from HCD of any individual site(s) to be included within the Project based on Sponsor's submission of adequate site information, Tier 2 Environmental, proposed Unit(s), legal description, site budget (if applicable) and construction timeline;
- Provisions regarding tenant relocation;
- Provisions governing the construction work;
- Terms and conditions required by federal or state law;
- Total number of units, Affordable Units and DR-MHP Assisted Units;
- The approved schedule of the Project, including land acquisition, if any, commencement and completion of construction work, and occupancy by eligible Households;
- The manner, timing and conditions for disbursement of Project funds, including that HCD shall withhold an amount equal to 10 percent of the total DR-MHP loan as retainage. The 10 percent retainage shall be released to the upon receipt and approval by HCD of all required and approved Project closeout documents identified in the Standard Agreement;
- Reporting and recordkeeping requirements, defining the specific reports and the reporting dates, along with the particular records and the timeline for maintaining them in order to assist HCD in meeting HUD's recordkeeping and reporting requirements;

- Terms and conditions for the inspection and monitoring of the Project in order to verify compliance with the requirements of the program;
- Provisions regarding the recapture of funds;
- Requirements for multiyear property and hazard insurance policies;
- Provisions relating to the erection and placement on or in the vicinity of the Project site a sign indicating that HCD has provided financing for the Project. HCD may also arrange for publicity of the program funds in its sole discretion;
- Remedies for noncompliance; and
- The form of the Regulatory Agreement.

2. A Regulatory Agreement shall be recorded and it shall have priority over all other liens, encumbrances, and other matters of record except as may be approved by the Department in its sole and absolute discretion. Exceptions to the lien priority of the DR-MHP Regulatory Agreement must be approved in writing and in advance by the Department. The Regulatory Agreement shall contain, but not be limited to, the following:
   - 55-year affordability period;
   - Description of the number and type of restricted units;
   - Income targeting;
   - Rent restrictions;
   - Required property standards;
   - Annual monitoring requirements; and
   - Records and reports.
3. A Promissory Note shall be executed to make the DR-MHP loan funds available to the Project.
4. A Deed of Trust or any other required form of security instrument shall be recorded to secure HCD's investment in the Project.

5.4 Agreements with Contractors or Other Parties

1. Per 2 CFR 200.214, Sponsor shall not enter into any agreement, written or oral, with any Contractor, vendor, or other party without the prior determination that the Contractor, vendor, or other party is eligible to receive federal funds and is not listed on the government-wide exclusions in the System for Award Management (SAM). Requirements of an agreement between the Sponsor and any Contractor, vendor or other party shall contain, but not be limited to the following:
   - The provisions at 2 CFR Part 200, Appendix II.
   - Compliance with all State and federal requirements including those that pertain to

labor standards, nondiscrimination, Americans with Disabilities Act, Equal Employment Opportunity and Drug-Free Workplace Act.

- Maintenance of at least the minimum State-required Workers' Compensation Insurance.
- Maintenance of unemployment insurance, disability insurance and liability insurance which is reasonable to compensate any person, firm or corporation who may be injured or damaged during the performance of Project activities.

2. Contractors shall:
   - Comply with the applicable provisions of the California Labor Code
   - Perform the Project activities in accordance with federal, state and local housing and building codes, as applicable, and provide or cooperate to complete required reporting.
   - Provide security to assure completion of the Project(s) by furnishing the borrower and construction lenders with proof of sufficient insurance and performance and payment bonds, or other security approved in advance in writing by the Department, as determined by the particulars of each individual project will be required.

5.5 Disbursement of Funds

Payments will be made directly to Sponsors as reimbursements based on the documented and satisfactory completion of Project work. Reimbursement means that Project costs must be incurred by the Sponsor and documented as required by the terms of the Standard Agreement for payment of invoices. Reimbursement requests (Monthly Financial Reports) submitted by the Sponsor must include the following supporting documentation, at minimum:

- Cover letter signed by the person authorized to sign Financial Reports as provided in the Standard Agreement.
- Documentation showing the Project costs incurred during the reporting period. Examples include:

Eligible Cost	Documentation Example
Environmental or A&E design	Vendor invoices, pages from report or deliverable
Permitting fees	Entitlement invoice/bill, issued permit
Developer fees*	Developer invoice, concurrence with milestone
Mobilization, site prep, and clean up*	Vendor invoices, progress photos, narrative reports
Construction costs*	Construction pay applications, inspection reports, wage compliance verification, contractor construction invoices
*costs must be incurred after the date of the AUGF	

Please see the state's CDBG-DR Grant Administration Manual, Section V, as amended from time to time, and relevant Management Memos, as issued, amended, or superseded from time to time for additional financial management procedures and requirements.

A. Pursuant to Section 927 of the California Civil Code (the California Prompt Payment Act), the Department shall pay properly submitted, undisputed invoices within 45 calendar days of initial receipt.

B. Change Orders. Any changes to the proforma Sources and Uses, including higher costs or cost savings shall be reported in the Monthly Financial Report for HCD review and approval.

5.6 Recapture of Funds

A Sponsor may be required to repay all, or a portion of the funds received. The reasons for recapture include, but are not limited to. the following:

- A Sponsor does not comply with the terms of the Standard Agreement;
- A Sponsor fails to complete the Project and fails to meet a national objective;
- A Sponsor does not meet the affordability requirements for the 55-year affordability period;
- A Sponsor is found to have used program funds for an ineligible cost; and/or,
- A Sponsor does not report the receipt of additional insurance, SBA, FEMA, non-profit assistance and/or any other Duplication of Benefits received after Award.

The method of recapturing funds and the timeframe for doing so are determined on an individual Project basis. However, the recapture method and timeframe will be consistent with 2 CFR Part 200 or other applicable cost principles. Complete recapture provisions will be included in the Standard Agreement with the Sponsor.

5.7 Sales, Transfers, Encumbrances, and Loan Payoff

A sale of a Project during the affordability period is possible; however, affordability periods must still be adhered to and included as a deed restriction.

A. A Sponsor shall not directly or indirectly 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 may be approved only if all of the following requirements are met:

   - The existing Sponsor is in compliance with the Regulatory Agreement and other loan documents, or the sale, transfer, or conveyance will result in the cure of any existing violations;
   - The successor-in-interest to the Sponsor agrees to assume all obligations of the existing Sponsor pursuant to the Regulatory Agreement, and other loan documents and the program;
   - 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
   - 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.

C. The Sponsor may transfer Limited Partnership interests without the prior written approval of the Department.

D. If the Department approves a sale, assignment, transfer, or conveyance in accordance with the provisions of subparagraph (A) above, the Department shall grant its approval subject to such terms and conditions as may be necessary to preserve or establish the Fiscal Integrity of the Project. Such conditions may include, but are not limited to:

   - The deposit of sales proceeds, or a portion thereof, to maintain required reserves, or to offset negative cash flow;
   - The recapture of syndication proceeds or other funds in accordance with special conditions included in any agreement executed by the Sponsor; and/or
   - Such conditions as may be necessary to ensure compliance with the Program requirements.

E. 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 will not permit refinancing of existing liens or additional financing secured by the Rental Housing Development except to the extent necessary to maintain or improve the Fiscal Integrity of the Project, to maintain Affordable Rents, or to decrease Rents and for no other purpose, including, but not limited to, cash payments to the Sponsor, repayment of general partner loans or of limited partner loans, or for limited partner buyouts. Notwithstanding the general provisions in UMR Section 8308(g), this special condition controls, in that no DR-MHP Assisted Project reserve balance can fund a limited partner buyout or exit.

F. No loan may be paid off prior to maturity without the prior written consent of the Department in its sole discretion, which consent shall be subject to conditions deemed necessary to ensure compliance with the Program requirements. All of the loan documents, including the Regulatory Agreement and Deed of Trust, shall continue in full force and effect notwithstanding any prepayment, in whole or in part, of the loan.

5.8 Defaults

A. In the event of a breach or violation by the Sponsor of any of the provisions of the Standard Agreement, 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, 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:

- 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.
- 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.
- The Department may seek such other remedies as may be available under the relevant agreement or any law.
- In the event the Project is or has been awarded additional Department

funding, any and all such funding will be cross defaulted to and among one another in the respective loan or, where applicable, grant documents. A default under one source of Departmental funding shall be a default under any and all other sources of Department funding in the Project.

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 revoke its commitment of DR-MHP funds prior to entering into a Standard Agreement under any of the following conditions:

- The objectives and requirements of the Program cannot be met by the Sponsor;
- Implementation of the Project cannot proceed in a timely fashion in accordance with the approved plans and schedules; or
- There has been a material change, not approved by the Department, in the Project or the principals or management of the Sponsor or Project.

Upon Sponsor demonstration of good cause to comply with any or all of the conditions of this subsection, the Department may extend the date for compliance and shall provide the extension in writing.

D. Upon receipt of a notice from the Department of intent to revoke its commitment of DR-MHP funds prior to entering a Standard Agreement, the Sponsor shall have the right to appeal to the Director of HCD.

E. The Department may use its resources 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 sole and absolute discretion of the Department and no Sponsor or any other person or entity shall be entitled to or have any right to payment of these funds. All funds which may be optionally advanced by the Department pursuant to this subsection shall become part of the Program loan, secured by the Program Loan Documents, and, upon demand, shall be immediately due and payable to the Department. Where it becomes necessary to use Departmental resources to assist a Project to avoid threatened defaults or foreclosures, the Department shall have the right to 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.

5.9 Management and Maintenance

Sponsors shall operate the approved multifamily housing Project(s), where applicable, in accordance with local requirements, the DR-MHP Policies and Procedures, and as set forth in the executed Standard Agreement and other Legal Documents. Multifamily Projects funded under this CDBG-DR loan will adhere to standard requirements set by HCD to ensure compliance, as well as specific requirements set by the governing federal income limits. HCD will provide technical assistance to Sponsors to ensure compliance with CDBG-DR requirements.

A. The Sponsor shall be responsible for all management functions of the multifamily housing development including construction, maintenance, selection of the tenants, annual recertification of Household income and size, and managing the units in accordance with program requirements.
B. The Sponsor is responsible for all repair and maintenance functions of the multifamily 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 multifamily housing development is managed by an entity approved by HCD that is actively in the business of managing affordable housing. Any management contract entered into for this purpose shall be subject to HCD 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 HCD upon determination that management does not comply with program requirements.
D. The Sponsor shall develop a management plan subject to HCD approval within 90 calendar days of the commencement of construction. Any change to the plan shall be subject to the approval of HCD. The plan shall be consistent with program requirements and must include the following:
    - The role and responsibility of the Sponsor and its delegation of its authority;
    - Personnel policy and staffing arrangements including key personnel and lines of authority;
    - Plans and procedures for affirmatively marketing all housing units in a manner that ensures equal access to all persons in any category protected by federal, state or local laws governing discrimination, and without regard to any arbitrary factor, and achieving early and continued occupancy;
    - Procedures for determining tenant eligibility and selecting tenants, as well as notifying applicants of eligibility and availability of a DR-MHP Assisted Unit, and for certifying and annually recertifying Household income and size;
    - Plans for carrying out, and budgeting for, an effective maintenance and repair

program including a capital needs assessment prepared every 5 years, except that for newly constructed projects, this requirement shall apply beginning with year 10 from issuance of certificate of occupancy;

- Procedures for notifying ineligible applicants of the reason for their ineligibility;
- Procedures for maintaining a waiting list of eligible applicants;
- Rent collection policies and procedures;
- Policies and Procedures for managing funds that meet generally accepted accounting principles;
- A program for maintaining adequate accounting records and handling necessary forms and vouchers;
- Plan for safeguarding all tenant personally identifiable information (PII) such as social security numbers, names, and birthdates, against possible identity theft as applicable.
- Plans for enhancing tenant-management relations;
- The management agreement, if any;
- Provisions for periodic update of the management plan;
- Appeal and grievance procedures; and
- Plans for collections for tenant-caused damages, processing evictions and terminations.

5.10 Reporting Requirements

The Sponsor shall timely submit the reports prescribed below. The Department reserves the right to request additional detail and support for any report made. Reports must be made timely according to the dates identified, in the formats provided by the Department, and via the Department's Grants Network unless otherwise specified at the discretion of the Department. The Sponsor's performance under the Standard Agreement will be assessed based in part on whether Sponsor has submitted the reports on a timely basis.

A. Monthly Activity Report: Sponsor shall submit a Monthly Activity Report, in the form and format prescribed by the Department, that addresses the following, at a minimum:

    - A description of the current status of the Project activity, including number of units leased, and demographics of Households assisted (beneficiaries).
    - A description of activities to be undertaken in the next reporting period.
    - A description of problems or delays encountered in Project implementation and course of action taken to address them.
    - A description of actions taken to achieve Project expenditure deadlines.

- Compliance with the 24 CFR Part 75 Section 3 requirements, including the number of hours worked on the project by targeted Section 3 workers and Section 3 workers, as more fully described in Section 3.4.4 of this document.
- A summary of Project fiscal status, including:
  - Award amount,
  - Funds drawn, and,
  - Remaining balance.

Unless otherwise waived in writing by the Department, Monthly Activity Reports must begin on the 10th calendar day of the second month following execution of the Standard Agreement and must continue through the receipt and approval by the Department of the Project Completion Report, detailed below.

B. Semi-Annual Labor Standards Report: During the term of construction for the Project, on or about April 1st and October 1st, or as otherwise specified by the Department, the Sponsor shall submit the required HUD Form 4710 and the Labor Standards Enforcement Report 5.7 (if applicable) in the form and format prescribed by the Department, which may change from time to time. These forms are located on the Department's website and are also available upon request.

C. Project Completion Report: At the completion of construction and once a Project is placed in service, the Sponsor must submit a Project Completion Report that includes the total number of units built and leased, affordable units built and leased, DR-MHP units built and leased, an accomplishment narrative, and the tenants' names, demographics and income for each DR-MHP unit. The Project Completion Report shall also include a Section 3 Summary Report of the total number of labor hours worked by all contractors and subcontractors, the total number of labor hours worked by Section 3 workers, and the total number of labor hours worked by Targeted Section 3 workers, as required pursuant to 24 CFR 75.25(a), as applicable. In the event that the number of Section 3 worker labor hours divided by the total labor hours worked by all workers on a Section 3 project does not meet or exceed HUD's 25 percent standard, and/or that the number of Section 3 targeted worker labor hours divided by the total labor hours worked by all workers on a Section 3 project does not meet or exceed HUD's 5 percent standard, Sponsor shall provide additional reporting on the qualitative nature of its activities and those its contractors and subcontractors pursued, as defined at 24 CFR 75.25(b).

D. Affordability Period Reporting: Once a Project is placed in service and through the Affordability Period, the Sponsor must timely submit the reports prescribed below. The Department reserves the right to request additional detail and support for any report made. Reports must be made according to the dates identified, in the formats provided by the Department, and via the Department's Grants Network unless otherwise specified at the discretion of the Department. The Sponsor's performance under the Standard Agreement will be assessed based in part on whether it has submitted the reports on a timely basis.

- Annual Beneficiary Report: Sponsor must submit an Annual Beneficiary Report providing the household size, tenants demographics household annual income, and unit rents for each DR-MHP unit.
- Annual Audit: Sponsors shall provide an annual audit of the Project prepared by an independent certified public accountant.
- Annual Operating Budget and Schedule of Rental Income: Sponsor shall submit proposed operating budgets and Schedule of Rental Income (SRI) to the Department prior to occupancy and annually thereafter. These operating budgets and SRI shall be subject to Department approval, be consistent with related and supporting documentation, and comply with the following requirements:
    - For the Initial Operating Year, the Sponsor shall operate the Project in accordance with the initial operating budget and SRI, which were approved by the Department prior to permanent loan closing. Such budget shall show all anticipated Operating Income, debt service, Operating Expenses and amount payable to reserves for the Initial Operating Year. Such SRI shall set forth the rent roll, which will identify each tenant household (by unit number or other method of household identification that is acceptable to the Department), as well as the following information in connection with each tenant household: size, demographics, income, current Rent, and proposed Rent adjustments (including utility allowances, if applicable). Such SRI shall provide estimated income projections for DR-MHP Assisted Units, Affordable Units, non-Assisted Units, and Commercial Space or use.
    - For as long as deemed necessary by the Department to ensure compliance with Program requirements, but for no less than the full term of the recorded Regulatory Agreement, 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 and SRI on forms provided by the Department. The proposed annual operating budget and SRI, together, shall set forth the borrowing entity's estimates for the upcoming year of Operating Income, Operating Expenses, debt service amounts payable to reserves, and proposed Rent adjustments. The Department, at its sole discretion, may request in situations, such as, but not limited to, resyndication, change of ownership, or change of Project fiscal year, 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.

- The initial and subsequent proposed operating budgets shall be subject to the approval of the Department based on its determination that the budget line items are reasonable and necessary, considering 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.
- The initial and subsequent proposed SRI shall be subject to approval of the Department based on its determination that the proposed rents are in accordance with these guidelines and applicable regulations and statutes.
- For Projects with non-DR-MHP Assisted Units or Commercial Space, all budgets submitted pursuant to this section shall show income and uses of income allocated among DR-MHP Assisted Units, Affordable 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.

E. At any time during the term of the Standard Agreement, HCD may perform or cause to be performed an independent financial audit of any and all phases of the Sponsor's Project. At HCD's request, the Sponsor shall provide, at its own expense, a financial audit prepared by a certified public accountant.

F. Sponsors shall provide an annual audit of the Project prepared by an independent certified public accountant.

5.11 Annual Operating Budget and Schedule of Rental Income

The Sponsor shall submit proposed operating budgets and Schedule of Rental Income (SRI) to the Department prior to occupancy and annually thereafter. These operating budgets and SRI shall be subject to Department approval, be consistent with related and supporting documentation, and comply with the following requirements:

A. Prior to initial occupancy, the Sponsor shall submit an initial operating budget, SRI, and other documents as requested to the Department. Such budget and SRI shall show all anticipated income; expenses for management, operations, and maintenance; debt service; and reserve deposits for the Initial Operating Year. The initial SRI shall show proposed Rents for individual units, gross rent floor date, rental and operating subsidy amounts, and similar information on both individual Units and the Project as a whole.

B. For the Initial Operating Year, the borrowing entity shall operate the Rental Housing Development in accordance with the initial operating budget and SRI, which were approved by the Department prior to permanent loan closing. Such budget shall show all anticipated Operating Income, debt service, Operating Expenses and amount payable to reserves for the Initial Operating Year. Such SRI shall set forth the rent roll, which will identify each tenant household (by unit number or other method of household identification that is acceptable to the Department), as well as the following information in connection with each tenant household: size, demographics, income, current Rent, and proposed Rent adjustments (including utility allowances, if applicable). Such SRI shall provide estimated income projections for DR-MHP Assisted Units, Affordable Units, non-Assisted Units, and Commercial Space or use.

C. For as long as deemed necessary by the Department to ensure compliance with Program requirements, but for no less than the full-term of the recorded Regulatory Agreement, 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 and SRI on forms provided by the Department. The proposed annual operating budget and SRI, together, shall set forth the borrowing entity's estimates for the upcoming year of operating income, operating expenses, debt service amounts payable to reserves, and proposed rent adjustments pursuant to Section 3.2 of this document. The Department, at its sole discretion, may request in situations, such as, but not limited to, re-syndication, change of ownership, or change of Project fiscal year, 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.

D. The initial and subsequent proposed operating budgets shall be subject to the approval of the Department based on its determination that the budget line items are reasonable and necessary, considering 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.

E. The initial and subsequent proposed SRI shall be subject to approval of the Department based on its determination that the proposed rents are in accordance with these guidelines and applicable regulations and statutes.

F. For Projects with non-DR-MHP Assisted Units or Commercial Space, all budgets submitted pursuant to this section shall show income and uses of income allocated among DR-MHP Assisted units, Affordable 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.

5.12 Monitoring and Compliance

HUD describes monitoring as an integral management control standard and requires any entity receiving HUD funding to monitor and evaluate program performance and compliance, see CDBG Regulation 24 CFR 570.501(b) and Office of Management and Budget (OMB) Uniform guidance at 2 CFR 200. Therefore, HCD monitors all DR-MHP projects. HCD is required to ensure that Sponsors comply with all requirements and that they achieve performance objectives on time and within budget. Monitoring enables HCD to verify compliance with both regulatory and performance requirements.

In the event a Sponsor disagrees with a finding and/or any accompanying corrective actions or sanction(s) that are associated with such finding, Sponsor shall follow HCD's appeals process and rights contained in Exhibit 15 of the Department's Monitoring Plan located on HCD's website.

A. A reasonable annual fee for compliance monitoring will be charged by the Department during the 55-year affordability period as specified in Section 2.4.2 of these Policies and Procedures.

B. HCD's Asset Management and Compliance group (AMC) shall conduct annual compliance monitoring during the period of affordability, to include review of:

    1. Initial Affordable Rents and subsequent rents during the period of affordability;
    2. Initial and annual certification of tenant income;
    3. LMI benefit;
    4. Affirmative Marketing requirements;
    5. Fair Housing requirements; and
    6. Financial Monitoring, including review the development's financial statements to ensure the development continues to be operated in a fiscally responsible manner, addressing all debt service obligations and adequately funding Project reserve accounts.

5.13 Rent and Unit Designation Adjustment for Over-Income Tenants at Recertification

For DR-MHP Assisted Units:

A. If, at the time of recertification, a tenant household's income exceeds the income limit designated for the household's Unit, the Sponsor shall:

    1. Re-designate the tenant's Unit as a Unit at the higher income level;
    2. Increase the tenant's Rent to the level applicable to Units at the higher income level; and

3. 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 re-designate 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 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. If a household income exceeds the income limit set for the highest restricted income band delineated in the ’s Regulatory Agreement, the unit restriction should be adjusted as appropriate for the household to qualify using 5 percent increments up to the maximum allowed by program regulations, e.g., 70 percent AMI, regardless, of the income bands specified in the Project’s Regulatory Agreement Tenant Rent should be increased based on the new income level designation.

C. If a tenant household fails to be recertified by size, such family must relocate to the next available appropriately sized unit. In the event that an appropriately sized unit is not available within a reasonable period of time, the foregoing shall not be deemed to limit any other rights or remedies under UMR Section 8306.

5.14 Record Retention

All records and books relating to the initial development phase of the Project (application through Project completion) shall be retained for a minimum period of five (5) years after the grant agreement between HUD and the State of California has been closed. Subsequent to closeout of the grant agreement between HUD and the State of California, all records and books relating to the operational phase of the Development shall be retained for the most recent five (5) year period, until five (5) years after the affordability period terminates. All records must be maintained in such a manner as to ensure that the records are reasonably protected from destruction or tampering. During Project development and throughout the aforementioned record retention periods, all records shall be subject to inspection and audit by the Department, HUD, and/or its representative.

5.15 Project Closeout

The closeout of a project is a process through which HCD determines that all applicable administrative and programmatic requirements of the specific funding award were completed for the approved Project. In general, a Project is ready for closeout when the following conditions are met:

- All eligible activities were completed and met a national objective, as demonstrated by construction completion and project occupancy by qualified tenants.
- All funds were expended in full, including corresponding adjustments awards and budgets, and the Project did not result in any Duplication of Benefits.
- All obligations of the Sponsor under the Standard Agreement and related documents have been fully satisfied.
- Any special conditions of the Project, including required environmental mitigations, were met and documented.
- All audit and monitoring issues affecting the Project were resolved.

The DR-MHP closeout process results in the disbursement of the 10 percent retention, acceptance of all final Project reporting submissions, and completion of Project records for the Program.

The Department shall require, as part of the Standard Agreement, the Project Sponsor to submit all the records and reports as required to demonstrate compliance with the Program Legal Documents, as specified in section 5.3 of this document, and these Policies and Procedures, as may be amended from time-to-time.

5.16 HUD Agreement Closeout

The closeout of HCD's CDBG-DR agreement with HUD is a process through which HCD and HUD determine and agree that all applicable administrative and program requirements of the grant were completed. In general, the CDBG-DR grant is ready for closeout when the following conditions are met:

- All eligible activities were completed and met a national objective.
- All grant funds were expended in full or all remaining funds are planned to be returned to HUD.
- All reporting requirements were completed and submitted (except for the final report

that is submitted during the closeout process, if applicable).

- Any special conditions of the grant were met.
- All audit and monitoring issues affecting the grant were resolved.

5.17 Preventing Fraud, Waste, and Abuse

HCD’s procedures for preventing fraud, waste, and abuse are available in HCD’s CDBG-DR Grant Administration Manual in Chapter 10: Fraud, Waste, and Abuse Prevention.