

Portfolio Reinvestment Program 2023 Notice of Funding Availability

California Department of Housing and Community
Development

January 25, 2024





Reminders

This presentation will be recorded and by continuing in this meeting you consent to be recorded.

Please keep your microphone muted and hold all verbal questions and comments until the end of the presentation.

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A copy of the presentation will be posted on the HCD website.



PRP Team

AMC Branch Chief	PRP Representative
Lindy Suggs	Doug Gongaware
CRP Section Chief	PRP Representative
Rebecca Weber	Michelle Shatto-Lyon
PRP Manager	PRP Representative
Carrie Keema	Gwen Drury
PRP Specialist	PRP Representative
Joan Carnago	Lynn Wynn



Agenda

- Overview
- Eligible Projects
- Eligible Sponsors/Applicants
- Eligible Uses of Funds
- Threshold Requirements
- Rent and Affordability Rules for Projects with AMI Based Rents
- Rent and Affordability Rules for Projects with Formula Based Rents
- Capitalized Operating Subsidy Reserve (COSR)
- Funding Amounts
- Rehabilitation Loan and Application
- Resources

OVERVIEW





Background

Funding to preserve and rehabilitate eligible Projects in HCD's Portfolio.

Extends the affordability of these projects and extends the useful life through rehabilitation.

Approximately \$112 million is available for the 2023 NOFA.



Authorizing Legislation

Assembly Bill No. 140 (Chapter 111, Statutes of 2021), which was signed by Governor Gavin Newsom on July 19, 2021.

General Fund through Senate Bill No. 101 (Chapter 12, Statutes of 2023), which was signed by Governor Gavin Newsom on June 27, 2023.

HSC section 50607 subdivision (d).

MHP Final Guidelines, effective June 19, 2019, are incorporated by reference.

Uniform Multifamily Regulations (UMR), effective November 15, 2017, are incorporated by reference.



2023 NOFA Updates

Eligibility is extended to Legacy Programs which have not had substantial rehabilitation done in the past 15 years.

Each Sponsor is limited to submitting no more than two applications for two different projects, not including any applications for the small project set aside.

Low-income housing tax credits CAN be used as a funding source.

Construction commencement 12 months from the date of the PRP Award Letter or 18 months if applying for tax credits.

Timeline



ACTIVITY	DATES
NOFA Release:	December 28, 2023
Application Release:	January 19, 2024
Application OTC Period Begins:	March 28, 2024
Deadline for Set Aside Applications:	April 29, 2024
Deadline for General Pool Applicants:	May 28, 2024
Award Announcements:	Continuously, but no later than December 31, 2024
Funds encumbered through an executed Standard Agreement:	No later than December 31, 2025
Capitalized Operating Subsidy Reserve expenditure deadline:	December 31, 2028

ELIGIBLE PROJECTS





Project Eligibility

All HCD regulatory agreement(s) have expired or will expire on or before December 31, 2033, except for Projects that were foreclosed on by the Department or another public lender, as well as Projects that executed only a loan extension and not awarded; funding for substantial rehabilitation, under HLCP or LPR, and HCD Legacy Program projects which have not undergone substantial rehabilitation in the past 15 years.

Project has not previously received a PRP award.

HCD regulatory agreement has not been terminated, nor has the HCD loan been paid off.



Project Eligibility

Development sources and uses budget included in the application demonstrates the rehabilitation costs can be funded and validates the need for the loan.

Project has construction period rehabilitation financing provided by a lender.

Sponsor has sufficient financial capacity to fund all required predevelopment expenses prior to construction close.

Project complies with the definition of Rental Housing Development and consists of five (5) or more units.

Project may not comprise of two or more sites unless the Original HCD Loan is already secured on each of those sites.

Sponsor is limited to two (2) applications, except, the small project set aside.

ELIGIBLE SPONSORS/APPLICANTS





Eligible Sponsor

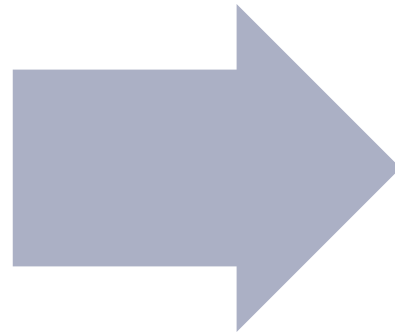
Applicant must be an Eligible Sponsor as listed below:

- An Individual
- Joint Venture
- Partnership
- Limited Partnership
- Trust
- Corporation
- Limited Liability Company
- Local Public Entity
- Tribal Entity



Eligible Sponsor Requirements

Shall not be in breach or default of the Original HCD Loan nor under any other Department program, except for the maturity of an unpaid loan.



Must be current with payments due to HCD and mandatory reporting including the Schedule of Rental Income and financial statements.



Change of Ownership

- Request the Department's approval of a change of ownership no less than 30 days prior to submittal of the PRP application.
- The Department must issue a formal written approval of the change of ownership prior to submittal of the PRP application.
- The current owner must provide evidence that the transaction complies with Preservation Notice Law as stated in Government Code Section 65863.11 and/or .13.
- Applicant must have site control in compliance with the UMRs.



New Owner Capacity

If the Applicant is NOT the current owner of the Project, the Applicant must demonstrate experience relevant to owning and developing affordable rental housing by demonstrating capacity, which includes financial resources, an office, payroll, and all of the following:

- Successful Ownership/Development of affordable rental housing within the most recent 10 years.
- Employment of a staff with demonstrated experience owning and developing affordable rental housing.
- Evidence the Project and proposed transaction complies with Preservation Notice Law requirements.

ELIGIBLE USES OF FUNDS



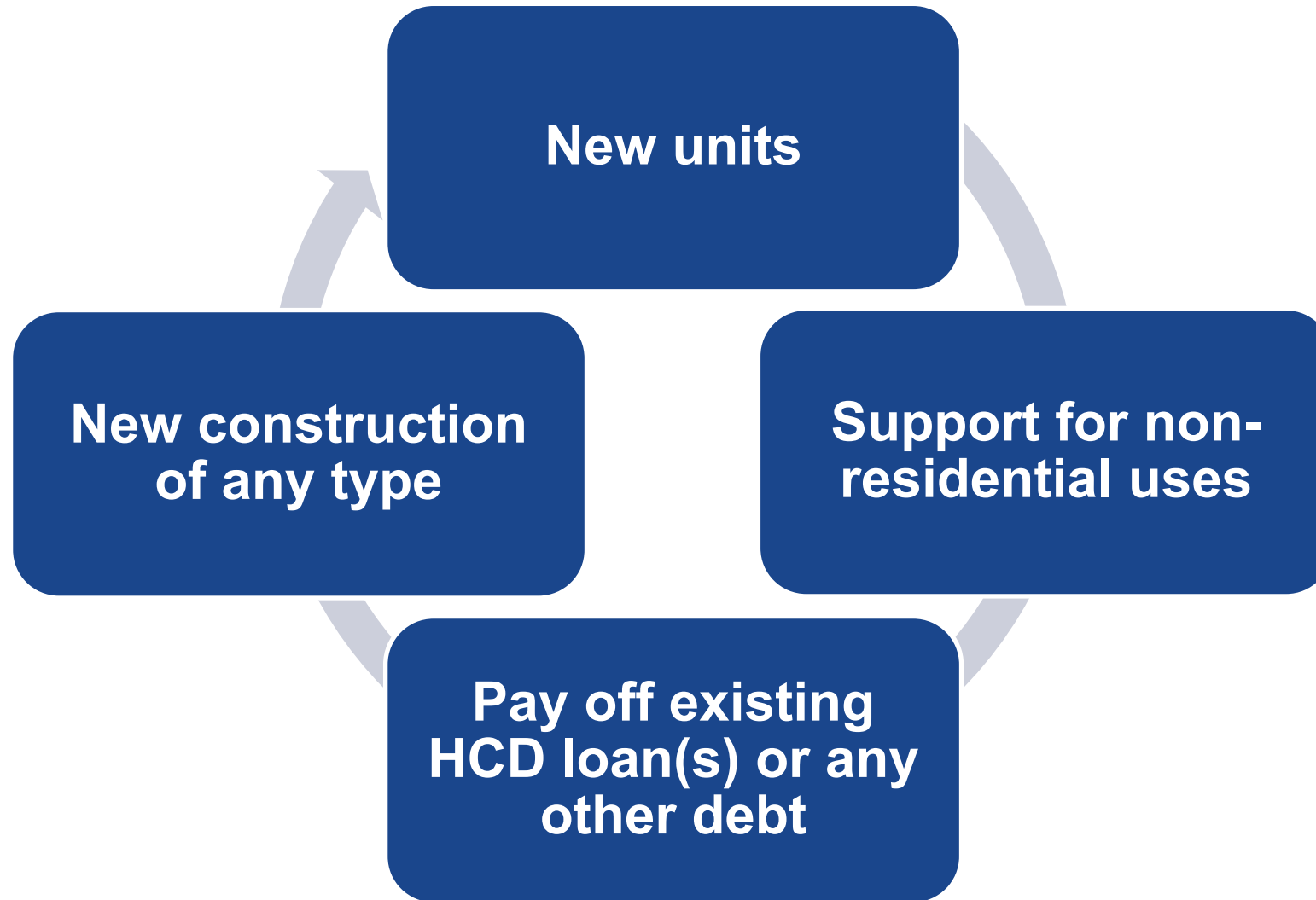


Eligible Uses

- Rehabilitation work to extend the life of the Project through the end of the PRP loan term
- Environmental hazard reports, surveys, investigations, building permits and state/local fees
- Costs of relocation benefits and assistance required by law
- Carrying costs during construction
- Accessibility improvements that meet or exceed local, State, and Federal accessibility requirements, as approved by the Department
- Capitalization of HCD Monitoring Fee Reserve if needed as a result of a Project continuing to have an operating deficit after the end of the Project's COSR term based on a multiyear pro forma, and if the Project would otherwise fail the requirement for Fiscal Integrity by the 10th year after recordation of the PRP loan documents, as approved by the Department.
- Developer Fee shall be limited to the amount permitted by UMR section 8312(a) or \$2,200,000, whichever is less



Ineligible Uses



THRESHOLD REQUIREMENTS





Threshold Requirements

Submittal of a complete PRP application by the application deadline.

- Readiness to commence rehabilitation
- Property Condition Assessment (PCA)
- All repairs required within 5 years, noted in the PCA, included in the scope of work
- Achieve Fiscal Integrity by the 10th year
- Meet the Debt Service Coverage Ratio
- Authorizing resolution and organizational documents
- No mis-representation of material facts

RENT AND AFFORDABILITY RULES FOR PROJECTS WITH AMI BASED RENTS





Affordability for AMI Based Rents - Existing Tenants

(HOME, SERNA, or other AMI based rents)

- Current AMI designation shall remain the same and continue to use published AMI rents.
- If the project doesn't comply with Fiscal Integrity due to extremely low designation required by 9% tax credits, PRP will allow redesignating a sufficient number of units to 50% AMI to meet Fiscal Integrity.
- Units that were not originally Assisted, the Sponsor may choose to make the units PRP Assisted may set those units at any AMI level up to a maximum of 60% of AMI.

RENT AND AFFORDABILITY RULES FOR PROJECTS WITH FORMULA BASED RENTS





Affordability for Formula Based Rent- Existing Tenants

(not applicable to HOME, SERNA, or other AMI based rents)

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

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



Affordability for Existing

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



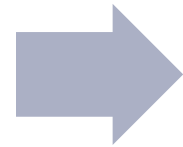
Rent Increases for Existing Tenants

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

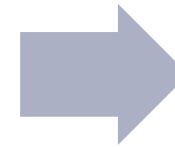


Rent Rules for Existing Tenants

The rules governing annual Rent increases will continue until an Existing Tenant's Rent reaches the published Rent limit for that unit.



After that, the unit's Rent will be restricted solely by the published AMI-Based Rent and will no longer be subject to PRP's Rent increase rules for Existing Tenants.



After the unit converts to the AMI-Based Rent, there is no further evaluation or prohibition concerning whether the Existing Tenant's Rent exceeds 50% of the tenant's household income.



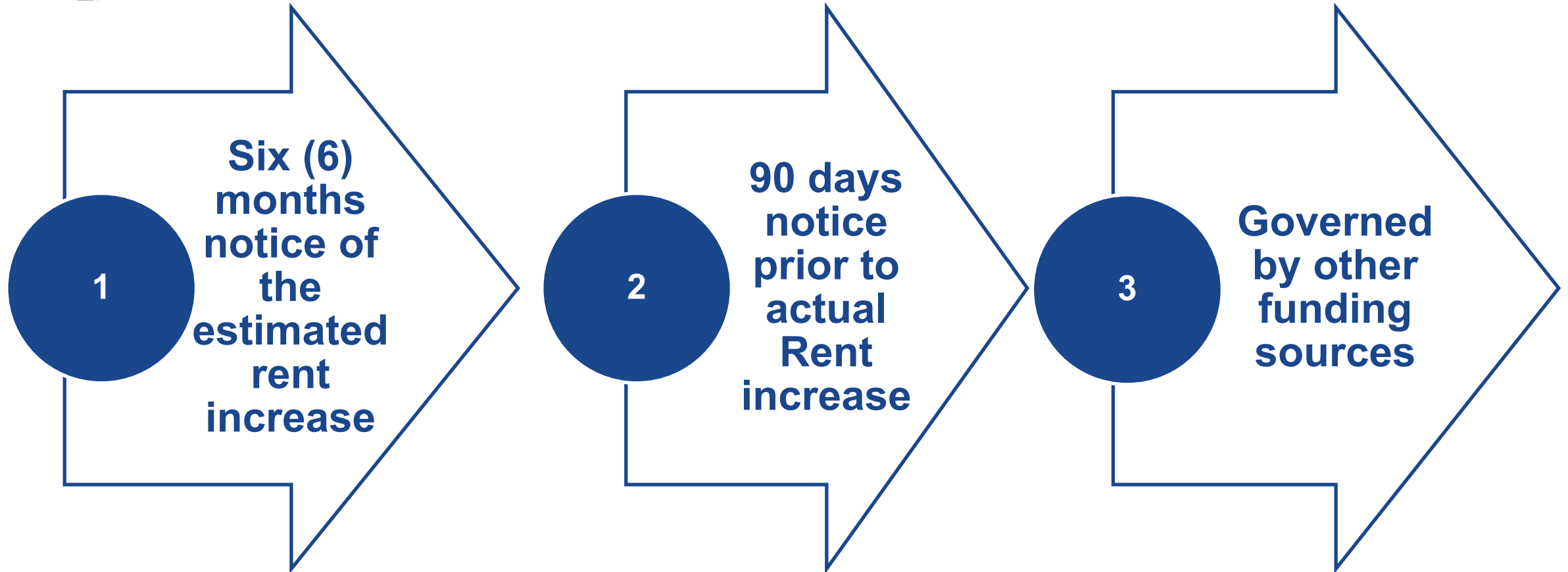
Over-Income Tenants

Existing Tenants with household incomes that exceed 80% of AMI will be required to pay 30% of their actual household income for Rent after proper noticing.

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



Notice Requirements – Rent Increase



Capitalized Operating Subsidy Reserve (COSR)





COSR Forgivable Loan

The COSR is to address Project operating deficits associated with Assisted Units and is only available in conjunction with PRP rehabilitation loan.

The COSR funds will be disbursed annually and must be fully expended by December 31, 2028.

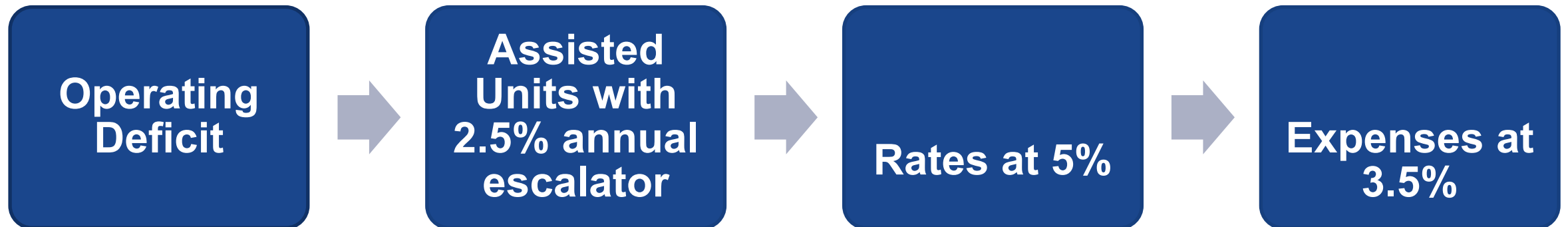
The total COSR funding amount will be the lesser of 25% of the PRP rehabilitation loan or the amount needed to pay anticipated operating deficits attributable to the Assisted Units from construction loan closing through December 31, 2028.

The Department may allow any remaining COSR funds to be deposited into the Project operating reserve at the end of the COSR term.



COSR Funding Determination

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





COSR Disbursements

**Construction
close**

Final reconciliation



**Annually based on
HCD's review and
approval of the
Project's prior year
operating deficits**



COSR Final Reconciliation

COSR expenditure deadline: December 31, 2028.

Final reconciliation must be submitted to the Department within 3 months after the fiscal year end.

Any remaining COSR funds may be deposited into the Project's operating reserve, subject to the Department's written approval.

If the Project meets the requirements of the PRP rehabilitation loan and complies with the PRP COSR requirements, the COSR portion of the loan will be forgiven.

FUNDING AMOUNTS





Funds Available

Approximately \$112 million is available under the 2023 PRP NOFA.

The NOFA contains three set asides:

- \$10 million set aside for small Projects, which are defined as having from 5 to 20 units.
- \$25 million set aside for Residential Hotels.
- \$25 million set aside for Projects that have been foreclosed on by the Department or by another public lender.

If the set asides are not fully utilized by the set aside application deadline, the remaining funds will be made available to the general funding pool.



Maximum Award Amount

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

- \$250,000 for each Assisted Unit that is restricted at 60 percent of AMI or less, except for Assisted Units for which section II(E)(1)(c) applies.
- \$25 million maximum per Project.



High-Cost Expenses

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

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

REHABILITATION LOAN AND APPLICATION





Rehabilitation Loans

For permanent financing provided at permanent loan conversion

Simple interest at 3% per annum on the unpaid principal balance

Annual .42% mandatory loan payment on the original principal balance

Loan term of 30 to 55 years



Application

- PRP is an over-the-counter process.
- Complete applications will be evaluated on a first-come, first-served basis.
- The Department will evaluate applications for compliance with the program requirements set forth in the PRP NOFA.
- **Incomplete PRP applications will be deemed ineligible, lose prioritization, and need to be resubmitted.**



Key NOFA Deadlines/Dates

The PRP application and all required supporting documents must be uploaded and submitted through the Department's online application portal by the applicable deadline.

- **Deadline for Set Aside Applications: April 29, 2024.**
- **Deadline for General Pool Applicants: May 28, 2024.**
- **Award announcements: Continuously, but no later than December 31, 2024.**
- **Construction must commence within 12 months or 18 months if utilizing Tax Credits.**

RESOURCES





PRP Information

PRP Website: www.hcd.ca.gov/grants-and-funding/programs-active/portfolio-reinvestment-program

- NOFA and Application
- Templates
- Webinar
- MHP Final Guidelines
- UMR Regulations
- Reporting and Compliance requirements



State Law: Preservation Noticing

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

For more information, visit Housing Policy Development's website:
<https://www.hcd.ca.gov/policy-research/preserving-existing-affordable-housing.shtml>

Questions?

Contact the Division of Housing Policy Development
preservation@hcd.ca.gov
(916) 263-2911



Please email questions to our PRP Team!

PortfolioReinvestment@hcd.ca.gov

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



PRP TEAM

ASSET MANAGEMENT & COMPLIANCE BRANCH

- **Lindy Suggs** AMC Branch Chief
- **Rebecca Weber** CRP Section Chief
- **Moira Monahan** Senior Specialist
- **Stephenie Alstrom** Senior Specialist
- **Carrie Keema** PRP Manager
- **Joan Carnago** PRP Specialist
- **Doug Gongaware** PRP Representative
- **Gwendolyn Drury** PRP Representative
- **Michelle Shatto-Lyon** PRP Representative
- **Lynn Wynn** PRP Representative

QUESTIONS AND ANSWERS

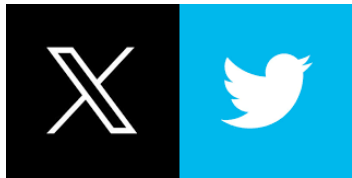




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