

**DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT
DIVISION OF STATE FINANCIAL ASSISTANCE**

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DATE: 10/7/2024

MEMORANDUM FOR: Interested Parties

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

SUBJECT: Notice of Omnibus Program Guideline Amendments
Supportive Services Costs Limits

ADMINISTRATIVE NOTICE NO. 24-05

This Administrative Notice establishes a formal written notification of administrative guidelines and policies that affect the operation of the California Department of Housing and Community Development's ("HCD" or "Department") financing programs. This format is used to identify, clarify, and record administrative guidelines and interpretations of public interest.

This Administrative Notice ("Notice") is issued pursuant to the Department of Housing and Community Development's (Department) authority under each affordable housing program statute authorizing the Department to adopt Guidelines for the administration of each program and **sets forth and establishes the Department's Supportive Services Cost Limits Policy ("Policy") applicable to all Department state multifamily rental finance programs subject to supportive services cost caps under the 2017 Uniform Multifamily Regulations, except in cases where this Policy conflicts with federal requirements.** The matters set forth herein are regulatory mandates and are adopted in accordance with the authorities set forth below: "Quasi-legislative regulations ... have the dignity of statutes ... [and]... delegation of legislative authority includes the power to elaborate the meaning of key statutory terms..." *Ramirez v. Yosemite Water Co.*, 20 Cal. 4th 785, 800 (1999).

The state multifamily rental finance programs that the Department has the authority to implement utilizing guidelines include, but may not be limited to, the following:

Program Name	Statutory Reference for Authority to Implement Utilizing Guidelines
Affordable Housing and Sustainable Communities program (AHSC)	Public Resources Code section 75215 subdivision (h)
Homekey program	Health and Safety Code section 50675.1.3 subdivision (e)
Housing for a Healthy California program (HHC)	Health and Safety Code section 53598 subdivision (b)
Joe Serna, Jr. Farmworker Housing Grant program (Serna)	Health and Safety Code section 50517.5 subdivision (g)
Loan Portfolio Restructuring program (LPR)	Health and Safety Code section 50560 subdivision (h)

Multifamily Housing Program (MHP)	Health and Safety Code section 50675.1.1 subdivision (d)
No Place Like Home program (NPLH)	Welfare and Institutions Code section 5849.5
Portfolio Reinvestment Program (PRP)	Health and Safety Code section 50607 subdivision (d)
Transit-Oriented Development program (TOD)	Health and Safety Code section 53560 subdivision (b)
Veterans Housing and Homelessness Prevention program (VHHP)	Military and Veterans Code section 987.005 subdivision (c)

This Notice amends all Department state multifamily rental finance program guidelines adopted or amended on or after November 15, 2017, which is the effective date of the 2017 Uniform Multifamily Regulations (UMRs) as well as any program guidelines released prior to the adoption of the 2017 UMRs that had stated cost caps. The provisions detailed herein will be applicable to any project with an award under the referenced guidelines in the attached omnibus amendment. Moving forward, the Department will update the guidelines for the identified programs consistent with this Notice. The update will be done as part of the respective programs' guideline amendment cycle, which will take place prior to the release of any future Notices of Funding Availability for such programs.

Capitalized terms below have the same meaning as set forth under UMR Section 8301 unless otherwise defined in this Notice.

Background

Supportive housing, commonly defined as permanent housing with no limit on length of stay that is linked to onsite or offsite services that assist the resident in retaining the housing, improving their health status, and maximizing their ability to live and, when possible, work in the community, is an effective model for improving tenant outcomes. Budget appropriations and voter approved initiatives have increasingly focused on investments to Department programs that support supportive housing over the past two decades.

Providing high-quality Supportive Services requires operating funding to hire skilled staff. The 2017 UMRs allowed Supportive Services Costs as eligible Operating Expenses within a Project's operating budget, within prescribed limits, for the first time. Specifically, UMR Section 8314 included the following subsections related to limits on Supportive Services Costs:

(e) For 2017, the following limits shall apply to total Supportive Services Costs paid as Operating Expenses. These limits shall be increased each year after 2017 at the rate of 2.5 percent per year:

- (1) \$4,080 per unit per year for supportive housing restricted to individuals or families experiencing chronic homelessness, as defined consistent with Health and Safety Code Section 50675.14;*

(2) \$3,060 per unit per year

(A) for supportive housing that is not restricted to individuals or families experiencing chronic homelessness as defined pursuant to Health and Safety Code Section 50675.14; and

(B) for units restricted to occupancy by Special Needs Populations under any Department programs ("Special Needs Population" has the same meaning as defined in Section 7301(s));

(3) \$1,051 per unit per year for other units where the Sponsor, their affiliate, or a service provider under contract to provide Supportive Services at the Project has both:

(A) qualified staff devoted exclusively to oversight and quality control of resident services in affordable housing, including the Project; and

(B) a system to track and report on tenant outcomes, such as changes in employment status and income;

(4) \$250 per unit per year for other units, where the Sponsor, their affiliate, or a service provider under contract does not satisfy the requirements set forth in subsection (e)(3).

(f) The following limits shall apply to Supportive Services Costs paid as Operating Expenses:

(1) The cost of staff supervision shall not exceed 10% of the cost of on-site staff salaries.

(2) Administrative overhead expenses, including accounting and human relations, shall not exceed 15% of the total Supportive Services Costs paid as Operating Expenses.

Subsequent to the adoption of the 2017 UMRs, some Department programs adopted higher Supportive Services cost limits through individual program guidelines. However, the limits on Supportive Services Costs were not intended to cover the full cost of providing best-practice, quality Supportive Services. Project Sponsors are expected to bring in supplemental third-party services (e.g., health services provided by the County health department) in addition to the Supportive Services provided on-site.

Many Project Sponsors have been unable to obtain third-party supplemental services consistently for the life of the Project. Project Sponsors that have not been able to obtain supplemental services funding are limited by the current cost limits in the amount of service costs that are considered an eligible Operating Expense in the Project's budget, and therefore these Projects often end up under-funding services. In addition, providers have found that these Supportive Services cost limits have hampered their ability to hire and retain talented staff, and to meet best practice staff-to-client ratios for service provision.

Under-funding services risks worse outcomes for tenants (e.g., higher rates of move-outs, greater risk of returns to homelessness) as well as operational issues and increased operational costs for the Project due to problems like damage to units.

As a result of concerns about negative impacts to tenants and Projects from the Supportive Services cost caps, Assembly Bill 2483 (Chapter 655, Statutes 2022), codified as Health and Safety Code Sections 1504.5, 50675.1, 50675.5, and 50675.15 (“AB 2483”), required the Department to, among other provisions, “examine to what extent caps are needed on the amount of supportive services that can be paid through project operating budgets on any project funded under [Chapter 6.7 of Part 2 of Division 31 of the Health and Safety Code].”.

The Department’s examination indicates that many Project Sponsors with supportive housing units have Supportive Services Costs run through their Project operating budget that are well below what is currently permitted under the Department’s current Supportive Services cost limits. The majority of these Projects in the years for which data is available have very low or zero cash flow available for Distributions after all other Operating Expenses, reserve deposits, and mandatory debt service are paid.

For some Projects with Section 8 or other forms of long-term rental or operating subsidy, Project cash flow will likely increase over time. To help these Projects provide quality Supportive Services, the Department is proposing to increase the limits for homeless and special needs Projects, as well as Projects providing Supportive Services to other Project residents as set forth in the policy below. The revised limits on Supportive Services Costs are based on best practices for staffing for Supportive Services (e.g., recommended caseloads for case managers of no more than 15:1 for units restricted to persons exiting homelessness and no more than 40 to 1 for non-homeless restricted units), and current salaries for Supportive Services staff as posted on talent.com.

In addition, the limits that were previously in place for staff supervision are increasing from 10% of the cost of on-site staff salaries to 15% of this cost, to enable the use of best-practice staff-to-client and supervisor-to-staff ratios.

Due to increasing concerns over higher operating costs for all Project units, including but not limited to insurance, and the need to help ensure that Supportive Services Costs paid through the Project budget do not unnecessarily constrain the payment of other necessary costs over time, the Department is not proposing to eliminate the Supportive Services cost limits entirely. The Department is also not proposing to increase the Supportive Services cost limits for units in the last category (item (3) shown below) because this category of services provision is typically not specialized, and not provided through the development of supportive service plans or tracked tenant outcomes. However, the proposed changes will cover a higher percentage of Supportive Services Costs for Projects seeking to provide higher levels of Supportive Services while also still incentivizing these Projects to seek other sources of funding specifically dedicated to Supportive Services, such as Medi-Cal, and Mental Health Service Act (MHSA) and Behavioral Health Services Act (BHSA) funds, as well as other local sources.

Description of Guideline Change - Applicable Program Guidelines as noted below will be amended to include the following;

(a) *Beginning in calendar year 2025, the following limits shall apply to total Supportive Services Costs paid as Operating Expenses. These limits shall be increased each year after 2025 at the rate of 3.5 percent per year:*

(1) *\$10,000 per unit per year*

(A) *for supportive housing restricted to individuals or families experiencing chronic homelessness or homelessness, as defined consistent with Health and Safety Code Section 50675.14;¹ and*

(B) *for supportive housing units restricted to occupancy by special needs populations under Department programs subject to this Administrative Memo (“Special needs population” has the same meaning as set forth in individual program guidelines);*

(2) *\$4,000 per unit per year for other units² where the Sponsor, their affiliate, or a service provider under contract to provide Supportive Services at the Project has both:*

(A) *qualified staff devoted exclusively to oversight and quality control of resident services in affordable housing, including the Project; and*

(B) *a system to track and report on tenant outcomes, such as changes in employment status and income;*

(3) *Except as noted below for the VHHP program, \$326 per unit per year for other units, where the Sponsor, their affiliate, or a service provider under contract does not satisfy the requirements set forth in subsection (2) above.³*

(b) *Beginning in 2025, the following limits shall apply to Supportive Services Costs paid as Operating Expenses:*

(1) *The cost of staff supervision shall not exceed 15% of the cost of on-site staff salaries.*

¹ *For units assisted by the Veterans Housing and Homelessness Prevention (VHHP) program, this category includes Supportive Housing Units restricted to Veterans who are experiencing Chronic Homelessness, Units restricted to persons who are experiencing Chronic Homelessness by another public agency program, Supportive Housing Units restricted to Veterans with a Disability Experiencing Homelessness, and other Units restricted to persons who are Veterans with a Disability Experiencing Homelessness. (Capitalized terms in this footnote have the same meaning as those set forth in the VHHP guidelines.)*

² *For units assisted by the Veterans Housing and Homelessness Prevention (VHHP) program, this category includes Units that are restricted to Extremely Low-Income households, but not to Veterans who are experiencing Chronic Homelessness or Veterans with a Disability Experiencing Homelessness. (Capitalized terms in this footnote have the same meaning as those set forth in the VHHP guidelines.)*

³ *For units assisted by the Veterans Housing and Homelessness Prevention (VHHP) program, the amount for this category of units will remain as currently allowed under this program.*

(2) Administrative overhead expenses, including accounting and human relations, shall not exceed 15% of the total Supportive Services Costs paid as Operating Expenses. Staff supervision will not be considered an administrative overhead expense.

(c) Increased Availability of Services and Tenant Outcome Measures: In conjunction with the changes to the Supportive Services cost limits, the Department may collect more standardized information on Supportive Services provision and tenant outcomes from Project Sponsors.

(d) To streamline review of the adequacy of the Department's Supportive Services cost limits, once every three years the Department will review current salary data for supportive services staff and supervisors using readily available standardized on-line salary databases. In deciding whether to make adjustments to the Supportive Services cost limits, consideration will also be given to client-to-staff ratio requirements and best practices, as well as other project operations costs.

Applicability: This amendment is applicable to Department-awarded rental housing Projects funded under programs subject to this memo that meet one or more of the following conditions:

1. The Project is subject to guidelines adopted or amended on or after November 15, 2017 of one or more applicable programs;
2. The Project's Regulatory Agreement was recorded after November 15, 2017, triggering applicability of the 2017 UMRs;
3. In the event that the cost caps under this memo conflict with those of another funding source not subject to this memo, the most restrictive cost caps will apply.

Effective Date: For the programs subject to this memo:

1. These limits will be included in all future NOFAs issued by the Department, as applicable, and apply to all multifamily rental projects seeking funding under future NOFAs.
2. For projects that were awarded funds prior to the effective date of this memo but have not yet closed their construction or permanent financing with the Department, these new limits will take effect as part of that next loan closing process.
3. For all other projects in HCD's portfolio subject to this memo, these limits will take effect as part of Department's review and approval of the Project's annual operating budget or annual audit.

Attachment

OMNIBUS MODIFICATION TO PROGRAM GUIDELINES
SUPPORTIVE SERVICES COST CAP LIMITS

WHEREAS, the Department is authorized to adopt, promulgate, amend, repeal and administer standards, requirements, procedures or guidelines (collectively Program Guidelines) for financial assistance offered pursuant to Department housing finance programs, through the notices of funding availability as identified below;

WHEREAS, pursuant to the statutory authority set forth above in the memorandum preceding this modification, the Program Guidelines shall not be subject to the requirements of Chapter 3.5 (commencing with Section 11340) of Part 1 of Division 3 of Title 2 of the Government Code;

THEREFORE, by the undersigned execution of the Department's Director, the Department hereby adopts and amends into the Program Guidelines the following omnibus addendum thereto, as if such provision were originally set forth in each publication of the Program Guidelines:

Appendix X: Allowable Supportive Service Cost Cap Increases

(a) Beginning in calendar year 2025, the following limits shall apply to total Supportive Services Costs paid as Operating Expenses. These limits shall be increased each year after 2025 at the rate of 3.5 percent per year:

(1) \$10,000 per unit per year

(A) for supportive housing restricted to individuals or families experiencing chronic homelessness or homelessness, as defined consistent with Health and Safety Code Section 50675.14;⁴ and

(B) for supportive housing units restricted to occupancy by special needs populations under Department programs subject to this Administrative Memo ("Special needs population" has the same meaning as set forth in individual program guidelines);

(2) \$4,000 per unit per year for other units⁵ where the Sponsor, their affiliate, or a service provider under contract to provide Supportive Services at the Project has both:

(A) qualified staff devoted exclusively to oversight and quality control of resident services in affordable housing, including the Project; and

⁴ For units assisted by the Veterans Housing and Homelessness Prevention (VHHP) program, this category includes Supportive Housing Units restricted to Veterans who are experiencing Chronic Homelessness, Units restricted to persons who are experiencing Chronic Homelessness by another public agency program, Supportive Housing Units restricted to Veterans with a Disability Experiencing Homelessness, and other Units restricted to persons who are Veterans with a Disability Experiencing Homelessness. (Capitalized terms in this footnote have the same meaning as those set forth in the VHHP guidelines.)

⁵ For units assisted by the Veterans Housing and Homelessness Prevention (VHHP) program, this category includes Units that are restricted to Extremely Low-Income households, but not to Veterans who are experiencing Chronic Homelessness or Veterans with a Disability Experiencing Homelessness. (Capitalized terms in this footnote have the same meaning as those set forth in the VHHP guidelines.)

(B) a system to track and report on tenant outcomes, such as changes in employment status and income;

(3) Except as noted below for the VHHP program, \$326 per unit per year for other units, where the Sponsor, their affiliate, or a service provider under contract does not satisfy the requirements set forth in subsection (2) above.⁶

(b) Beginning in 2025, the following limits shall apply to Supportive Services Costs paid as Operating Expenses:

(1) The cost of staff supervision shall not exceed 15% of the cost of on-site staff salaries.

(2) Administrative overhead expenses, including accounting and human relations, shall not exceed 15% of the total Supportive Services Costs paid as Operating Expenses. Staff supervision will not be considered an administrative overhead expense.

(c) Increased Availability of Services and Tenant Outcome Measures: In conjunction with the changes to the Supportive Services cost limits, the Department may collect more standardized information on Supportive Services provision and tenant outcomes from Project Sponsors.

(d) To streamline review of the adequacy of the Department's Supportive Services cost limits, once every three years the Department will review current salary data for supportive services staff and supervisors using readily available standardized on-line salary databases. In deciding whether to make adjustments to the Supportive Services cost limits, consideration will also be given to client-to-staff ratio requirements and best practices, as well as other project operations costs.

The Program Guidelines subject to this addendum are set forth and listed immediately below and as follows:

Affordable Housing and Sustainable Communities⁷ (Division 44, Part 1 Chapter 2 of the Public Resources Code) Program Guidelines, addition of Appendix C or D, as applicable:

- Round 3 [Guidelines](#) (effective July 17, 2017; Amended August 14, 2017; October 23, 2017; January 29, 2018; July 31, 2018; and February 24, 2021);
- Round 4 [Guidelines](#) (effective October 29, 2018; Amended February 19, 2019 and February 24, 2021);
- Round 5 [Guidelines](#) (effective October 31, 2019; Amended December 9, 2019);
- Round 6 [Guidelines](#) (effective February 24, 2021);
- Round 7 [Guidelines](#) (effective December 15, 2022);
- Round 8 [Guidelines](#) (effective December 14, 2023);

⁶ For units assisted by the Veterans Housing and Homelessness Prevention (VHHP) program, the amount for this category of units will remain as currently allowed under this program.

⁷ Any changes to AHSC guidelines remain ineffective until such time as the Strategic Growth Council ratifies or adopts the changes to the AHSC guidelines.

Homekey (Section 50675.1.1 and section 50675.1.3 of the Health and Safety Code (HSC)), Program Guidelines, addition of Appendix B, as follows:

- Round 1 [Guidelines](#) (effective July 16, 2020; Amended June 28, 2022);
- Round 2 [Guidelines](#) (effective September 9, 2021; Amended January 14, 2022, and May 5, 2022);
- Round 3 [Guidelines](#) (effective March 29, 2023; Amended November 15, 2023);

Housing for Healthy California Program (Part 14.2 (commencing with Section 53590) of Division 31 of the Health and Safety Code.) Program Guidelines, addition of Appendix A, as follows:

- Article I (Round 1) [Guidelines](#) (effective May 13, 2019; Amended February 28, 2020);
- Article I (Round 2) [Guidelines](#) (effective May 13, 2019; Amended February 28, 2020);
- Article II (Round 1) [Guidelines](#) (effective May 13, 2019; Amended February 28, 2020);

Joe Serna, Jr. Farmworker Housing Grant Program (Section 50515.2 of Chapter 3.2 Part 2 of Division 31 of California Health and Safety Code); Program Guidelines, addition of Appendix A or B, as applicable:

- 2019 Funding Round [Guidelines](#) – (effective June 19, 2019);
- 2021 Funding Round [Guidelines](#) – (effective June 19, 2019);
- 2022 Funding Round (MFSN Round 1) [Guidelines](#) (effective March 30, 2022);
- 2023 Funding Round (MFSN Round 2) [Guidelines](#) (effective May 18, 2023);

Loan Portfolio Restructuring Program (Sections 50560, 50561 and 50562, Chapter 3.9 of Part 2 of Division 31 of the Health and Safety Code (“Chapter 3.9”)) Program Guidelines, addition of Appendix A, as follows:

- 2019 Funding Round [Guidelines](#) (adopted 9/9/2019);

Multifamily Housing Program (Section 50675 of Chapter 6.7 of Part 2 of Division 31 of the Health and Safety Code) Program Guidelines, addition of Appendix A or B, as applicable:

- Round 1 (2019) [Guidelines](#) (effective June 19, 2019);
- Round 2 (2020) [Guidelines](#) (effective June 19, 2019);
- Round 3 (2020) [Guidelines](#) (effective June 19, 2019);
- Round 4 (2021) [Guidelines](#) (effective June 19, 2019);
- Round 5 (MFSN Round 1) [Guidelines](#) (effective March 30, 2022; Amended May 5, 2022);
- Round 6 (MFSN Round 2) [Guidelines](#) (effective May 18, 2023);

No Place Like Home (Government Code Section 15463, Part 3.9 of Division 5 (commencing with Section 5859.1) of the Welfare and Institutions Code, and Section 5890 of the Welfare and Institutions Code) Program Guidelines, addition of Appendix A, as follows:

- Round 1 [Guidelines](#) (effective July 17, 2017);
- Round 2 [Guidelines](#) (effective September 2019);
- Round 3 [Guidelines](#) (effective October 23, 2020);
- Round 4 [Guidelines](#) (effective October 23, 2020);

Portfolio Reinvestment Program (Chapter 5.5 (commencing with section 50606) to Part 2 of Division 31 of the Health and Safety Code (HSC)) Program Guidelines, addition of Appendix A, as follows:

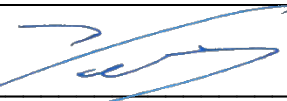
- 2022 Funding Round [Guidelines](#) (effective March 28, 2022; Amended July 28, 2023; Amended August 31, 2023);
- 2023 Funding Round [Guidelines](#) (effective December 28, 2023);

Transit-Oriented Development Housing Program (Part 13 (commencing with Section 53560) of Division 31 of the Health and Safety Code (HSC)) Program Guidelines, addition of Appendix A, as follows:

- Round 4 [Guidelines](#) (effective April 30, 2020);

Veterans Housing and Homelessness Prevention (Section 987.001 of Chapter 6 of Division 4 of the Military and Veterans Code) Program Guidelines, addition of Appendix A or B, as applicable:

- Round 1 [Guidelines](#) (adopted February 18, 2015); Round 2 [Guidelines](#) (effective October 13, 2015); Round 3 [Guidelines](#) (adopted February 14, 2017);⁸
- Round 4 [Guidelines](#) (effective May 9, 2018; Amended May 18, 2018; Amended June 22, 2018); Round 5 [Guidelines](#) (effective November 8, 2019); and Round 6 [Guidelines](#) (effective November 8, 2019);⁹
- 2022 Funding Round (MFSN Round 1) [Guidelines](#) (effective March 30, 2022);
- 2023 Funding Round (MFSN Round 2) [Guidelines](#) (effective May 18, 2023)

Approved by: 	<u>10/4/2024</u>
Gustavo Velasquez, Director	Date

⁸VHHP Rounds 1, 2 and 3: cost caps are included in Section 108(d) of the Guidelines vs. a reference to the UMRs.

⁹VHHP Rounds 4, 5, and 6: cost caps are included in Section 108(c) of the Guidelines vs. a reference to the UMRs