MENTAL HEALTH SERVICES ACT

HOUSING TOOLKIT

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Mental Health Services Act Housing Toolkit

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Introduction

The Mental Health Services Act (MHSA) provides funding for services and supports that promote recovery and wellness for adults and older adults with severe mental illness and resiliency for children and youth with serious emotional disorders and their family members. In order to receive MHSA funding, each county must develop a three-year program and expenditure plan for MHSA Community Services and Supports. A portion of the MHSA funds can also be used for capital facilities to support community-based integrated service experiences for clients and their family members, consistent with the county's Community Services and Supports Program and Expenditure Plan. Capital facilities can include housing and other buildings that enable mental health clients and their family members to live in the most independent, least restrictive housing possible in their local community and to receive services in community-based settings that support wellness, recovery and resiliency.

(Please note: As of January 2006, the guidelines for use of MHSA funds for Capital Facilities and Technology have not been completed. Decisions are also pending on the amount of funds that will be needed for technology infrastructure and the amount of funds that will be available for other capital investments. It should be noted that the principles outlined below will apply to the Capital Facilities funds when those guidelines are approved, and these principles should guide the use of any Community Services and Support or other MHSA funding that is designated for capital facilities expenditures. Counties should also note that MHSA funds other than the Capital Facilities may be used for capital facilities expenses if that use is consistent with the county's plan and with existing MHSA guidelines.**)**

Principles for use of MHSA capital funds

MHSA funds are to be used to fundamentally transform the public mental health delivery system in California with the goal of a system oriented toward wellness, recovery, resilience and the reduction of involuntary services. Decisions about how to use the MHSA funds available for capital expenditures must be guided by the overarching goal of transformation. Each County's ideas about how to use capital funds should be looked at alongside the County's Community Services and Supports Plan. The County should clearly demonstrate how the planned use of the capital money will create resources to support the implementation of the Community Services and Support Plan.

Capital investments should:

- Produce long-term impacts with lasting benefits for clients such as reduction in the use of involuntary services, an increase in community-based, less restrictive settings, housing stability and/or savings by reducing ongoing costs including inappropriate incarceration or institutionalization
- Increase the number and variety of community-based facilities, which support integrated service experiences for clients and their family members
- Support a full continuum of community-based living options that promote client choice and preferences, client independence, and client integration in the larger community

- Develop community-based living options that will be available for the long term such as housing that is owned by community-based non-profits and is dedicated to long-term use by clients or leases that guarantee access and affordability for an extended period of time
- Leverage additional funding for client housing and buildings where clients receive services and supports from other mainstream local, state and federal sources

Using MHSA Funds for Developing and Operating Supportive Housing

There is no single "best" type of housing for mental health clients and their families. **Supportive housing** incorporates many features that are important to clients and their families. The materials that follow provide information about:

- Different types of supportive housing
- Options for creating supportive housing
- Examples of how supportive housing is financed
- Examples of how MHSA funding could be used to develop and operate supportive housing for clients and their families

Housing Needs and Housing Affordability[1]

Throughout California, affordable housing is in short supply. In some locations, this is especially true for people with ongoing mental health issues and other special needs. Stagnating household incomes have exacerbated the State's affordable housing problems. Household income of the median renter has failed to keep pace with inflation; the incomes of low-income renters, in particular, registered the largest decline between 1989 and 2002, after adjusting for inflation.

Many households pay significantly more than the recommended 30 percent of their income toward housing. Low-income households, in particular, are struggling with housing costs, with many spending more than half of their incomes on housing.

Not surprisingly, households receiving support from California's cash assistance programs face the most significant affordability problems. In some counties, monthly housing costs alone exceed the amount of monthly support received. The Supplemental Security Income/State Supplementary Payment (SSI/SSP) program provides cash assistance to the elderly, blind, and disabled. The fair market rent (FMR) for a studio apartment exceeds the SSI/SSP grant for an elderly, blind, or disabled recipient in 13 counties, and exceeds 50 percent of the grant in 40 counties. (See chart below.)

County	SSI/SSP grant amount for single recipient	FMR for Studio	% of grant needed to rent Studio	Rent is > / < grant by
AVG	**$765**	**$546**	**70.2%**	**($219)**
Santa Clara	$778	$1,294	166.3%	$516
Alameda	$778	$936	120.3%	$158
Los Angeles	$778	$674	86.6%	($104)
San Joaquin	$778	$522	67.1%	($256)
Colusa	$778	$373	47.9%	($405)

Assistance targeted toward housing also lags far behind demand. For example, the Los Angeles Housing Authority's waiting list for public housing increased more than 25 percent in 2002 over the prior year; the waiting list for public or Section 8 housing grew by over 2,000 families each month during the same period. The city estimates that it is meeting only 8 percent of need.

[1] Most of the information in this section is from the California Budget Project's *Locked Out 2004: California's Affordable Housing Crisis*, January 2004, pages 8, 13, and 24.

What is Supportive Housing?

Supportive housing is permanent, affordable housing linked to health, mental health, employment, and other support services which enable people to stay housed and live independent, stable and productive lives in the community.

While there are different types of supportive housing, good quality supportive housing has **six** key ingredients, which are listed below:

Housing Choice

- Clients have opportunities and assistance in exploring a range of housing options / preferences.
- Clients have the choice of living alone or with family members or roommates that they select.
- Clients / tenants are offered a choice of units (within the constraints of available resources). There are several ways in which housing choice can be achieved, including (for example):
  - Offering clients tenant-based rent subsidies that can be used to rent an apartment from any willing landlord with a unit that meets program standards (e.g. quality, cost)
  - Offering clients a choice of units within a project if there is more than one vacancy
  - Offering clients the option to reject a unit offered in a project while maintaining eligibility for other types of housing assistance
  - Offering the option of tenant-based rent subsidies to residents who have lived in a building with on-site services after a period of successful tenancy
  - Allowing tenants to furnish their own living space (in buildings that offer furnished rooms or apartments)

Housing and Services Roles are Distinct

- Housing (and/or housing subsidies) and support services are provided by separate organizations or by separate divisions within the same organization
- Housing and support services staff have distinct roles that are clearly defined, and they report to different supervisors
- There are clear procedures for communication between housing and support services staff, including procedures to safeguard privacy and confidentiality while also providing for coordination to help tenants maintain housing stability and to address clients' needs and preferences

Housing Affordability

- Tenants pay no more than 30-50% of their income for rent (preferably closer to 30%)
- Tenants receive and/or are offered assistance in obtaining and maintaining eligibility for subsidies that help cover rent costs if needed

Integration

- Housing is in buildings that include a mix of people with and without a diagnosis of mental illness
- If housing is provided in buildings that include only people with a diagnosis of mental illness, the buildings fit into the surrounding neighborhood in terms of scale, quality, and appearance
- Housing is located in neighborhoods that offer opportunities for access to a wide range of community resources, including opportunities to establish relationships with people with and without disabilities

Tenancy Rights / Permanent Housing

- Clients / tenants can keep their housing as long as they pay the rent and don't violate terms of a lease or rental agreement
- Lease or rental agreement terms and house rules (e.g. about pets, visitors, use of shared facilities) are consistent with those offered to tenants without disabilities
- Each person or household (which may include family members or room-mates chosen by the consumer) has privacy in his/her/their own living quarters; bedrooms are not shared with un-related person unless desired
- Each resident controls access to his/her own unit

Services are Recovery-Oriented and Adapted to the Needs of Individuals

- Clients can accept or refuse treatment and support services without losing their housing
- Services are designed to help clients get and keep stable housing
- Services are flexible and adapt to meet clients' changing needs
- Services address a range of needs including mental health, substance use management and recovery, community living, and employment
- Services are designed to help clients access a wide array of opportunities in the community

Types of Supportive Housing

While there may not be a single perfect model, there are a number of preferred housing models for supportive housing. The housing setting can vary and is based on a range of factors including the tenant's preference, the type of housing available, affordability, and the history of a local community's real estate market. For example, in cities, large apartment buildings are typical while in suburban and rural communities; single-family homes are more common.

MODELS FOR SECURING PERMANENT SUPPORTIVE HOUSING

	SCATTERED SITES	SINGLE SITE
OWNERSHIP	ACQUISITION • Non-profit builds or acquires single family house(s) • Non-profit acquires condominium(s)	DEVELOPMENT • Non-profit acquires an existing building (and typically renovates it) • Non-profit constructs new housing
LEASING	PRIVATE MARKET • Non-profit rents units from landlords, scattered throughout community and leases them to clients • Non-profit identifies landlords willing to rent to clients; client rents directly from landlord	MASTER LEASING • Non-profit leases an entire building, or units or floors in a building DEDICATED UNITS • Non-profit negotiates with developer to set aside units in new or existing development

OWNERSHIP VS LEASING

	PROS	CONS
OWNERSHIP	• Assures permanent use of the units as affordable supportive housing (if properly financed) • Non-profit sets operating budget, and can assure that staffing, operating expenses and replacement reserves are adequately funded • New construction enables the non-profit to control how the building is designed • Acquisition and rehabilitation may be positively received in community as a mechanism for "cleaning up" a deteriorated building or site	• Acquiring or developing property is time-consuming and requires upfront capital; it can take up to 2-3 years, from concept to lease-up • Requires substantial upfront commitment of funding • Acquiring or developing affordable housing is a highly technical area that requires the expertise of a housing "developer"

	PROS	CONS
LEASING	• Units can be brought online quickly • In some cases, building owner will engage property management services, relieving non-profit of this work • Leasing of units is less highly technical than new construction or acquisition/rehabilitation	• Leases will be short-term, typically from 1-10 years • Each leased unit must be covered by some form of rental subsidy (Sec. 8, S+C) • Tenancies can be jeopardized if rental subsidy amount doesn't keep pace with market rents • In hot real estate market, may be difficult to find landlords willing to lease units

SCATTERED SITES VS SINGLE SITE

	PROS	CONS
SCATTERED SITE	• Integrates clients into the community • Non-profit usually does not need to engage property management services	• Lack of space to deliver services presents challenge and adds cost to services budget • Lack of common space inhibits ability to build community and foster tenant leadership • If unit is located in an environment which is unhealthy, can lead client to return to unhealthy behaviors • Neighbors can display a negative attitude toward client • Isolation of client can be a problem; inhibits peer support network
SINGLE SITE	• Enhances ability to provide services in a more centralized manner; allows for spontaneous outreach as tenants enter and leave building • Provides the non-profit with the ability to create a healthy living environment • Community-building activities are easier to organize	• Project may face community opposition as a development which houses a "massing" of clients who may be viewed as undesirable (NIMBYism) • Certain client groups may not do as well if they are living in an environment which is only comprised of tenants with the same issues • Tenants may be less likely to form relationships outside the building

Considerations for Specific Models

Security of Units

The most secure models are Development and Scattered Site Acquisition, where the owner owns the property or properties through a Grant Deed. Dedicated Units are also very secure. If properly negotiated (by incorporating the set-aside units in the developer's regulatory agreements with the jurisdiction), this model can provide long-term affordability and security (usually up to 30 years). Master Leasing is less secure, as leases will typically run only from 1 to 10 years. This form can be made more secure if the Master Tenant negotiates an option to purchase the building at the end of the lease term. Private market approaches are the least secure, with leases typically only of one-year duration (and often month-to-month after the first year). It is possible to lose a unit once a tenant vacates or if a building in which a unit is located is sold.

Targeting Specific Special Needs Populations

Targeting of specific populations such as mental health consumers is more difficult with Development, Dedicated Units, and Scattered Site Acquisitions, since some of the funding sources for these approaches may be restrictive.[2] In Master Leasing and Private Market projects, targeting can be achieved more easily, since these approaches can be funded through local sources, which tend to be less restrictive.

Tenants Rights

State Landlord/Tenant Laws apply uniformly to all models.

Tenant Involvement

Tenant involvement in the project will be more likely with Development, Dedicated Unit or Master Leased projects. With Scattered Site Acquisition or Private Market approaches, it is more difficult to engage tenants to participate in group activities. It is also less likely that tenants will find apartments in projects that use tenant councils. Consequently, tenants may have less input into the operation of the building and management policies.

Vacancies

In the Development, Dedicated Unit, and Scattered Site Acquisition models, the owner is responsible for vacancy loss if a unit is not filled after the tenant has given reasonable notice. In Master Leasing, the project sponsor makes a monthly lease payment regardless of whether a unit is occupied. With the Private Market, the tenant is responsible for giving adequate notice. After that, the owner is responsible.

Property Management

In the Development, Dedicated Unit, and Scattered Site Acquisition models, the owner is responsible for day-to-day property management, such as waiting list management, screening and eligibility, lease enforcement, maintenance and repairs. If the owner is a Supportive Service provider, some of these functions may be contracted out to a Housing Provider or another organization with property management expertise. In the Master Leasing model, these responsibilities are typically delegated by the owner to the Master Tenant. The

[2] Refer to the Toolkit resource on Fair Housing for more information.

owner can limit his/her liability via the Master Lease. In the Private Market model, these responsibilities remain with the owner.

Providing Supportive Services

In the Development, Dedicated Unit, Scattered Site Acquisition and Master Leasing models, the owner or master tenant is responsible for providing supportive services, or ensuring these services are provided through contracts or MOUs with partnering organizations. In the Dedicated Unit model, careful collaboration is necessary among the housing developer and service provider(s) to ensure that the needs of supportive housing tenants are integrated into the project design, to clearly articulate how the integration of the different populations will work. In the Private Market model, the owner typically assumes no responsibility for support services. Successful relationships with private landlords include a formal written or verbal agreement about the role of a support services provider in responding to and mediating any issues prior to the owner initiating any eviction procedure.

Neighborhood Approvals

In the Development and Dedicated Unit models, there are typically opportunities for neighborhood input, many of which are mandatory. Public hearings may be required relating to planning, zoning and even historic preservation issues. In the Master Leasing and Scattered Site Acquisition models, approvals are typically required only as imposed by public funding. In the Private Market approach there are generally no approvals needed.

Relocation

With Development (if acquiring an existing building), Dedicated Units (if units are set aside in an existing building), Scattered Site Acquisition, and Master Leasing, the relocation issues of existing tenants must be carefully reviewed and can be very costly. There are generally no relocation issues to consider in the Private Market approach.

Mental Health Services Act, Supportive Housing and Fair Housing

Implementation of California's Mental Health Services Act (MHSA) provides important opportunities to expand the availability of housing for people with mental illnesses and their families. The processes of developing and managing quality affordable and supportive housing can be daunting, and housing sponsors, service providers and property managers must do so in compliance with the nation's fair housing laws. These laws are designed to ensure that people who have faced discrimination in the past are treated fairly in the housing market. Fair housing laws have implications for all stages of the process of developing and managing housing for people with disabilities, including which groups or individuals can be targeted, how housing units are marketed, how prospective tenants are selected and how to deal with behavioral issues that impact tenancy. Project sponsors who intend to develop and operate housing that is reserved for people with a particular disability, such as mental illness, need to be aware that using MHSA funds in combination with federal funding can raise some complex legal issues that must be reviewed before making final decisions about the design and financing for a project.

Fair housing as it applies to supportive housing is very complex and in many ways an unsettled area of the law. The following are brief discussions of some of the key areas where careful consideration of fair housing requirements is needed when planning for the development and management of supportive housing for people with disabilities. For more substantive discussions, see *Between the Lines: A Question and Answer Guide on Legal Issues in Supportive Housing, California Edition*, published by the Corporation for Supportive Housing (CSH). This document is available online at www.csh.org or by calling CSH at (510) 251-1910. Another useful resource is the Bazelon Center for Mental Health Law, in particular *What "Fair Housing" Means for People with Disabilities* and other information available on the housing issues page. An additional resource is "*Safe at Home: A Reference Guide for Public Housing Officials on the Federal Housing Laws Regarding Admission and Eviction Standards for People with Criminal Records"* published by the Legal Action Center. See www.lac.org

This discussion is not intended to replace sound legal advice or consultation with government agencies. When planning for the development of supportive housing, seek legal counsel and review specific issues with your intended public sector funders.

Blending Funds and Reserving Housing for People with Disabilities

Many supportive housing providers seek to serve a designated special needs population, such as people who are homeless, people with disabilities such as mental illness, or people with substance use problems. There are many legal issues related to limiting tenancy to a specific group of people, even if the group constitutes a protected segment of the population, such as those with disabilities due to mental illness. One of the most complicated legal issues relates to blending funding sources and the limitations on reserving housing for people with disabilities. (See Chapter Four and Appendix 3 of *Between the Lines* for more information about reserving housing for designated populations and blending funding, respectively.)

When a project sponsor wishes to reserve housing, or some part of the housing, for people with disabilities, the following questions should be asked:

- Which fair housing laws apply to the project?
- What funding is received by the project and does the funding source either prohibit or authorize reserving the housing for a specific population of tenants?

If a project **does not** receive federal funding, the ability to reserve housing for people with disabilities is governed by the Fair Housing Act and state and local fair housing laws (and if a state or local governmental housing program is involved, Title II of the ADA). The Fair Housing Act prohibits discrimination against disabled people and, in its preamble, states that a housing provider may legally restrict occupancy to people with disabilities. Federal regulations implementing the federal Fair Housing Act imply that it is permissible to designate units or entire developments as available only for people with disabilities as provisions of the regulation allow housing providers to ask questions to determine whether an applicant for housing meets the requirements for a disabled unit, including questions regarding whether the applicant has a particular type of disability if the unit or development is targeted to a specific population.

However, if a project **does** receive federal funding (e.g., McKinney SHP and Shelter Plus Care, HOPWA, Section 811 and Section 202[3], etc.), an additional fair housing law, Section 504 of the Rehabilitation Act of 1973, applies. Section 504 permits federally funded housing to be limited to disabled persons **only** if the housing is limited by federal statute or executive order to serve people with disabilities. For example, a project funded under the McKinney Shelter Plus Care, the Section 811, or the Housing Opportunities for People with AIDS (HOPWA) programs may exclude people **without** disabilities.

Section 504, however, also limits a housing sponsor's ability to reserve its housing or a part of its housing for people with one particular disability, unless this sub-targeting is specifically authorized in a federal statute.

For example, the Shelter Plus Care program is limited by statute to people who are homeless with disabilities, "primarily persons who are seriously mentally ill, have chronic problems with alcohol, drugs, or both, or who have acquired immunodeficiency syndrome and related diseases." Although the implementing regulations for Shelter Plus Care allow housing providers to establish an admissions preference for one or more of the statutorily targeted populations, the regulation also states that housing providers cannot prohibit other eligible disabled homeless persons who are not in the provider's narrower target group from residing in the housing unless the provider can show that there is a sufficient demand for the units from the targeted population **and** that other eligible disabled persons would not benefit from the primary supportive services provided. These conditions are extremely difficult to satisfy. Therefore this rule is interpreted to permit targeted marketing to a member of the narrower target group, for example homeless people with mental illness, but not to permit exclusion of any other disabled homeless people. This practice has come to be known as "targeting, but not excluding" a narrower sub-group of a statutory authorization to serve all disabled people.

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[3] Low-income housing tax credits or loans of the proceeds of tax-exempt bonds are currently not considered federal financial assistance for Section 504 purposes.

These fair housing provisions mean that when a project sponsor wishes to use Mental Health Services Act (MHSA) funds blended with federal funding to provide housing for people who meet the criteria for MHSA services, a careful analysis is required. MHSA funds can be used to support capital, operating and services costs related to housing only for those disabled by mental illness or serious emotional disturbance (SED) and (when appropriate) their family members. Many federal housing programs are intended to provide housing opportunities to a more broadly defined group of people with disabilities, while these programs may be used for housing that will "target (people with mental illnesses), but not exclude" people with other types of disabilities who could benefit from the supportive services provided. In practice, this means that if a project sponsor wishes to serve those disabled by mental illness and the project is blending MHSA funding with such a federal housing program, it should be sure to also secure other sources of services and/or operating funding that would allow for otherwise eligible disabled people to be served as well. Project sponsors who are using MHSA funding with other state or local funding, or with some federal programs such as Shelter + Care, may find it easier to reserve housing for people with a particular disability, such as those who meet the criteria for MHSA services.

From this discussion, it is clear that reserving housing for people with a particular disability can be a complex legal area, particularly when using federal funds. Sponsors should carefully think through their options and consult their attorney to plan their housing targeting and marketing approach.

Selecting Individual Tenants: Eligibility Criteria and Selection Process

Housing sponsors outline who can access their housing units in their eligibility criteria used to screen prospective applicants and in the selection and intake processes. Eligibility criteria for housing must be related only to the applicant's ability to fulfill the responsibilities of tenancy, mainly paying the rent, maintaining the premises rented, and not disturbing the quiet enjoyment of others.

Fair housing laws provide protections for members of "protected classes" (meaning groups of people who are given special legal protections because they may face discrimination) relative to accessing housing. Fair housing laws prohibit the imposition of "special" eligibility criteria for members of protected classes, for example, independent living readiness, and pre-occupancy requirements that applicants be sober.

Fair Housing Act Regulations set forth questions that may be asked of applicants for housing. They are limited to:

- Questions about an applicant's ability to meet the requirements of tenancy (or ownership if applicable). This would include inquiries into such things as income if the housing is income-restricted.
- Inquiries to determine whether an applicant is qualified for a housing unit, for example if he/ she has a disability, if the housing is only available to people with a disability or people with a particular disability.
- Inquiries to determine whether an applicant is qualified for a priority available to people with a disability or people with a particular disability.

- Inquiries to determine whether an applicant is a current illegal abuser or addict of a controlled substance.
- Inquiries to determine whether an applicant has been convicted of the illegal manufacture or distribution of a controlled substance. (Housing providers may also ask applicants if they have criminal convictions, if the request for such information is related to the terms and conditions of tenancy and determining whether the applicant can comply with the lease.)

The philosophy and goals of a supportive housing project may inform which of the above questions are asked and how the answers are used. People with mental illnesses and their families face many barriers in accessing housing and for those with co-occurring histories of mental health and substance use issues, these barriers are compounded. If the goal is to provide housing stability for these clients, screening people out of housing based on a history of substance use is not consistent with that goal. The housing project sponsor should anticipate that clients may still be using illegal drugs or alcohol, or relapse at some point, and plan a service strategy that is responsive to client needs. Rather than using information about prior or current substance use to screen out the applicant, the housing sponsor can use this information to shape the service plan.

Fair housing laws further require that housing providers ask the same screening questions of all applicants and use the same selection and intake processes for all tenants. As indicated above, if there are housing units reserved for people with disabilities or a particular disability, the sponsor is permitted to ask for documenting information to verify an applicant's qualification for such units, while protecting the applicant's right to confidentiality. In general a housing provider cannot request information regarding the severity of the disability or the applicant's medical status, nor require the applicant to provide medical records to document the disability, other than a doctor's or medical professional's letter stating that an applicant is disabled.

Furthermore, having a services component in housing does not entitle a provider to ask additional eligibility questions, even if they are uniformly asked of all applicants. Questions asked of applicants must relate to lawful conditions of renting housing. In practice, this means that psychosocial histories and questions typically part of psychosocial evaluations should **not** be used in making tenant-selection decisions. The successful operation of supportive housing sometimes requires obtaining some psychosocial information in order to provide appropriate and needed services to the tenant. Psychosocial information not related to a tenant's ability to pay rent, maintain the premises or allow peaceful enjoyment of the property should be asked only after the applicant has been offered tenancy, thus ensuring that none of the information obtained by a social service provider in order to provide social services is used for housing decisions. (And, since services in supportive housing are generally voluntary, tenants are not required to provide such psychosocial information or agree to participate in services as a basis for obtaining or maintaining the housing.) For this and many other reasons, it is best to have separate organizations (or divisions within an organization) provide social services and property management functions such as tenant screening and intake. However the project is structured, sponsors must ensure that property management files and supportive services files are maintained separately.

Property managers may refuse to accept applicants, including disabled applicants, for occupancy if the applicant does not meet the requirements for occupancy adopted by the housing provider, provided the requirements are legal and are applied to all applicants for housing. Insufficient income, a history of nonpayment of rent, or a history of evictions for failure to maintain the premises are all legal reasons for refusing occupancy. (Although insufficient income is not an allowable condition to refuse tenancy in a project funded by the federal Supportive Housing Program.)

Housing providers may also deny housing to an applicant with a criminal conviction history if the conviction involved crimes of physical violence to persons or property, drug-related crimes, or other criminal activity that would adversely affect the health or safety of other tenants if the crime occurred in the housing development. In addition, HUD's "one strike" policy requires exclusion of people with two specific types of criminal convictions (related to methamphetamine production on public housing premises and crimes subjecting an individual to lifetime registration as a sex offender) from many federally funded housing projects. And, a housing provider may exclude people who are current users of illegal drugs based on the applicant's answer to such permitted questions.

The Fair Housing Act and ADA create a dilemma for housing providers, as these laws do not provide for how a housing provider determines whether someone is a current drug user. The implementing regulations of the ADA and the "one-strike" regulations appear to provide the only available standard in their similar definition of current illegal drug use as "illegal use of drugs that occurred recently enough to justify a reasonable person's belief that a person's drug use is current or that continuing use is a real and ongoing problem." A practical approach would be to establish a standard of time of being drug-free (e.g., ask if applicants have used illegal drugs within the past 6 months), but also to provide the opportunity for applicants to provide mitigating information or request a reasonable accommodation (e.g., applicant has successfully completed a drug treatment program).

It is important to note that the federal laws governing public housing agencies, and thus many forms of housing assistance, offer broad discretion to local housing authorities and by extension, housing sponsors. Project sponsors are encouraged to make individualized determinations about each applicant, taking into consideration the nature and relevance of the person's criminal history as well as treatment and other rehabilitative efforts.

Lastly, fair housing laws impose a duty on housing providers to provide reasonable accommodation in the screening process for applicants who are disabled. (See "Reasonable Accommodation" section below.)

Waiting Lists

Due to high demand and relative low supply, waiting lists are part of start-up and ongoing management of affordable, supportive housing. Oftentimes, a sponsor is integrating different tenant populations using multiple funding sources with different eligibility requirements. Maintaining separate waiting lists for different targeted tenant populations, however, raises potential for fair housing violations as this practice may have the effect of discriminating against applicants with disabilities (i.e., MHSA target population) by not making all units for which they are eligible available to them.

A better approach to waiting list management would be to maintain a single waiting list in which an applicant's MHSA eligibility is noted: when a MHSA-assisted unit is vacant, the highest MHSA-eligible applicant on the waiting list is offered the unit, and when a non-MHSA unit is vacant, the applicant at the top of the waiting list (whether or not MHSA-eligible) is offered the unit, if they are otherwise qualified (i.e., qualify under the restrictions for the other units such as income requirements, etc.). Another acceptable approach would be to maintain a separate MHSA waiting list, but also to permit MHSA-eligible applicants to apply for the general waiting list as well as the MHSA waiting list.

Reasonable Accommodation

Federal and state fair housing laws create an obligation (or "affirmative duty") for housing providers to accommodate persons with disabilities during the tenant selection process and throughout a tenant's occupancy.

The duty to make a reasonable accommodation extends to two areas:

1. Physical Modifications: housing providers must allow tenants with disabilities to make reasonable, necessary physical modification to their units. If a housing development receives federal funds and is therefore subject to Section 504, then housing providers must pay for modifications, unless to do so would cause financial hardship. If a housing development receives non-federal government funding, Title II of the ADA may apply, and would require the provider to pay for reasonable modifications.
2. Policy Changes: housing providers must make changes in their "rules, policies, practices, or services" when necessary to allow persons with disabilities equal access to housing.

Such accommodations, or changes, need only be "reasonable" in the sense that a housing provider is not required to undergo great financial and administrative hardship in order to provide the accommodation. Nor must a housing provider make a fundamental alteration in the nature of its program. However, the provider must bear some costs and make some special provisions for people with disabilities. Some accommodations may also place a responsibility on the tenant to participate in the accommodation.

For example, if a housing provider is asked to make a change in tenant acceptance policies to allow a disabled tenant, who would otherwise have been rejected for housing because of past behavior problems which resulted from his/her disability, to reside in the housing, it is reasonable for the provider to require the tenant to demonstrate participation in ongoing services that will address the underlying condition that caused the behavior.

Housing providers are not required to inform tenants of their rights to a reasonable accommodation, but a statement in application and rejection forms informing applicants of the right to and availability of reasonable accommodations is prudent practice. Although housing providers do not have an affirmative obligation to ask applicants if they need a reasonable accommodation, they should not ignore obvious disabilities. And since housing providers are required to make reasonable accommodations for people with disabilities under certain circumstances, they should have well thought-out, documented reasonable accommodation policies and protocol for considering and granting/rejecting reasonable accommodations. A safe way for a housing provider to invite and consider information about applicants' disabilities in a nondiscriminatory manner is to disclose to all applicants – whether or not they appear to be disabled – information about the housing provider's duty to make reasonable accommodation.

The most successful approach for housing providers is to regard reasonable accommodations as a partnership between the provider and the tenant, with each party working toward a result that allows the tenant to access, use, and enjoy the housing unit.

Reasonable Accommodation and Applicant Screening
In the applicant screening process, housing providers have two levels of requirements for reasonable accommodation.

The screening process itself must be accessible to all applicants. For example, if an applicant is hearing-impaired, the housing provider will need to provide sign language interpretation or some other method for communicating with the applicant in order to ensure the applicant has an opportunity to participate in the tenant selection process.

The housing provider must consider whether there is a reasonable accommodation available that would allow the applicant to occupy the housing unit, either by physically modifying the housing unit or changing the rules of the program. If an applicant requests a reasonable accommodation as part of the screening process, the housing provider is required to consider the request and implement it if it does not fundamentally alter the nature of the housing program and does not cause an undue financial burden on the housing provider. The reasonable accommodation must be an accommodation that is related to the applicant's residency in the housing and is designed to enable the applicant to reside in and have full enjoyment of the housing. For example, if an applicant requests the best vacant unit in the development because it is the only unit that can accommodate the applicant and his/her live-in care attendant, the housing provider should honor the request, even if vacant units are usually assigned randomly.

If an applicant requests a reasonable accommodation in screening, a housing provider may request documentation or some proof of the disability (see above for acceptable methods for documenting disability) and the link between the disability and the requested accommodation.

Reasonable Accommodation and Acceptance/Rejection of Applications for Tenancy
As indicated above, a housing provider may refuse to accept applicants for occupancy if the applicant does not meet the requirements for occupancy adopted by the housing provider, provided they are legal and equally applied to all, including rejecting anyone whose tenancy would constitute a direct threat to the health and safety of others. (Determining that someone poses a direct threat to the health and safety of others must be based on past behavior that has been documented or verified, rather than a sense that the person might be violent or destroy the property.) Before denying an applicant occupancy, however, it is good practice for the housing provider or property manager to provide opportunities for applicants to

provide additional information about conditions or behaviors demonstrated by the applicant that are causing the denial that could be related to a disability. If so, the next question is whether a reasonable accommodation could allow the applicant to live in the facility.

For example, a tenant may have a bad tenancy record (that would otherwise be the basis for his/her application being rejected) as a result of a failure to take proper medication. If the tenant provides evidence to the housing provider that s/he has made arrangements to ensure s/he will take the needed medication, such as receiving medication management assistance, the housing provider may need to waive rules requiring rejection of the application for bad tenancy records. Again, although housing providers are not required to seek out information to determine whether the applicant's bad tenancy record is the result of a disability, it is a good business practice to include in notices rejecting applicants for bad tenancy records a statement that if the basis for rejection is the result of a disability, the applicant may be entitled to a reasonable accommodation.

Another common situation is where an applicant has a history of poor tenancy that stems from alcohol abuse. The housing provider, in reviewing the prospective tenant's application, may find the applicant undesirable for tenancy because of this past behavior. However, because alcoholism is a "handicap" under the Fair Housing Act, the housing provider has a duty to consider making a reasonable accommodation if requested by the applicant and where s/he can demonstrate that the past poor behavior is related to his/her alcoholism. If the applicant can demonstrate to the housing provider actions that address the underlying cause of the poor behavior, namely alcoholism, it may be reasonable for the provider to waive its policy that all applicants with poor tenancy histories be rejected for tenancy. A similar analysis applies to addiction to illegal substances; however, current use of illegal drugs is not considered a disability. (See discussion above in "Selecting Individual Tenants.")

Reasonable Accommodation and Occupancy

A tenant's need for a reasonable accommodation can arise any time during his/her tenancy. The housing provider has the same obligation to consider the request for a reasonable accommodation once the tenant is already occupying the unit as the provider had during the screening process. In addition, the obligation exists whether or not the tenant disclosed his/her disability during the screening process.

Reasonable accommodation for people with mental disabilities is guided by the same principles as accommodations for tenants with physical disabilities: the housing provider must make changes in rules and policies to enable the tenants with disabilities equal access to housing. For example, extra soundproofing or carpeting may be necessary to accommodate a tenant disabled with mental illness who paces loudly in their unit in the middle of the night. As with physical disabilities, the limitations on this duty arise from the cost of the accommodations and the countervailing rights of other tenants.

If a tenant has substance use problems and requests a reasonable accommodation, the housing provider must consider the request and grant it unless the accommodation fundamentally alters the housing program or places an undue burden on the owner. However, it would not be a reasonable accommodation to allow a tenant to continue the illegal use of drugs on the premises. Current use of illegal drugs is specifically exempted from the definitions of disability, so a current user would not be entitled to a reasonable accommodation solely by virtue of drug addiction. A housing provider does need to consider accommodating drinking-related behaviors that can accompany alcoholism under the reasonable accommodation requirements. It is important for housing providers to carefully consider the issues related to accommodating a tenant's struggle with substance use in the context of the overarching goal of supporting clients with co-occurring disorders to obtain and maintain housing. A "best practice" approach incorporates services tailored to tenant needs rather than a focus on screening out applicants with complex histories.

Supportive Housing Licensing Guidelines
May 2005 Update

Most supportive housing projects are exempt from Community Care Licensing requirements. Current law (California Health & Safety Code Section 1504.5) provides that Community Care Licensing requirements do not apply to independent living arrangements or supportive housing for individuals with disabilities who are receiving community living support services, as defined in the law.

Supportive housing is defined as rental housing that has all of the following characteristics:

- It is affordable to people with disabilities
- It is independent housing in which each tenant meets all of the following conditions:
    - Holds a lease or rental agreement in his or her own name and is responsible for paying his or her own rent
    - Has his or her own room or apartment and is individually responsible for arranging any shared tenancy
    - It is permanent, wherein each tenant may stay as long as he or she pays his or her share of rent and complies with the terms of his or her lease
    - It is tenancy housing under which supportive housing providers are required to comply with applicable state and federal laws governing landlord-tenant relationship
    - Participation in services or any particular type of service is not required as a condition of tenancy

Community living support services are voluntary and chosen by persons with disabilities in accordance with their preferences and goals for independent living. These services may include but are not limited to, any of the following:

- Supports that are designed to develop and improve independent living and problem solving skills
- Education and training in meal planning and shopping, budgeting and managing finances, medication self-management, transportation, vocational and educational development, and the appropriate use of community resources and leisure activities
- Assistance with arrangements to meet the individual's basic needs such as financial benefits, food, clothing, household goods, and housing, and locating and scheduling for appropriate medical, dental, and vision benefits and care

Some supportive housing projects require more scrutiny and may be subject to Community Care Licensing requirements.

It is important to note that in order to determine whether a project is subject to Community Care Licensing, it is usually necessary to examine **ALL** of the following: the tenants who reside in the project, the project's ownership and building, the services which are provided in conjunction with the housing, and the relationships among housing provider, service provider(s), and residents. Therefore, in reviewing these guidelines it is necessary to look at all of the characteristics of any project before determining whether the project is likely or unlikely to require community care licensing. **In general, if the same organization is both**

the operator of the housing and the provider of on-site services in a supportive housing project, it will be critical to closely examine both the nature of the services that are being provided and the ability of tenants to choose to access services on-site or in the community.

These guidelines are intended to provide general guidance to local governments, non-profit agencies, and other potential project sponsors or partners in the design and implementation of supportive housing projects. These guidelines do not constitute and are not a substitute for legal counsel, nor do they confirm any government agency's interpretation of its laws when presented with a specific set of facts. Readers should consult legal counsel, Community Care Licensing staff, and other agencies involved with a particular project, for specific issues of concern.

Characteristics of supportive housing projects	Most likely to require Community Care Licensing	Likely to require additional scrutiny of specific project and/or clarification of current CCL policy or law	Community Care Licensing is probably not required
Tenants	Residents "demonstrate the need for care and supervision" *even if care and supervision are not provided* (including an "unmet need for care and supervision") Tenants are "placed" in housing as part of a treatment strategy, including a "step-down" from a higher level of care	Tenant's capacity to care for self has deteriorated but tenant has been unwilling or unable to move to another residential setting with higher level of services. Some tenants have Conservator. Some tenants have very significant needs for care and supervision and are *inconsistently* receiving those services in the community. Tenants needs for care and supervision fluctuate over time because of chronic, relapsing health conditions – at times tenants are fully capable of independent living but at other times symptoms interfere with self care.	All tenants are competent to select their own housing and to enter into a legally binding lease agreement Tenants are capable of exercising choice about what services to access and where (on-site or off-site) Tenants are referred to housing – often as a solution to homelessness Some tenants have very significant needs for care and supervision and are receiving appropriate services *consistently* from service provider(s) not affiliated with housing provider

Characteristics of supportive housing projects	Most likely to require community care licensing	Likely to require additional scrutiny of specific project and/or clarification of current CCL policy or law	Community Care Licensing is probably <u>not</u> required
Housing Owner / Building	Building serves only people with disabilities who are in need of care and supervision	Tenants do not have “normal” access to / control over / privacy in their own living units (comparable to similar private rental units in community)	Housing provider offers housing to people with and without disabilities on the same terms (although specific rental subsidies may be available to qualifying individuals based on their special needs) Housing provider is an organization with a mission of serving a particular special needs population – AND – the organization uses funding from (and complies with the applicable requirements of) federal housing programs for people with disabilities or homeless people (e.g. HUD 202, 811, HUD Shelter + Care, etc., as described in Health & Safety Code Sec 1505 (p) and 1569.145 (g)) Housing may be privately owned and service provider assists residents in negotiating their own rental agreements with landlords In HUD-funded housing programs quality inspections are performed by local housing authorities based on federal Housing Quality Standards (HQS) criteria Each tenant occupies his/her own private living unit.

Characteristics of supportive housing projects	Most likely to require community care licensing	Likely to require additional scrutiny of specific project and/or clarification of current CCL policy or law	Community Care Licensing is probably <u>not</u> required
Services	Services provided in conjunction with the housing include care and supervision *Care & Supervision includes:* *A. Assistance in dressing, grooming, bathing, personal hygiene* *B. Assistance with taking medication* *C. Central storing and/or distribution of medications* *D. Arrangement of and assistance with medical and dental care* *E. Maintenance of house rules for the protection of clients* *F. Supervision of client schedules and activities* *G. Maintenance and/or supervision of client cash resources or property* H. *Monitoring food intake or special diets*	Participation in services is mandatory – a condition of occupancy in the housing Participation in money management services - by the organization that operates or sponsors the housing - is mandatory Housing provider or a person / organization connected to the housing provider gives *ongoing* assistance to residents in obtaining care and supervision and/or medical services. Ongoing assistance could take the form of contracting for / purchasing the services or making ongoing arrangements on behalf of individual residents.	Participation in services (on-site or off-site) is optional – not a condition of occupancy in the housing Supportive services are available to facilitate independent living, including social/ recreational activities, case management, counseling on activities of daily living, counseling on self-management of mental health symptoms or substance use problems, service referrals, etc. If care and supervision or medical services are needed by some tenants, they may be provided from an appropriately licensed (or otherwise legally operating – e.g. county) clinic or adult day health center, which may offer services off-site or through a home visit program, including services which are made available on a regularly scheduled basis on-site. Housing provider may make a referral but thereafter residents "independently obtain care and supervision or medical services."

Characteristics of supportive housing projects	Most likely to require community care licensing	Likely to require additional scrutiny of specific project and/or clarification of current CCL policy or law	Community Care Licensing is probably not required
Relationships among housing and service provider and tenants	Housing and care & supervision are provided by the same organization, or by organizations or persons who have organizational or financial connection House rules are established primarily for the protection of residents with special needs	Housing and on-site services are provided by the same organization, or by organizations or persons who have organizational or financial connection Housing is privately owned and master-leased by service provider organization on behalf of residents	Tenants hold a standard lease or rental agreement (including a sub-lease) with the building owner / manager. (Owner may be an organization with a mission of serving a particular target population, but rental agreement terms are comparable to private market.) If services are provided on-site, the service provider(s) and housing provider are not the same organization and do not have organizational or financial connection There is an MOU between housing and service providers – and tenants can access services independently / voluntarily (see above description re: services) House rules are established for the benefit of the housing provider and/or neighbors (e.g. safety and quiet enjoyment by others) If tenants choose whether to access services on-site, off-site, or not at all – there is no impact on tenancy. (There may be service participation rules associated with maintaining eligibility for a housing or income subsidy program not administered by the housing provider.)

MHSA Financing Prototypes for Supportive Housing

Summary

The following prototypes represent a variety of ways that MHSA funds can be used to finance the capital, operating, and/or service costs in supportive housing. Six prototypes are presented, as follows:

- Single Room Occupancy Hotel (SRO) Acquisition and Rehabilitation
- Mid Sized New Construction
- Small New Construction Using Section 811 Funding
- Mixed Income New Construction
- Conversion of a Small Residential Care Facility
- Scattered Site Units

Each prototype is based on an actual supportive housing project that exists in an urban, rural or suburban community in California. MHSA funds are applied to the costs of development, operating and/or services for each project.

The guidelines for the use of MHSA funds for Capital Facilities has not yet been finalized (as of the publication date of this Toolkit), so these prototypes incorporate some assumptions about the likely potential uses of the funding. These assumptions are based on the "Draft Capital Facilities Discussion Document" released by DMH on June 14, 2005, which is subject to revision as the policies are finalized in the coming months.

The MHSA funding that has been inserted in the prototypes would be appropriate uses of the Community Services and Supports funding, or of the Capital Facilities funding (depending on the final guidelines for Capital Facilities funding) in the examples using funds to cover development costs and/or the establishment of a capitalized operating reserve.

Note: Within these prototypes, please note that tenant shares of rent are based on 2005 rent data. Additionally, annual operating subsidies, where listed, could be expected to increase each year as the rate of increases in expenses typically rises faster than increases in income. For the upfront-capitalized calculations, this has been taken into account.

Single Room Occupancy Hotel Acquisition and Rehabilitation

The Need: Operating and Services Funding

The Target Population: 24 of the 80 units in the project are set-aside for adults who are homeless with serious mental illness, who are the target population for Full Service Partnerships in the county's plan for implementing MHSA Community Services and Supports. A portion of the 24 units are set-aside for people who also have HIV/AIDS.

The Context:

- Local government funding is available for capital costs
- Developer has capacity to successfully compete for low income housing tax credits
- No conventional bank debt
- Funding needed to cover operating costs for supportive housing units
- Funding needed to cover portion of services costs

TOTAL MHSA COST: $159,616 per year

		% of Total
UNIT MIX		
Number of units	80	
Supportive Housing - 15% of AMI	24	30%
Very low income - 40% of AMI	24	30%
Very low income - 50% of AMI	32	40%
All Studio units		

		% of Total
DEVELOPMENT COSTS:		
Acquisition	1,240,250	13%
Construction	5,281,479	54%
Indirect and Soft Costs	2,425,610	25%
Financing	577,455	6%
Reserves	203,000	2%
TOTAL	**9,727,794**	**100%**

		% of Total
DEVELOPMENT SOURCES:		
Low Income Housing Tax Credits (9%)	6,760,984	70%
City Funding	1,300,000	13%
Affordable Housing Program (FHLB)	685,000	7%
Supportive Housing Program (HUD)	400,000	4%
General Partner Contribution	200,000	2%
Deferred Developer Fee	381,810	4%
TOTAL	**9,727,794**	**100%**

OPERATING EXPENSES			
Operating Subsidies:			
MHSA	24 units	***$89,616***	***per year***[1]

SERVICES FUNDING			
MHSA	***70,000***	***$70,000***	***per year***
HOPWA	25,000		
Fundraising	25,000		
TOTAL	**120,000**	[2]	

NOTES

(1) Assumptions: Cost to operate (including replacement reserves) = $5,800 per unit per year
Tenant share of rent = $2,066 per year
Tenant income at 15% of AMI

(2) Services cost of $5,000 per single person household per year. Some additional individualized services are provided directly to tenants who are enrolled in Full Service Partnerships with community-based service providers who have established a Memorandum of Understanding to facilitate coordination with on-site services in this supportive housing project.

Mid Sized New Construction

The Need: Capital, Operating and Services Funding

The Target Population: 15 of the 30 units in the project are set-aside for individuals who are homeless and with serious mental illness, who are the target population for Full Service Partnerships, and/or families with a parent who has a serious mental illness or a child with a serious emotional disturbance, who are homeless and have been identified as being part of the priority population(s) for MHSA services in the county's Community Services and Supports Plan.

The Context:

- Local government funding for capital costs not adequate to fill funding gap
- Funding needed to cover operating costs and debt service for supportive housing units
- Funding needed to cover majority of services costs

TOTAL MHSA COST: $750,000 one-time and $195,678 per year

		% of Total
UNIT MIX		
Number of units	31	
Supportive Housing - 15% of AMI	15	48%
Very low income - 40% of AMI	9	29%
Very low income - 50% of AMI	6	19%
Resident Manager	1	3%
Mix of 1,2 and 3 bedroom units		

		% of Total
DEVELOPMENT COSTS:		
Acquisition	820,000	7%
Construction	6,420,846	59%
Indirect and Soft Costs	2,843,311	26%
Financing	449,060	6%
Reserves	489,767	2%
TOTAL	**11,022,983**	**100%**

		% of Total
DEVELOPMENT SOURCES:		
Low Income Housing Tax Credits (4%)	3,000,000	27%
CA Multifamily Housing Program	2,694,394	24%
CalHFA Mortgage	1,893,922	17%
MHSA	***750,000***	***7% one time contribution***(1)
County Funding	1,947,062	18%
Supportive Housing Program (HUD)	400,000	4%
General Partner Contribution	182,60	2%
Affordable Housing Program (FHLB)	155,000	1%
TOTAL	**11,022,983**	**100%**

OPERATING EXPENSES			
Operating Subsidies:			
MHSA	15 units	***$90,678***	***per year***(2)

SERVICES FUNDING			
MHSA	***105,000***	***$105,000***	***per year***
Fundraising	10,000		
TOTAL	**115,000** (3)		

NOTES

(1) $50,000 per unit is an average amount for a local government contribution to affordable housing
(2) Assumptions: Cost to operate (including replacement reserves and debt service) = $9,200 per unit per year
Tenant share of rent: 1BR - $2,610 // 2BR - $3,353 // 3BR - $3,726 per unit per year
Tenant income at 15% of AMI
(3) Services cost of $5,000 per single person household per year and $9,000 per family per year
Assumes 5 single persons in one bedroom units and 10 families in the two and three bedroom units
Some additional individualized services are provided directly to tenants who are enrolled in Full Service Partnerships with community-based service providers who have established a Memorandum of Understanding to facilitate coordination with on-site services in this supportive housing project.

Small New Construction Using Section 811 Funding

The Need: Services Funding

The Target Population: 19 of the 20 units in the project serve disabled individuals, a majority of whom are adults with serious mental illness who are part of the priority populations for services to be established or expanded through General System Development funds in the county's plan for MHSA Community Services and Supports.

The Context:

- Section 811 Program (HUD) covers operating costs
- Operating budget covers service coordinator, but not for the delivery of site-based services to facilitate recovery for tenants with serious mental illness
- Funding needed to cover a portion of services costs

TOTAL MHSA COST: $125,000 per year

		% of Total
UNIT MIX		
Number of units	20	
Supportive Housing – up to 50% of AMI	19	95%
Resident Manager	1	5%
1 bedroom units		

		% of Total
DEVELOPMENT COSTS:		
Acquisition	549,468	18%
Construction	1,756,858	57%
Indirect and Soft Costs	489,697	16%
Financing	130,635	4%
Reserves	141,860	5%
TOTAL	**3,068,518**	**100%**

		% of Total
DEVELOPMENT SOURCES:		
HUD Section 811	1,653,200	54%
County of Los Angeles	823,750	27%
CA Multifamily Housing Program	511,568	17%
Affordable Housing Program (FHLB)	80,000	3%
TOTAL	**3,068,518**	**100%**

OPERATING EXPENSES	
Operating Subsidies:	
HUD Section 811 Contract	19 units

SERVICES FUNDING			
MHSA	***125,000***	***$125,000***	***per year***
Operating Budget [1]	25,000		
TOTAL	**150,000** [2]		

NOTES

(1) The operating budget, paid for partially by HUD, includes payment for a part-time Service Coordinator
(2) Most tenants who have serious mental illness are enrolled in Full Service Partnerships with this project's on-site service provider. Some tenants are enrolled in Full Service Partnerships with other community-based service providers who have established a Memorandum of Understanding to facilitate coordination with on-site services in this supportive housing project, and they are receiving additional individualized services.

Mixed Income New Construction

The Need: Operating Funding

The Target Population: 40 of the 98 units in the project are set-aside for individuals who are homeless and with serious mental illness, and/or families who are homeless and have a parent and/or child who has been identified as being part of the priority population(s) for Full Service Partnership services in the County's MHSA Community Services and Supports Plan.

The Context:

- Local government funding is available for capital costs
- Funding needed to cover operating costs for supportive housing units
- Operating funding provided to project as a one time payment to a 15 year capitalized reserve
- Services funding available from Federal sources

TOTAL MHSA COST: $1,512,712 one time

UNIT MIX		***% of Total***
Number of units	98	
Supportive Housing - 15% of AMI	40	41%
Very low income - 40% of AMI	20	20%
Very low income - 60% of AMI	37	38%
Resident Manager	1	1%
Mix of Studios, 1 and 2 bedroom units		

DEVELOPMENT COSTS:		***% of Total***
Acquisition	5,700,000	21%
Construction	14,513,352	55%
Indirect and Soft Costs	4,389,486	17%
Financing	1,720,301	6%
Reserves	272,240	1%
TOTAL	**26,595,379**	**100%**

DEVELOPMENT SOURCES:		***% of Total***
Low Income Housing Tax Credits (4%)	7,833,340	33%
Local Government	8,755,884	29%
CA Multifamily Housing Program	5,181,955	19%
Tax-Exempt Bond/Mortgage	4,432,099	17%
Affordable Housing Program (FHLB)	392,000	1%
General Partner Contribution	100	0%
TOTAL	**26,595,378**	**100%**

OPERATING EXPENSES		
Operating Subsidies:		
MHSA	40 units	***$1,512,712 one time cost*** (1)

SERVICES FUNDING	
Federal Source	280,000 (2)
TOTAL	**280,000**

NOTES

(1) Assumes operating subsidy cost for 40 units over a fifteen year term
Other Assumption: Half of units are families, half are single person households
Cost to operate (including replacement reserves) = $6,200 per unit per year
Tenant share of rent = $3,564 per unit per year for singles; $4,581 for families
Tenant income = 15% of AMI

(2) Services cost of $5,000 per single person household per year and $9,000 per families per year
Assumes 20 single person households and 20 families
Additional individualized services are provided directly to tenants who are enrolled in Full Service Partnerships with community-based service providers who have established a Memorandum of Understanding to facilitate coordination with on-site services in this supportive housing project.

Conversion of a Small Residential Care Facility

The Need: Capital, Operating and Services Funding

The Target Population: All of the 16 units in the project serve transition age youth or young adults who have a serious mental illness, who are the target population for Full Service Partnerships in the county's plan for MHSA Community Services and Supports.

The Context:

- Small project, small sponsor makes it difficult to apply for State capital funding sources
- Funding needed to cover operating costs for supportive housing units
- Operating funding could be provide either as an annual contribution, or as a one time payment toward a 15 year capitalized reserve
- Funding needed to cover majority of services costs

TOTAL MHSA COST: Either $359,600 one time and $102,816 per year;
OR
$916,347 one time and $70,000 per year

		% of Total
UNIT MIX		
Number of units	16	
Supportive Housing	16	100%
SRO units		

		% of Total
DEVELOPMENT COSTS:		
Acquisition	395,000	51%
Construction	212,320	28%
Indirect and Soft Costs	94,079	12%
Financing	14,858	2%
Reserves	5,000	1%
Developer Fee	50,343	6%
TOTAL	**771,600**	**100%**

		% of Total
DEVELOPMENT SOURCES:		
MHSA	***359,600***	***47% one time contribution*** [1]
Local Government (County)	300,000	39%
Affordable Housing Program (FHLB)	112,000	15%
TOTAL	**771,600**	**100%**

OPERATING EXPENSES	
Operating Subsidies:	
MHSA	***$32,816 per year*** [2]***, or $556,747 one time*** [3]

SERVICES FUNDING		
MHSA	***70,000***	***$70,000 per year***
Fundraising	10,000	
TOTAL	**80,000** (4)	

NOTES

(1) $22,475 per unit is a lower than average amount for a local government contribution to affordable housing

(2) Assumptions: Cost to operate (including replacement reserves) = $4,400 per unit per year
Tenant share of rent = $2,349 per year
Tenant income = 15% of AMI

(3) Assumes operating subsidy cost for sixteen units over a fifteen year term

(4) Services cost of $5,000 per single person household per year. Additional individualized services are provided directly to tenants who are enrolled in Full Service Partnerships with community-based service providers who have established a Memorandum of Understanding to facilitate coordination with on-site services in this supportive housing project.

Scattered Sites

The Need: Operating and Services Funding

The Target Population: All of the 145 units in the program serve individuals or families with a parent and/or child who is part of the target population(s) for Full Service Partnerships in the county's plan for MHSA Community Services and Supports. At least 45 of these are chronically homeless individuals, or homeless families with a head of household who has a mental illness, who have been living on the streets or in emergency shelter.

The Context:

- Leasing units in the open market, no capital costs
- Funding needed to fill the gap between the market rents and the amount a supportive housing tenant at 15% Area Median Income (AMI) can afford
- Services funding available from Federal sources

TOTAL MHSA COST: $1,683,438 per year

		% of Total
UNIT MIX		
Number of units	145	
Supportive Housing	145	100%
Mix of 1 and 2 bedroom units		
DEVELOPMENT COSTS:		
NONE		
DEVELOPMENT SOURCES:		
NONE		
OPERATING EXPENSES		
Operating Subsidies:		
MHSA	100 units	***$740,438 per year*** (1)
Shelter Plus Care	45 units	
SERVICES FUNDING		
MHSA	***943,000***	***$943,000 per year*** (2)
Federal Source	144,000	
TOTAL	**1,087,000**	

NOTES

(1) Assumptions: 75 one bedroom units and 25 two bedroom units

1 Bedroom unit - $800 per month market rent
Tenant share of rent = $2,610 per year
Tenant income at 15% of AMI

2 Bedroom unit - $1,000 per month market rent
Tenant share of rent = $3,353 per year
Tenant income at 15% of AMI

(2) Services cost of $7,000 per single person household per year and $9,000 per family per year
Assumes 109 single person households (75% of total) and 36 families (25% of total)
Individualized services are provided directly to tenants who are enrolled in Full Service Partnerships with a network of community-based service providers who have established a Memorandum of Understanding to facilitate coordination of services with the housing subsidies and housing placement/retention services available through this collaborative supportive housing project. In addition to services funding provided through MHSA, funding from federal sources is used to provide some services that are targeted to family members and some of the individuals who had been chronically homeless.

Operating Subsidies and Reserves

In market-rate housing, tenants can generally afford to pay enough rent to cover all operating costs, and provide a revenue stream that the owner/developer takes as profit. In affordable housing, and particularly supportive housing, tenants typically cannot afford to pay enough rent to cover operating costs because the rent charged to tenants are kept at below-market rates in order to be affordable to households with low-, very-low or extremely-low incomes. In high-cost areas, including many parts of California, even when a building is owned free-and-clear (without debt), tenant rents are not sufficient to cover operating costs. In order to make a project "pencil out" (have income equal expenses) a non-profit organization that owns or leases housing needs to find an ongoing source of funding to supplement tenant rents. This funding may come from operating subsidies or operating reserves or a combination of the two.

Operating costs in housing owned by a non-profit organization or a private landlord include all costs of maintaining the housing such as property management, utilities, maintenance, insurance, security, debt service or other loan payments, and operating and replacement reserves. In housing leased by a non-profit organization (either single site or scattered site), operating costs generally include the cost of leasing the units and any maintenance that is not covered by the owner/landlord.

Operating sources are types of funding that may be used to pay for these operating costs.

Operating subsidies cover the difference between what the tenant can afford to pay—typically no more that 30% of available income—and the rent the sponsor could charge under market-rate conditions. Operating subsidies may also be calculated as the difference between what the tenant pays and the actual cost of maintaining the property.

Operating Reserves are funds placed in an account for expected costs related to maintaining housing. A lender may require a reserve to pay for upcoming property taxes or insurance on a property. Funds in the operating reserve may also be used like an operating subsidy—to cover the gap between what the tenant pays in rent and the actual costs of maintaining the property. Replacement reserves are set up to pay for the cost of replacing things like the roof, carpets or heating system. In some cases, replacement costs may be funded out of the operating reserve account.

Funding for operating reserves can be obtained from some of the sources that are used to build or renovate housing including Low Income Housing Tax Credits.

Types of Operating Subsidies

The three most common types of operating subsidies are: project-based**,** tenant-based**,** and sponsor-based**.**

Project-based subsidies are those that are "attached" to particular housing units. The organization or landlord that owns or leases the housing receives an amount of funds for each subsidized unit that is equal to the difference between the tenant rent and the contract rent. Though the contract rent is related to Fair Market Rent it may be equal to or less than that amount. Project-based subsidies are generally not moveable - when a tenant moves the subsidy remains with the housing unit. Project-based subsidies generally tend to be used for single site projects, with the subsidy attaching to some or all of the units in a building.

Tenant-based subsidies attach to an individual or family. With this type of subsidy, the tenant receives the entitlement to a housing subsidy (sometimes called a voucher) that allows him or her to rent a unit in the private market from either for-profit or non-profit owners. Like in the project-based type of subsidy, the tenant is responsible for the tenant portion and the owner of the property is subsidized for the difference between the tenant portion and the contract rent. Unlike most project-based subsidies, however, tenant-based subsidies remain with the tenant when and if he or she chooses to move. When a tenant leaves a unit, the rental subsidy is provided to the landlord of the unit he or she subsequently leases. Tenant-based vouchers are most often used to create housing through scattered site leasing of units from private landlords.

Sponsor-based subsidies attach to a specific individual or organization—the sponsor—typically a non-profit housing developer, a supportive housing provider or a social services/mental health organization. The sponsor may use the subsidy to subsidize any unit that the sponsor controls, either through ownership or leasing. As with the other forms of subsidy, the sponsor receives an amount of funds for each subsidized unit that is equal to the difference between the tenant portion and the contract rent.   When the tenant in a sponsor-based unit moves, he or she does not retain the subsidy - it remains with the sponsor. Sponsor-based subsidies are moveable in the sense that the sponsor may choose to move the subsidy from one unit to another.

Sources of Subsidy

The most well-known and widely available source of operating subsidy comes from the federal department of Housing and Urban Development (HUD) through the Housing Choice Voucher Program, commonly known as the Section 8 Program. Under this Program, tenants pay 30% of their adjusted income for rent and utilities, while HUD pays the difference between the tenant's rent and a HUD-determined Fair Market Rent (FMR), which is based on actual market rents for the metropolitan area in which the housing is located. The Section 8 Program provides both project-based and tenant-based subsidies. Most other operating subsidy programs are based on adaptations of the Section 8 Program model.

HUD has also established other operating subsidy programs modeled on the Section 8 program, including the Section 8 Moderate Rehabilitation SRO Program and the Shelter Plus Care Program (S+C) - the only program that currently offers sponsor-based subsidies. Some funding sources typically used for development can also be used for operating subsidies, including the SHP Program, Section 202 and Section 811. In addition, some state government funders have created operating subsidy programs, such as California's Supportive Housing Initiative Act (SHIA) Program (in fiscal year 2003-04, there was no funding available for new SHIA projects; however, the sunset date for the SHIA legislation was extended to January 1, 2009). Occasionally local private funders and foundations have established rent subsidy programs, usually for a specific target population or a demonstration project.

How Operating Subsidies Work

Section 8 operating subsidies are typically allocated by HUD to Public Housing Agencies (PHAs), also known as Housing Authorities, and from there to individual tenants, housing projects or housing sponsors. The way the funds are allocated by the PHA differs significantly depending on the types of subsidy (tenant-, project- or sponsor-based) and the funding program.

Tenant-based subsidies are typically controlled by the Housing Authority, which gives the subsidy voucher to an individual tenant. While the PHA actually pays the subsidy to the landlord directly, the voucher, which represents the PHAs' commitment to provide a subsidy, belongs to the tenant.

In the Section 8 Program and most programs modeled after Section 8, individuals who wish to receive a tenant-based subsidy must place their name on a waiting list. Because the eligibility criteria for Section 8 are relatively broad (any family with children, senior or disabled person earning at or below 50% of median income is eligible) and funding for new vouchers very limited, waiting lists tend to be very long. Applicants may wait five years or more for assistance and the waiting lists are often closed for extended periods of time. HUD imposes very strict rules on PHAs about managing the waiting list. When a voucher is available it must go the person at the top of the list, if they still meet the eligibility criteria. Housing Authorities have the ability to establish waiting list "preferences" for particular groups, giving them priority on the list. Some housing authorities have established such preferences for homeless persons. Preferences for specific types of disabilities, however, are prohibited. It should be noted that there is one significant tenant-based operating subsidy source, the Shelter Plus Care Program (S+C), that does not require that tenants be selected from the Housing Authority's regular waiting list and allows Housing Authorities much greater flexibility in allocating vouchers than in the Section 8 Program.

Project-based subsidies are issued by PHAs to the owner/sponsor of individual projects. In Section 8 programs, project sponsors/owners apply for rental subsidies directly from the Housing Authority. Each Housing Authority establishes its own process and criteria for awarding project-based vouchers to eligible projects, within specific federal regulations and guidelines. The PHA executes a contract with the sponsor/owner to provide subsidies for a given period of time, for as long as 10 years, subject to the availability of funding. While the Section 8 project based subsidy attaches to particular units, the tenants who occupy those units must come from the PHA's waiting list. This creates some significant restrictions for the sponsor, as it limits the pool of potential tenants and requires tenants be taken in the order they appear on the PHA's list. However, there are ways that sponsors and PHAs can work together to create a preference option to help the sponsor obtain tenants who need the supportive services the provider is offering. The S+C program is a significant exception - it does not require that tenants be on the Section 8 waiting list.

The only funding program currently offering **sponsor-based** subsides is the S+C program. Under this program, PHAs apply to HUD in partnership with non-profit sponsor/owners who request funding for specific numbers of units. The sponsor receives an initial contract from the PHA for a five-year term. As with the other forms of S+C subsidy, tenants for the units receiving tenant-based subsidies do not have to come from the Section 8 list, so sponsors have a great deal of flexibility in tenant selection.

Generally speaking, only Housing Authorities are eligible to apply to HUD for most types of housing subsidies. However, as described above, non-profit sponsors/owners are eligible sub-grantees for project-based and sponsor-based subsidies. While supportive housing providers generally cannot be sub-recipients of tenant-based subsidies, there are ways they can access tenant-based subsidies on behalf of their clients. These opportunities generally come from Section 8 set-aside programs such as the Mainstream Program Vouchers for People with Disabilities. Under these programs, HUD awards PHAs special allocations of Section 8 tenant-based vouchers for special needs populations through a competitive application process. These programs are highly competitive and strongly encourage the housing authority to partner with non-profit social service providers to deliver services to the households receiving the vouchers. Supportive housing sponsors who are interested in developing tenant-based leasing programs can approach their local housing authority about applying in partnership for the funding, and non-profits serving people with disabilities and who meet specified capacity criteria are eligible to apply directly for Mainstream Program Vouchers.

In addition to the Mainstream Program, HUD has over the past several years offered vouchers under a number of different programs targeting different special needs populations: the Family Unification Program (FUP) for families reuniting with children in foster care and for youth aging out of foster care, the Welfare to Work (WtW) Voucher program for homeless and at-risk families receiving TANF benefits, the Certain Developments program for persons with disabilities, and the HUD-VASH program for homeless and at-risk veterans. Depending on the availability of funding for the Section 8 Program, however, HUD may or may not elect to issue new vouchers under these or other programs in the future.

Three other significant sources of HUD operating subsidies, Shelter Plus Care, Section 8 Moderate Rehabilitation SRO and the Supportive Housing Program are available through the Continuum of Care —a community planning process which results in an annual application to HUD for homeless assistance resources. Section 202 and 811 operating subsidies are accessed through a competitive application process.

For additional information on any of the financing sources noted above as well as additional resources from a range of organizations, see the Corporation for Supportive Housing's "Financing Supportive Housing Guide," available at www.csh.org/financing.
and "A Housing Toolkit: Information to help the public mental health community meet the housing needs of people with mental illness," a publication prepared by the Technical Assistance Collaborative for NAMI and available at www.nami.org.

Capitalized Rental Subsidy Reserve
Concept Summary

Introduction – Reserve Funds

In planning the financing for a housing project, project sponsors and/or developers will often plan for the creation of reserve funds to protect against unforeseen costs and to ensure the project's long-term sustainability. Such funds are typically either capitalized into the project's development budget, or collected on an ongoing basis from the project's cash flow. Examples of typical reserve funds include operating deficit, rental subsidy, and replacement reserves. Some localities have also allowed reserves to be established to fund shortfalls in service funding.

While replacement reserves are intended to fund the costs associated with replacing project facilities as they wear with age, the purpose of operating deficit reserves is to ensure that adequate funds are on hand should operating costs (e.g. items such as utilities, management staff salaries, maintenance, etc.) exceed project income. This is particularly important in supportive housing projects, because tenants' rent paying ability is often at least partially dependent on government subsidy programs that do not typically keep pace with the rate of inflation. While this reserve is sometimes funded from project cash flow, it is often included as a capital cost as part of a project's development budget.

Rental Subsidy Reserves

The purpose of a rental subsidy reserve, a specific type of operating reserve, is to supplement traditional operating subsidies and/or to protect against the potential loss of rental subsidy contracts. Rental subsidy reserves can also be fully funded to serve as the sole source of rental subsidy for the project. Regardless of the exact purpose, the amount of potential shortfall (or needed subsidy) must be sized and capitalized over an appropriate period. Typically, this period should consist of at least ten years if the project is to be considered permanent housing. A fifteen-year period provides even greater protection and would be appropriate for projects utilizing Low Income Housing Tax Credits, as fifteen years represents the initial compliance period. In supportive housing projects, capitalizing a rental subsidy reserve during the development stage can help ensure the future affordability of the project for the desired rent/income level as well as help leverage other funding sources.

Capitalized Rental Subsidy Reserve – Potential Management Approach

The following approach has been used successfully in managing Low Income Housing Tax Credit-funded reserves and could have broader application for the management of a capitalized rental subsidy reserve created with any source of funding. Under this approach, the entity financing the reserve would need to do the following:

1. Draft a Funding and Disbursement Agreement (FDA) to determine how the reserve funds will be managed.

   Typically, a rental subsidy reserve is directly "owned" by a given project, and may only fund either the loss of rental subsidies or the "planned" deficits associated with that project. The use of the reserve is governed by an FDA between the entity providing the funds and the project sponsor, which clearly delineates the following:

   - Project sponsor's reporting responsibilities
   - The uses of the funds within the reserve
   - The conditions under which the reserves may be accessed
   - Responsibilities of the administrative agent for the reserve
   - The procedures and approvals needed for accessing the reserve
   - How the funds will be invested while they are in the reserve account

   A well-drafted FDA will include adequate safeguards to mitigate any concern that funds will be misused. The FDA can also be structured to allow for the project obtaining more "traditional" sources of operating subsidies, which could then be credited against the reserve. Potentially, the reserve could be resized (see item #3 below) at different intervals based on the sponsor's success at obtaining traditional operating subsidies. In order to create incentives for project sponsors to actively seek such subsidies, the FDA could allow for the project to retain some or all of the reserve funds that are replaced by traditional sources, clearly defining the allowed uses of these funds.

   See Appendix C for an example of an FDA used in a tax credit-funded project with multiple reserves.

2. Select an administrative agent to manage the reserve.

   The project sponsor and the financing entity may agree to select a third party to function as the administrative agent for the reserve. The administrative agent is responsible for directly managing the reserve funds for the project, or the reserves associated with several projects. In terms of selecting an appropriate third party, the financing entity could contract out the role of administrative agent for the funds through a Request for Proposals (RFP) or Request for Qualifications (RFQ) process. Private banks are particularly well-suited to play this role as they typically are used to playing both the investment as well as the disbursement role for clients.

   Once an administrative agent has been selected, a separate Administrative and Servicing Agreement (ASA) between the financing entity, the project sponsor, and the administrative agent could be drafted to define the administrative agent's responsibilities in carrying out the requirements of the FDA. The ASA, for example, could be much more explicit than the FDA on how the funds within the reserve will be invested. In fact, if allowed under the FDA, the administrative agent could choose to either manage this investment function itself or outsource it to a third party.

See Appendix D for an example of an ASA.

3. Size the reserve to account for the potential loss of rental subsidies.

Annual rental subsidies are sized to pay the difference between the rent-paying ability of the expected project tenants and the actual (higher) cost of operating the facility. In order to fully capitalize the rental subsidy reserve, this difference, the operating shortfall, must be forecast over a fixed time period, typically ten to fifteen years in length. Through a technique known as discounting, this stream of deficits can then be reduced to the one-time payment needed to capitalize the reserve up front.

See Appendix E for an example of a simple model for sizing a rental subsidy reserve.

California Supportive Housing
Funding Program Elements

Summary

To fully fund the capital, operating and services costs of a supportive housing project, sponsors must rely on a range of funding sources. What follows is a chart that offers some description of some of the key State-level supportive housing sources available in California. These include:

- Mental Health Services Act (administered by the Department of Mental Health)
- Multifamily Housing Program (administered by the Department of Housing and Community Development)
- California Housing Finance Agency (CalHFA) Special Needs Program
- AB2034 (administered by Department of Mental Health)
- Emergency Housing Assistance Program (administered by Department of Housing and Community Development)
- Low Income Housing Tax Credits (administered by California Tax Credit Allocation Committee)

For each funding source, the chart provides some basic information about:

- Type of housing funds can be used for
- Eligible uses of funds
- Match requirements
- Eligible populations
- Targeted groups within eligible populations
- Application process and timeline

While not described in the following chart, project sponsors will most likely need to rely on local, Federal and private sources of funding to complement the State support. Additional information about Federal sources can be found on the CSH website: www.csh.org
Go to "Resources" and then to "Financing Guide."

PROGRAM ELEMENT	*MHSA*	MHP	CalHFA	AB 2034	EHAP	LIHTC
TYPE OF HOUSING						
Emergency Shelter	X			X	X	
Transitional Housing	X	X MHP General/Special Needs (SN) only. Not eligible under the MHP Supportive Housing Program (SH).	On a case-by-case basis	X	X	X (With McKinney funding or in some situations where a longer-than 6-month lease with tenants can be guaranteed.)
Permanent Housing	X	X	X	X		X
Permanent Supportive Housing	X	X	X	X		X
ELIGIBLE USE OF FUNDS						
Capital	X	X	X	X	X	X
Operating	X			X	X	
Services	X	No[4]	No[1]	X	X	No[5]
MATCH REQUIREMENT						
Is a match required?	No	No[6]	No[4]	No	No[4]	No[4]

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4 While provision of direct services are not eligible costs, costs associated with one on-site supportive services coordinator may be treated as a project operating cost, payable from operating income. In addition, development costs are allowed for health services, childcare facilities, after-school care and other social services facilities integrally linked to and addressing the needs of the tenants in the assisted units.

5 In some circumstances, up to 10% of development costs may be used for childcare facilities, after-school care and other social services facilities if they are integrally linked to addressing the needs of the tenants in the assisted units and are not available to the general public.

6 Although a very few projects have received funding under the Supportive Housing Program without other development funding, other funding is usually necessary to achieve a fundable point score under the MHP Supportive Housing Program and is always necessary to achieve a fundable score under the highly competitive MHP General Program.

4 Technically no, but ranking or points are affected by having other dollars committed.

PROGRAM ELEMENT	*MHSA*	MHP	CalHFA	AB 2034	EHAP	LIHTC
ELIGIBLE POPULATIONS						
Income levels		**MHP General/SN:** ≤ 60% AMI (AMI=Area Median Income) **MHP SH:** ≤ 30% AMI	≤ 50% AMI	*Homeless or at risk of homelessness or incarceration*	Homeless or at risk of homelessness	40% of units at or below ≤60% AMI or 20% of units at or below ≤50% AMI For Special Needs setaside projects: average income at or below ≤40% AMI
Other required tenant characteristics	Individuals and families affected by serious emotional disturbance and/or serious mental illness	**MHP SN:** households where a member is from a designated category of special needs populations, including those affected by mental illness **MHP SH:** Adults who are homeless or at-risk of homelessness and disabled (i.e., mental illness, HIV or AIDS, substance abuse, developmental disability or long-term chronic health conditions)	Special Needs: Includes MHP Supportive Housing Program categories and others as appropriate	*Adults & Transition-Age Adults (18 – 25) with serious mental illness*		Special Needs projects: People who are developmentally disabled, survivors of physical abuse, are homeless, have chronic illness, including HIV and mental illness, are displaced teenage parents (or expectant teenage parents) or another group as determined by the Executive Director

PROGRAM ELEMENT	*MHSA*	MHP	CalHFA	AB 2034	EHAP	LIHTC
Targeted Group(s) within Eligible Population:						
Special targeted groups that earn extra points, better financing rates, or constitute setasides	Counties prioritize and target special sub-groups (called Initial Populations) from within those who are unserved, underserved, and inappropriately served	Deeper income targeting. Special Needs & Homeless/At-Risk of Homelessness and Disabled At-Risk Projects	Deeper income targeting. Higher percentage of units targeted to special needs population			Setasides: • Nonprofit setaside • Special needs/SRO • Small development setaside (projects with ≤20 units) • At-risk projects • Rural projects
% Units for People with Special Needs Required						
	None, but only pays for eligible population	**<u>MHP SN</u>**: minimum of 5 units **<u>MHP SH:</u>** greater of 5 units or 35% of total project units	35% of the total units in project must serve a clearly defined special needs population	None, but only pays for eligible population	No minimum	• Credits for restricted units only • 50% restricted units for special needs population to qualify as special needs project. • If project is <75% special needs, remaining units must meet another housing type (e.g., large family)

PROGRAM ELEMENT	*MHSA*	MHP	CalHFA	AB 2034	EHAP	LIHTC
Application Process/Timing						
	Counties apply for MHSA funds based on submission of plans to DMH. Based on review and approval of plans by DMH, funding will be distributed to counties.	**MHP General/SN:** 2 Competitive rounds/year (usually apps due in April and October) **MHP SH:** Over-the-counter, non-competitive process where applicant must meet or exceed minimum points	Over-the-counter, non-competitive process where applicants must meet CalHFA underwriting and special needs loan requirements.	No new applications for funding for new counties or existing AB2034 counties wishing to expand	• Operating funds awarded by formula to counties • Counties with designated local boards (DLBs) issue NOFAs • Counties without DLBs apply to state	**4% Credits:** Awarded automatically by TCAC once sponsor is successful at securing a bond funding allocation from CDLAC under a competitive process **9% Credits:** Generally two allocation rounds per year: one in March and one in July.

Property Management Considerations

Property Management in Supportive Housing

One of the key aspects of supportive housing, that distinguishes it from generic housing, is that property management and support services functions must be coordinated. A collaborative relationship between those responsible for maintaining and operating the facility (property management) and those responsible for providing services intended to help tenants retain housing is essential for the smooth functioning of supportive housing.

Collaborate or Not?

Supportive housing projects can have different approaches to the provision of property management and social services in services-enriched housing. Housing sponsors can decide to be:

- **Single Providers**: In this model of supportive housing, one organization provides both the property management *and* the support services, with distinctions drawn between functions
- **Partners**: In this model, two or more organizations partner for the provision of property management and support services, depending on expertise.

Each housing sponsor must determine the advantages and disadvantages of these approaches, specific to their goals, capacity, expertise and resources.

Single Provider Model

Advantages of the single provider model include:

- Less interagency compromise
- More overall sponsor control of the project
- Fewer ideological conflicts regarding mission
- Decision-making, chain of command, communication and ultimate authority may be clearer

Disadvantages of the single provider model include:

- Potential conflicts that occur when one organization acts as both services provider and landlord (for example, a tenant might refrain from disclosing potentially damaging information to their case manager if s/he recognizes this person is or reports to property management)
- Many agencies do not have adequate capacity and experience in the provision of *both* property management and support services

Partnership Model

Advantages of the partnership model include:

- Collaborating with another agency can bring fresh ideas, talents and new resources
- From the tenant's perspective, the housing is more generic and less institutional when a housing provider, not a services provider, operates the housing
- Support services can advocate for tenants who are having difficulty meeting the obligations of tenancy if these two areas are separated

Disadvantages of the partnership model include:

- Conflicts may occur over each agency's mission, goals, values and philosophy
- Conflicts may occur over each agencies' expectations for tenant behavior
- Conflicts may occur over each agency's vision of collaboration

Distinct Roles of Property Management and Support Services

Whether housing sponsors decide to operate and manage housing facilities as single providers or in partnerships, and whether the housing facility is a single-site, scattered site, master-leased or SRO, the following distinctions between property management functions and support services functions exist:

Property Management:

- Compliance with all government and private funds, tax credit compliance, and compliance with all applicable laws, rules and regulations.
- Rent-up, including marketing, outreach, interviews and tenant selection
- Rent collection
- Coordination of services contracts (pest control, trash removal, etc.)
- Record keeping, consistent with fiscal and regulatory compliance, and all applicable laws, rules and regulations (i.e., HMIS, HIPPA)
- Filing vacancies; processing unit-turnovers
- Hiring property management staff, from entry level positions (desk clerks, security staff) to property and asset management
- Developing, implementing and monitoring emergency policies and procedures
- Participation in community organizing
- Coordination with support services providers (on-site or off-site in the community)

Support Services:

- Design and implementation of the support services plan; raising funds to implement plan
- Participation in marketing, outreach, interviews and tenant selection and rent-up and orienting incoming tenants
- Meet the individual needs of tenants through the provision of case management services (i.e., money management, relapse-prevention, medication management, psychiatric and medical services)
- Assist tenants retain housing, identify and obtain all income for which they are eligible
- Crisis management; assistance in dealing with disruptive tenants
- Record-keeping, consistent with all applicable regulations, rules, laws and for fiscal compliance
- Participation in community organizing

Additional Resources

For additional information to assist housing sponsors make decisions about property management in supportive housing and for more examples of best practices developed by supportive and affordable housing providers experienced in providing housing for people with mental illness and their families, see "Coordinating Property Management and Social Services in Supportive Housing" available at www.csh.org/training resources. Also see "Put

Your House In Order – Securing Your Supportive Housing Program's Future through Effective Asset Management" available from AIDS Housing of Washington at www.aidshousing.org and "Property Management – Long Term Thinking & Short Term Action" from The Enterprise Foundation at www.enterprisefoundation.org.

Opportunities for Tenant Involvement

A best practice in supportive housing is to ensure that the tenants have multiple opportunities to participate in the design phase and in the subsequent operation, evaluation and assessment of the housing and support services intended for their benefit. Ensuring that such opportunities exist and are accessible to the target user is beneficial to the supportive housing sponsor, property management agent and social services providers.

The benefits of promoting tenant leadership and involvement include:

- Assurance that project design meets the needs and expectation of end users
- Significant positive impact on quality of life issues (i.e., facility cleanliness, reduction in on-site and community criminal activity, community building)
- Assistance with the development, delivery, assessment and evaluation of services (i.e., facilitation and/or leading of social, recreational and community-building activities, facilitation and solicitation of tenant participation in surveys and evaluations)
- Skills, knowledge and expertise gained by tenant leaders and tenant-led groups can be applicable to the tenant's vocational, training and/or employment goals and can help build or enhance their independent living skills (i.e., public speaking, meeting facilitation, record-keeping, community organizing)
- Improvement in health status of tenants (for example, tenant leaders and participants often reduce or delay excessive use of alcohol or use of drugs in order to fulfill their responsibilities; mentally and physically disabled tenants may seek supportive services in order to participate in decision-making forums, on councils and in tenant-led activities)

20 Ways to Involve Tenants in Policy and Program Design

- Designing program activities
- Prioritizing how to spend program activity funds
- Conducting staff hiring interviews, designing interview questions for staff hiring interviews
- Deciding how to decorate communal spaces
- Determining and updating house rules
- Prioritizing program activities
- Working out a substance use/harm reduction policy
- Planning program activities
- Reviewing visitor policies and violations
- Decision-making committees
- Regularly scheduled community meetings
- Leading program activities
- Facilitating on-site support groups
- Soliciting donations for community events
- Planning and preparing meals for community events
- Designing and providing orientations for new tenants
- Writing and updating organizational and program mission statements
- Planning social, cultural and faith-based celebrations

- Employment opportunities available on site or within the organizations sponsoring, operating and/or providing services and resources to tenants
- Writing and producing community newsletters

Assessing Whether an Organization Promotes Tenant Involvement
The following questions are intended to help organizations or external partners determine whether an organization is actively promoting tenant involvement and leadership.

- Are there tenants on the organization's board of directors? How many? How accomplished?
- Does the organization promote hiring tenants, or people representative of the end-users of the planned activity? How does the organization demonstrate its commitment?
- Are tenants involved in decision-making processes of this organization? How?
- Do tenants have formal access to decision-makers (i.e., program and executive directors, boards)? How?
- Do tenants have informal access to decision-makers (i.e. suggestion boxes, peer advocates, ombudspersons)?
- Are tenants represented in the organization's hiring processes? How?
- Are tenants made aware of employment and training opportunities? How?
- Are tenants aware of the organization's grievance process(es) (i.e., mediation, conflict resolution, etc.)? How?
- Are tenants directly involved in the grievance process(es)? Are tenants offered assistance to access or navigate the grievance process(es)? How?
- Are tenants involved in evaluating the organization's facility, project and/or program? How?
- Does the organization make an effort to keep tenants/clients/consumers informed about issues that could affect them (i.e., government policies, political agenda, advocacy/action alerts)? How?
- Does the organization formally recognize and acknowledge tenant leaders (i.e., with awards, stipends, public recognition of their efforts; invitations to participate in local/national conferences and workshops; newsletters)?

Formation of a Tenant's Association
A tenant's association is a tool for tenants to deal with their concerns about their building and their community. The roles of tenant's associations, or other tenant-led groups, vary depending on the building represented and decisions of the participants. Tenant's associations tend to go through many changes within a building day-to-day, month-to-month, year-to-year, as issues change and participation varies. Typically, tenant's associations have in common a Mission Statement wherein the participants in the association, council or group join together to improve the quality of life for building residents, by organizing and facilitating their involvement in management, recreational and/or political issues affecting the tenants and/or community members.

"20 Ways to Involve Tenants in Policy and Program Design" is largely excerpted from a similar list drafted by the Mental Health Association of San Francisco.

Appendix A

Glossary of Service Terms

Activities of daily living skills (ADLS): Basic skills required to take care of one's personal needs, such as grooming, housekeeping, budgeting, and using transportation.

AIDS (**Acquired Immunodeficiency Syndrome):** The advanced stage of HIV disease is characterized by a severely compromised immune system that increases vulnerability to life-threatening opportunistic infections. The criteria established for diagnosis includes HIV infection with a CD4 count below 200,a CD4 lymphocyte percentage of total lymphocytes of less than 14,or a clinical condition listed by the Center for Disease Control (CDC) as AIDS defining.

Americans with Disabilities Act (ADA): Federal legislation that defines the rights of access to and use of public accommodations, commercial facilities, and the workplace for people with disabilities. Also provides mechanisms for enforcement of rights of disabled persons against private persons, other entities (such as employers), and state and local governments.

Assertive community treatment (ACT) teams: Multidisciplinary teams that provide case management, crisis intervention, medication monitoring, social support, assistance with everyday living needs, access to medical care, and employment assistance for people with mental illness. The programs are based on an assertive outreach approach with hands-on assistance provided to individuals in their homes and neighborhoods.

Buy-in: The level to which an individual or member of a community is involved with and supports the ideas, concepts, processes, and projects that are advanced by the leadership.

Case management: The overall coordination of an individual's use of services, which may include medical and mental health services, substance use services, and vocational training and employment. Although the definition of case management varies with local requirements and staff roles, a case manager often assumes responsibilities for outreach, advocacy, and referral on behalf of individual clients.

Clinical: Pertaining to standardized evaluation (through direct observation and assessment) and conducted with the intent to offer intervention/treatment.

Collateral providers: The various organizations involved in the provision of services to an individual.

Community building: Efforts intended to accomplish any of the following: develop and sustain strong relationships among individuals, develop and sustain involvement in neighborhood and community-based organizations and institutions, and develop group capacity to collaboratively identify and accomplish common goals.

Community organizing: The process of bringing people together to identify common interests and work collaboratively to accomplish common goals.

Consumers: Recipients of health, mental health, and/or social services.

Damp supportive housing: Housing that discourages but does not prohibit alcohol use on premises.

Day treatment: Provides therapeutic, recreational, and social services to individuals who have chemical dependencies or emotional, psychological, developmental, physical, or behavioral needs.

Decompensation: Movement away from functioning at baseline level toward a reduced level of functioning and stability; psychological imbalance.

Detoxification: The process of ridding the body of substances via a gradual or complete decrease of substances, intended to result in the cessation of use.

DSM IV (Diagnostic and Statistical Manual of Mental Disorders): A publication of the American Psychiatric Association that describes mental disorders and the criteria for diagnosis.

Dually-diagnosed: Term used to describe individuals who are diagnosed with two different disorders, typically a combination of mental health and substance use diagnoses.

Entitlements: Publicly funded financial and medical benefits available to individuals who meet criteria usually based upon income or disability measures.

Fair housing: Refers to federal laws designed to protect access to housing regardless of race, color, national origin, sex, familial status, or disability.

Group development: The stages through which groups naturally progress: orientation and exploration, power and control, growth and working, maturation and performance, and termination. Groups may move back and forth between developmental stages depending upon changes in the group membership, conflicts that emerge, and shifts in the group focus.

Halfway house: Transitional residential program focusing on reintegration of participants into the community, such as substance users or ex-offenders.

Harm reduction: Harm reduction is a set of practical strategies that reduce the negative consequences associated with drug use, including safer use, managed use, and non-punitive abstinence. These strategies meet drug users "where they're at," addressing conditions and motivations of drug use along with the use itself. Harm reduction acknowledges an individual’s ability to take responsibility for his or her own behavior. This approach fosters an environment where individuals can openly discuss substance use without fear of judgment or reprisal, and does not condone or condemn drug use. Staff working in a harm reduction setting work in partnership with tenants, and are expected to respond directly to unacceptable behaviors, whether or not the behaviors are related to substance use. The harm reduction model has also been successfully broadened to reducing harms related to health and wellness as well as many other issues.

HIV disease: The entire continuum of infection with the human immunodeficiency virus (HIV), from the point of infection through AIDS.

Hospice care: End of life assistance focused on caregiving and emotionally supportive services rather than aggressive treatment.

Housing First: The goal of "housing first" is to immediately house people who are homeless. Housing comes first no matter what is going on in one's life, and the housing is flexible and independent so that people get housed easily and stay housed. Housing first can be contrasted with a continuum of housing "readiness," which typically subordinates access to permanent housing to other requirements. While not every community has what it needs to deliver housing first, such as an adequate housing stock, every community has what it takes to move toward this approach.

Indigenous leadership: Members of any community who, without any outside intervention, are guiding or directing a group towards the accomplishment of common goals or who have the skills and capacity to do so.

In-house employment: Job opportunities within an organization that are available to the users of its services.

Intake: The process for determining or assessing eligibility of applicants for services.

Intervention: The action taken to address a situation or problem.

Job development: Creating or connecting to job opportunities.

Late-stage chronic inebriate: Long-term chronic alcohol user usually suffering from related medical conditions.

Life skills: See Activities of daily living skills (ADLS).

Living wage: Income provided through employment that is at an adequate level to afford necessities such as housing, food, and medical services.

Long-Term Homelessness: This term includes all people who have been homeless for long periods of time, as evidenced by repeated (three or more times) or extended (a year or more) stays in the streets, emergency shelters, or other temporary settings, sometimes cycling between homelessness and hospitals, jails, or prisons. This definition intentionally includes a larger group of people than the federal government’s definition of long-term homelessness, such as families and youth. The federal government (and as a result, many states, cities, and service providers) frequently uses the term "chronically homeless," defined as “an unaccompanied homeless individual with a disabling condition who has either been continuously homeless for a year or more, or has had at least four episodes of homelessness in the past three years” (Notice of Funding Availability for the Collaborative Initiative to Help End Chronic Homelessness/Federal Register, Vol. 68, No. 17/Monday, January 27, 2003, 4019). This definition excludes homeless families and partnered homeless people as well as those who do not have a documented disability. CSH asserts that anyone who has been homeless for the long-term may be well served by the services and housing offered by permanent supportive housing providers.

Low-demand Housing: Housing provided in a low-demand environment emphasizes ease of entry and ongoing access to services with minimal requirements. The focus is on helping tenants retain their housing, rather than layering the housing within various program participation requirements. The application and admission processes, admission criteria, and conditions of tenancy are limited in their demands of tenants and potential tenants. This term is usually closely related to “voluntary services” and “harm reduction.”

Medicaid: The Medicaid Program provides medical benefits to low-income and disabled people who have no medical insurance. Although the Federal Government establishes general guidelines for the program, the Medicaid program requirements are actually established by each state. Eligibility for Medicaid and the actual services offered vary from state to state depending on the state's federally approved Medicaid Plan. The Medicaid program is funded through state and federal funds. States have different Federal matching rates which are based on a formula that takes into account the number of people in that state living at or below the Federal poverty level. States are required to provide eligibility to certain types of individuals and may include other groups. The mandatory eligible groups include: very low income families and children who are eligible for the state's welfare (TANF) benefits; Supplemental Security Income (SSI) recipients or in states using more restrictive criteria, individuals who are aged (65+), blind, or disabled.

Medicaid buy-in: Federally approved expansion of the Medicaid program giving states the option to permit employees with disabilities to purchase health-care coverage through the Medicaid program. Income requirements and sliding-scale premiums are determined by participating states.

Medicare: A federal program that provides health insurance to people age 65 and over, those who have permanent kidney failure, and certain people with disabilities.

MICA: Designates the coexistence of mental illness and chemical use/addiction.

Mood disorders: A cluster of mental disorders characterized by depression, anxiety, and/or mania.

Mutual aid: Peer support.

Permanent housing: In the world of supportive housing, the term "permanent" typically refers to affordable rental housing in which the tenants have the legal right to remain in the unit as long as they wish, as defined by the terms of a renewable lease agreement. Tenants enjoy all of the rights and responsibilities of typical rental housing, so long as they abide by the (reasonable) conditions of their lease.

Reasonable accommodations: A key provision of the ADA, which requires that alterations in the work environment (including scheduling and physical modifications) be made by employers (with more than 15 employees) who are aware of the limitations of a qualified individual with a disability, thus enabling the employee to perform his or her job functions.

Rehabilitation: A treatment approach that involves assessing a person's skills and needs, and teaching skills to reduce a person's disability and maximize a person's functioning in the community.

Relapse: A return to use of drugs and/or alcohol after a period of abstinence. It may take the form of an isolated incident of use or repeated use. Also known as picking up.

Relapse prevention: A variety of supports and tools, including group and individual work intended to assist individuals who have made a commitment to abstinence.

Release of information forms: Documents signed by residents that allow staff to share confidential information (e.g., mental health and substance use treatment, HIV information) with other service providers as necessary.

Rent up: The process by which a newly developed property fills vacant units.

Representative payee: Refers to an individual or agency that receives and manages the SSI, SSDI or other public financial assistance on behalf of another person. Representative payees are sometimes used in supportive housing to ensure that rents are paid by tenants who have difficulty with money management.

Scattered-site housing: Dwelling units in apartments or homes spread throughout a neighborhood or community that are designated for specific populations, usually accompanied by supportive services.

Self-disclosure: The sharing of personal information about oneself with others.

Self-help: An individual helps himself/herself or peers to acquire the skills needed to achieve personal goals.

Self-medicate: The use of unprescribed or misuse of prescribed substances to alleviate symptoms of mental illness, physical pain, and other discomforts.

Single room occupancy (SRO) Building: A type of building that offers residents a single, furnished room, usually with shared bathroom and kitchen facilities.

Single-site housing: A housing program in which all living units are located in a single building or complex.

Sober or Dry supportive housing: Housing that emphasizes abstinence and prohibits alcohol and the use of illegal psychoactive substances.

Social entrepreneurial venture: A for-profit business that benefits a nonprofit or other mission-driven organization.

Sponsor: An organization that pays for or plans and carries out a project or activity. (A “sponsor” can also refer to a person who is a point of contact and resource to another who is in the process of recovery, e.g., in a twelve-step program, but this definition is not used in this Toolkit.)

SSDI (Social Security Disability Income): Cash benefits for people with disabilities who have made payroll contributions to the federal social security program while they were employed.

SSI (Supplemental Security Income): Federal cash benefits for people aged 65 and over, the blind or disabled. Benefits are based upon income and living arrangement.

Stages of change: A model of understanding change in human behavior, especially as it relates to substance use. Related interventions are based upon the individual’s state of awareness and desire to change behavior at a given point in time.

Stakeholders: Individuals who have a vested interest in the outcomes or the process of a particular endeavor.

Stigma: Misperception that results in bias towards an individual or group.

Supported employment: Employment in an integrated setting with ongoing support provided by an agency with expertise in providing vocational services to people with disabilities.

Supportive housing: Combines and links permanent, affordable housing with flexible, voluntary support services designed to help the tenants stay housed and build the necessary skills to live as independently as possible.

Tenancy obligations: Minimum requirements to be a tenant in good standing, such as payment of rent, following house rules, maintaining a healthy and safe living unit, and meeting other lease requirements.

Tenant: A person who resides in rented premises under the terms of a lease. Whenever possible, CSH uses the term "tenant" (rather than consumer, resident, client, or participant) to refer to the people who live in supportive housing projects. This emphasizes the importance of permanent housing in ending homelessness and recognizes that in many programs, tenants may or may not also be voluntary customers of support services provided. This is not meant to minimize the great amount of time and energy some programs spend with people before they are actually tenants. It is, however, intended to underscore that tenants of supportive housing should have the same rights and responsibilities as tenants of other lease-based, permanent housing.

Therapeutic communities: Highly structured, residential treatment programs for substance users.

Transitional employment: Temporary employment focused on helping individuals to develop the skills to achieve permanent, competitive employment.

Transitional housing: Housing meant to help homeless people access permanent housing, usually within two years.

Triggers: People, places, and things associated with precipitating an untoward event such as violence or drug use.

Triply-diagnosed: Term used to describe individuals who are diagnosed with three different disorders, typically a combination of mental health, substance use, and HIV/AIDS diagnoses.

Twelve-step model: An alcohol and substance use recovery model characterized by its peer-run approach, anonymous meetings, peer sponsorship, and a series of twelve steps that members must work through as part of the recovery process. Examples of such programs are Alcoholics Anonymous (AA), Narcotics Anonymous (NA), and Cocaine Anonymous (CA).

Vocational assessment: Evaluation to assist consumers to identify skills, goals/interests, areas of expertise, and needed skills development.

Voluntary Services: The term "supportive" in supportive housing refers to voluntary, flexible services designed primarily to help tenants maintain housing. Voluntary services are those that are available to but not demanded of tenants, such as service coordination/case management, physical and mental health, substance use management and recovery support, job training, literacy and education, youth and children's programs, and money management.

Wet Housing: A housing model that utilizes the harm reduction approach to service provision. See *harm reduction.*

Withdrawal: The period of time following cessation of the use of some drugs and alcohol, characterized by symptoms that may cause discomfort, severe pain, and in some instances death.

Excerpted from two CSH publications: *Developing the "Support" in Supportive Housing* and *the Toolkit for Ending Long-Term Homelessness*.

Appendix B

Glossary Of Affordable Housing Financing and Development Terms

Accessible housing: Dwellings that meet the needs of the physically disabled; interpretations of how those needs can be met vary somewhat across localities, but generally require barrier-free, adaptable design in both common areas and individual units.

Acquisition financing: Funds obtained for the purpose of purchasing vacant land or properties.

Adjusted gross income: Income after standard deductions set by federal guidelines.

Affordable housing: A general term applied to public- and private-sector efforts to help low- and moderate-income people purchase or lease housing. As defined by the United States Department of Housing and Urban Development, any housing accommodation for which a tenant household pays 30% or less of its adjusted gross income.

Amortization: A gradual paying off of a debt by periodic installments.

Appraisal: Official report required by lenders and regulators, giving an opinion of value based on pertinent data and prepared by a qualified appraiser.

Area Median Income (AMI): A figure calculated by HUD based on census data, for specific size households in a specific area. The median income divides the income distribution into two equal groups, one having incomes above the median, and other having incomes below the median.

At risk of homelessness: A person or family that is coming out of a treatment program, institution, transitional living program, half-way house or jail and has no place to go; is living in a situation where the person/family is at great risk of losing their housing; is in need of supportive services to maintain their tenancy or is living in an inappropriate housing situation (i.e. Substandard housing, overcrowding, etc.).

Bond financing: A municipal bond is an interest-bearing debt obligation issued by a state or local municipality, which may support general government needs or fund a public works project. A municipal bond can also be issued by legal entities such as a housing authority.

Building code: Regulations, ordinances or statutory requirements of a governmental unit relating to building construction and occupancy.

Cash flow: The income remaining after all operating expenses and debt service have been paid.

Cashflow bridge loan: Cashflow bridge loans are used to assist sponsors in meeting an emergency need by bridging a time-delayed regular payment or start-up of a contract. Proceeds may fund any costs, including working capital, for which the borrower will receive a future payment under a contract or grant (e.g. against a tax credit syndication developer fee for project or executed government contract or philanthropic grant).

Census tract: A small statistical subdivision of a county. Census tract data identifies population and housing statistics about a specific part of an urban area. A single community may be composed of many census tracts. Census tract information is used to make allocations and other decisions regarding housing and community development.

CDBG (Community Development Block Grants): Community Development Block Grants are provided to communities from the U.S. Dept. of Housing and Urban Development (HUD) for a range of eligible activities, setting their own priorities as long as they meet basic program requirements. Larger cities and counties receive formula funding; small communities compete for funding which is administered by states. Development of affordable housing is an eligible activity.

Community Development Corporation (CDC): Non-profit groups accountable to local residents that engage in a wide range of physical, economic and human development activities. CDCs rebuild their communities through housing, commercial, job development and other activities. A CDC's mission is normally focused on serving the local needs of low- or moderate-income households.

Closing costs: Expenses involved in transferring real estate from a seller to a buyer, including lawyer's fees, charges for surveys, title searches, title insurance, and fees for recording deeds, mortgages and other documents.

Collateral: Stocks, bonds, evidence of deposit, and other marketable properties which a borrower pledges as security until a loan is repaid. In mortgage lending, the collateral is the specific real property being financed.

Commitment: A statement in writing representing a lender's legal commitment to a borrower that it will loan a certain amount of money at a particular interest rate and term, contingent upon specific conditions being met by the borrower.

Commitment fee: Lender's charge for agreeing to hold credit available for a specific period of time and to reimburse the lender for administrative costs of underwriting the loan. The fee is usually payable when the borrower accepts the commitment, evidenced by signing the commitment letter.

Community Housing Development Organization (CHDO): A non profit housing development organization which can be eligible for a portion of a Participating Jurisdiction's

HOME Funds allocation and for technical assistance, site control and seed money loans. A CHDO may also be eligible for organizational support. A community development organization must meet HUD-established criteria and be certified by the Participating Jurisdiction within its area of service in order to be eligible for development set asides and organizational support.

Community Reinvestment Act (CRA): Passed in 1977 (federal legislation), it states that commercial banks and thrifts have a continuing and affirmative obligation to help meet the credit needs of the local communities which they serve. It requires regulatory agencies to evaluate these institutions' record of meeting the credit needs of their designated communities, consistent with the safe and sound operation of the institution.

Construction loan: A loan, usually short term, which is made to finance the actual construction or renovation of a property. The funds are distributed as needed in accordance with a disbursement agreement, and the money is repaid on completion of the project, usually from the proceeds of a permanent mortgage.

Contract of sale (purchase agreement): Document which states the conditions under which a property will be transferred and the rights and obligations of the buyer and the seller during the contract period.

Debt Service Coverage (DSC): The ratio of estimated net operating income to debt service. This ratio is established by lenders to provide a cushion between the amount remaining after payment of operating costs and the amount of the annual mortgage payment.

Davis-Bacon act: An act passed in 1931, and subsequently amended, requiring that all laborers and mechanics employed in certain programs of federal financial assistance involving construction activities be paid wage rates no less than those prevailing on similar construction in the locality, as determined by the Secretary of Labor.

Drawdown: The withdrawal of funds from an account established for a specific purpose (e.g., drawing funds against a letter of credit, a federal grant, or an escrow account).

Environmental assessment: Official report required by lenders to determine whether a proposed development site may have been contaminated by hazardous wastes.

Environmental survey: Assessment of the project site to identify physical characteristics, such as soil conditions, presence of wetlands.

Equity: The amount of an owner's free and clear interest in real property which represents the difference between the property's market value and the amount of debt and other encumbrances.

Errors and omissions insurance: Insurance carried by architects or engineers to protect them from claims based on malpractice due to faulty designs. Also called professional liability insurance.

Escrow: Money, securities or other properties or instruments held by a third party until the conditions of a contract are met.

Fair housing laws: Federal, state, or local laws prohibiting discrimination in the sale, rental, or financing of housing, for any reasons.

Fair Market Rent (FMR): Fair Market Rent is an amount determined by the U.S. Dept. of Housing and Urban Development (HUD) to be the cost of modest, non-luxury rental units in a specific market area. Generally, an "affordable" rent is considered to be below the Fair Market Rent.

Forgivable loan: A loan with no repayment obligation if program requirements are met for a specified period of time. Usually provided by a public or other non-profit entity.

General contractor: The main contractor for a project who may hire smaller or more specialized contractors for portions of a development.

Guaranty: A guaranty is a promise by another organization to repay a loan on behalf of the borrower in the event that the borrower defaults on its obligation. A parent organization or an affiliate of the borrower typically provides guarantees. A guaranty is typically required if the borrower has few or no assets (e.g. newly created affiliate established to hold the real estate for tax credit & other purposes).

Intercreditor agreement: An intercreditor agreement details terms and conditions of agreement between lenders as to order and amount of disbursements and repayments. It may be required when a lender records a mortgage and there are 2 or more other mortgage lenders involved. Given the multiple parties involved, these can be difficult and time consuming to negotiate.

Hard costs: The direct costs to construct a building, also known as "bricks and mortar" costs, as distinguished from legal, financing, architectural and other fees required for the project.

Housing and Redevelopment Authorities: A branch of city or county government that coordinates housing programs and administers redevelopment activities. In some cities and counties the housing and redevelopment authorities are a single agency. In larger cities it is more typical that housing and redevelopment functions are operated by separate agencies.

Housing and Urban Development (HUD): The U.S. Department of Housing and Urban Development, created in 1965 to administer programs of the federal government which provide assistance for housing for the development of the nation's communities. HUD administers housing and home finance programs, the Public Housing Administration and FHA.

Loan closing: Legal session during which final loan documents are executed and the loan is funded.

Loan term: The amount of time over which a borrower is expected to repay the loan.

Loan-to-value ratio (LTV): The ratio of money a lender is willing to lend relative to the appraised value of the property.

Long-term homelessness: Includes all people who have been homeless for long periods of time, as evidenced by repeated (three or more times) or extended (a year or more) stays in the streets, emergency shelters, or other temporary settings, sometimes cycling between homelessness and hospitals, jails, or prisons. This definition intentionally includes a larger group of people than the federal government's definition of long-term homelessness, such as families and youth. The federal government (and as a result, many states, cities, and service providers) frequently uses the term "chronically homeless," defined as "an unaccompanied homeless individual with a disabling condition who has either been continuously homeless for a year or more, or has had at least four episodes of homelessness in the past three years" (Notice of Funding Availability for the Collaborative Initiative to Help End Chronic Homelessness/Federal Register, Vol. 68, No. 17/Monday, January 27, 2003, 4019). This definition excludes homeless families and partnered homeless people as well as those who do not have a documented disability. CSH asserts that anyone who has been homeless for the long-term may be well served by the services and housing offered by permanent supportive housing providers.

Low Income Housing Tax Credit (LIHTC): A congressionally created tax credit (Internal Revenue Code Section 42) available to investors in low income housing designed to encourage investment that helps finance construction and rehabilitation of housing for low income renters.

Master leasing: A legal contract in which a third party (other than the actual tenant) enters into a lease agreement with the property owner and is responsible for tenant selection and collection of rental payments from sub-lessees (see sublease).

Mortgage: Debt instrument by which the borrower (mortgagor) gives the lender (mortgagee) a lien on property as security for the repayment of a loan.

Net operating income (NOI): The amount of income left after total operating expenses, but not the mortgage payments, have been paid.

NOFA: Notice Of Funding Availability; see SuperNOFA. This is a tool used by public agencies to notify interested parties of opportunities to apply for funding.

No-interest loan: A loan for which the lender does not charge interest, but which must be repaid.

Operating and maintenance expenses: The ordinary expenses of operating and maintaining an income property, such as taxes, insurance, repairs, utilities, etc.

Operating reserve: Funds set aside to be used to offset possible losses due to unexpectedly low rent collections or unanticipated operating and maintenance costs. A reserve may be required by a lender in the form of an escrow to pay upcoming taxes and insurance costs.

Option: The right to purchase or lease a property upon specified terms within a specified period of time.

Owner's representative: An individual or firm designated to act on behalf of the owner on construction projects.

Pre-development financing: Funding to cover initial project costs – such as architectural, engineering, legal, and environmental services – that are incurred before funds to pay the project costs are available. Funds may come from the owner's resources or from a public agency or an intermediary funding organization, and are typically reimbursed by a designated construction or permanenet loan.

Permanent housing: In the world of supportive housing, the term "permanent" typically refers to affordable rental housing in which the tenants have the legal right to remain in the unit as long as they wish, as defined by the terms of a renewable lease agreement. Tenants enjoy all of the rights and responsibilities of typical rental housing, so long as they abide by the (reasonable) conditions of their lease.

Pro forma income and expenses: Statement showing the expected development or annual income and expenses of a project.

Public housing agency/authority (PHA): Any state or local government entity or its agency which is authorized to engage in or assist the development or operation of low-income housing. Public Housing projects are owned by PHAs, but supported through funding from the federal government (HUD). (aka LHA's Local Housing Authorities) Note that in some larger cities there may be a Public Housing Authority that administers some housing funds such as rental subsidies that is separate from a public housing department/agency in the same jurisdiction that administers capital funds to develop affordable housing. For example, the City of Los Angeles has the Los Angeles Housing Department and the Housing Authority of the City of Los Angeles. It should also be noted that many counties have agencies that provide these services/functions for smaller cities within the county.

Reasonable accommodation: The legal requirement that housing features, procedures, and other adjustments are considered and/or made to meet the needs of a person with a disability.

Recourse loan: A recourse loan permits the lender to seek recourse beyond the pledged collateral. Loans are typically structured as "recourse" obligations of the borrower. This means that in the event that the loan is not repaid in accordance with its terms, then the lender can seek a legal judgment against the borrower, permitting the lender to receive repayment of the loan from the assets of the borrower. The value of the borrower's assets may be determined by an evaluation of the financial statements of the borrower.

Replacement reserves: Funds set aside on an annual basis to be used to pay for anticipated replacement of systems and equipment.

Revolving loan: Proceeds may be used for various purchases; funds may be repaid and drawn again. Revolving loans are used to facilitate project development by funding multiple purchases, which have multiple repayment dates and/or sources.

Scattered-site: Multiple housing units managed or funded as a single program or by a single provider that are not located at one single location.

Section 8 housing: This type of affordable housing is based on the use of subsidies, the amount of which is geared to the tenant's ability to pay. The subsidy makes up the difference between what the low-income household can afford, and the contract rent established by HUD for an adequate housing unit. Subsidies are either attached to specific units in a property (project-based), or are portable and move with the tenants that receive them (tenant-based). The Section 8 program was passed by Congress in 1974 as part of a major restructuring of the HUD low-income housing programs.

Site control: Evidence that a developer has, or will have control of a site by the time financing is committed. Evidence can be an option agreement, a purchase agreement/contract, or evidence of ownership (grant deed).

Single site: Housing units that are located within one building or area, typically located on just one site.

Soft costs: Expenses other than "bricks and mortar" costs incurred in developing a real estate project. They include legal, architectural, financing and other fees.

Sources and uses: A schedule submitted as part of a financing application that identifies the different sources of funding for the construction of a project and a detailed identification of the uses of the funds in the development process.

Sublease: A secondary lease agreement in which the tenant signs a lease with someone other than the owner or owner’s agent. Tenants who sign sublease agreements maintain state and local tenancy rights and responsibilities.

Subordinated loan: A loan that is repayable only after other debts with a higher claim have been satisfied.

SuperNOFA - **Super Notice of Funding Availability:** Each year, the U.S. Department of Housing and Urban Development (HUD) issues a super Notice of Funding Availability (NOFA) for the Department's Housing, Community Development, and Empowerment programs. This SuperNOFA announces the availability of HUD program funds covering 32 grant programs, including the Supportive Housing, Shelter Plus Care, and Section 8 Moderate Rehabilitation Single Room Occupancy programs; the Housing Opportunities for

Homeless Persons with AIDS (HOPWA); Section 202 Supportive Housing for the Elderly; and Section 811 Supportive Housing for Persons with Disabilities.

Supportive Housing: The term "supportive" in supportive housing refers to housing with voluntary, flexible services designed primarily to help tenants maintain housing. These *voluntary services* are those that are available to but not demanded of tenants, such as service coordination/case management, physical and mental health, substance use management and recovery support, job training, literacy and education, youth and children's programs, and money management.

Survey: A legal record of the exact boundaries and location of a property

Take-out loan: The take-out loan is a permanent mortgage loan which replaces the construction loan; also called permanent end loans.

Tax credits: Tax benefits, granted for engaging in particular activities, that are subtracted on a dollar for dollar basis, from taxes owed. Also see Low Income Housing Tax Credits

Title insurance: Insurance which protects an owner or other party of interest against defects in title created by improper parties signing an instrument of conveyance, fraud, etc.

Under writing process: Process of analyzing the creditworthiness of a loan application and determining the terms and conditions of a loan.

Vacancy allowance: The estimated amount of income that will be lost during one year from rental units that remain empty for a period of time.

Appendix C

Sample Funding and Disbursement Agreement

AGREEMENT made as of June ____, 2005 by and between **(PROJECT LIMITED PARTNERSHIP (Borrower))**, a ________ limited partnership having a place of business at ________________________ and **THE CITY OF** ______ ("City"), acting by and through its **DEPARTMENT OF HOUSING DEVELOPMENT AND PRESERVATION** ("HDP"), having an office at ____________________.

WHEREAS, HDP has made or agreed to make a loan or loans to Borrower in the aggregate amount of up to **$**_________ (the "Loan") for the acquisition and/or rehabilitation of low income housing located at ________________ as 20 residential dwelling units (the "Project");

WHEREAS, in connection therewith, Borrower has agreed to fund certain reserve accounts to ensure the successful operation of the Project as low income housing; and

WHEREAS, Borrower and HDP wish to agree upon procedures for the establishment of such accounts and the funding and disbursing of such reserves;

NOW THEREFORE, in consideration of the terms, conditions, and covenants hereinafter set forth, the parties agree as follows:

ARTICLE I
DEFINITIONS

1.1 As used in this Agreement:

"Administrative Agent" shall mean the person or entity, if any, designated as Administrative Agent in accordance with Section 2.3 hereof for so long as such person or entity shall continue to act in such capacity. HDP hereby consents to the designation of _______________as the Administrative Agent hereunder and as Servicing Agent for the Reserve Accounts in accordance with Section 2.3.

"Budget" shall mean a statement of projected operations of the Project for a calendar year in the form of Exhibit B annexed hereto.

"Debt Service Date" shall mean the date on which interest shall first begin to accrue under the note evidencing the Loan.

"Deferred Replacement Reserves" shall mean the aggregate amount, if any, by which the Replacement Reserve Contributions hereunder shall be less than the Replacement Reserve Targets.

"Draw Request" shall mean a request in the form of Exhibit E annexed hereto for a withdrawal of funds from a specified Reserve Account.

"Incentive Management Fee" shall mean, for any year, an amount equal to one-third (1/3) of the Surplus Cash, if any, for such year up to and not exceeding the sum of $250 per dwelling unit in the Project in any year.

"Lender's Fee" shall mean one percent (1%) of the amount of the Loan.

"Limited Partner" shall mean ____________LLP, a limited liability limited partnership.

"Net Adjusted Operating Income" shall mean, for any year, the amount by which the Operating Income for such year shall exceed the sum of (i) the Operating Expenses for such year and (ii) the Project Operating Account Deficit for such year, if any.

"Operating Expenses" shall mean, for any year, the reasonable cash expenses incurred by Borrower in the operation and maintenance of the Project during such year, excluding (i) payments to affiliates of Borrower (unless included in the Budget approved by HDP) and (ii) non-cash expenses such as depreciation, bad debt and vacancy losses.

"Operating Income" shall mean, for any year, all income earned in such year from the operation of the Project in the ordinary course of business and recognizable by Borrower as income for tax reporting purposes, excluding interest on the Reserve Accounts.

"Operating Reserve Account" shall mean the account, if any, to which payments are made for the purpose of funding Project Operating Account Deficits in accordance with this Agreement.

"Operating Statement" shall mean an income and expense statement for a specified period of time in the form of Exhibit C annexed hereto.

"Project Operating Account" shall mean the account or accounts established by Borrower or its managing agent into which all Operating Income and Operating Reserve withdrawals shall be deposited when received and from which all Operating Expenses and Reserve Contributions shall be paid.

"Project Operating Account Deficit" shall mean, for any year, the amount (or the projected amount shown in a Budget, as the case may be) by which the balance in the Project Operating Account at the end of such year, after adjustment for unpaid Operating Expenses allocable to such year, shall be less than one and one quarter month's gross rent for the Project.

"Replacement Reserve Account" shall mean the account into which Replacement Reserve Contributions are deposited and from which withdrawals may be made in accordance herewith.

"Replacement Reserve Contribution" shall mean (a) the contributions, if any, shown on the Schedule of Contributions as Replacement Reserve Contributions and (b) for any year, the Replacement Reserve Target for such year or such other amount as shall be set forth in the Budget approved by HDP for such year (or, if no Budget shall have been approved, the preceding year).

"Replacement Reserve Target" shall mean, for each year, the sum of $5,000.00 ($250 per unit per year), which amount shall be increased by 3% on January 1 of each year during the term hereof.

"Reserve Accounts" shall mean the Operating Reserve Account, Replacement Reserve Account and Social Service Reserve Account.

"Reserve Contributions" shall mean the deposits required to be made to the Reserve Accounts pursuant to Article 3 hereof.

"Schedule of Contributions" shall mean the schedule annexed hereto as Exhibit A or subsequently approved by HDP setting forth the timing and amounts of the payments to be made by Borrower to each Reserve Account under Section 3.2.

"Servicing Agent" shall mean, with respect to each Reserve Account, the person or entity designated by HDP from time to time as Servicing Agent therefor in accordance with Section 6.1 hereof. HDP hereby designates the City of ________ Housing Development Corporation as the Servicing Agent for each Reserve Account except that for so long as ____________________ shall be the Administrative Agent hereunder, such Administrative Agent shall be designated as the Servicing Agent for each Reserve Account.

"Social Service Fee" shall mean, for each year, an amount equal to one-third (1/3) of the Surplus Cash for such year, if any, minus the Incentive Management Fee, up to and not exceeding the sum of $250 per dwelling unit in the Project in any year.

"Social Service Reserve Account" shall mean the account into which Replacement Reserve Contributions are deposited and from which withdrawals may be made in accordance herewith.

"Social Service Reserve Contribution" shall mean (a) the contributions shown on the Schedule of Contributions as Social Service Reserve Contributions and (b) for any year, the Social Service Fee, if any, or such other amount as shall be set forth in the Budget approved by HDP for such year (or, if no Budget shall have been approved, the preceding year).

"Sponsor" shall mean Aquinas Housing Corporation

"Surplus Cash" shall mean, for any year, the amount by which the Net Adjusted Operating Income for such year, if any, shall exceed the sum of the Deferred Interest and Deferred Replacement Reserves, if any (i.e. the the Net Adjusted Operating Income remaining after application pursuant to Sections 3.5(a) and (b)).

ARTICLE II
ESTABLISHMENT AND ADMINISTRATION OF ACCOUNTS

2.1 Operating Account. Borrower shall promptly establish the Project Operating Account and shall thereafter administer such account in accordance with this Agreement. All Operating Income shall be deposited into the Project Operating Account when received and all Operating Expenses shall be paid from the Project Operating Account when due.

2.2 Reserve Accounts. HDP shall establish or direct Servicing Agent(s) to establish each Reserve Account prior to the time of the first deposit thereto and each Reserve Account shall thereafter be administered in accordance herewith. All deposits to a Reserve Account hereunder shall be made by delivery of such deposits to the Servicing Agent for such Reserve Account for deposit therein, except that deposits by Borrower to the Operating Reserve Account under Section 3.2 hereof may be made directly thereto provided that Borrower shall give notice of each such deposit to the Servicing Agent therefor.

2.3 Administrative Agent. Upon the sale of a limited partnership interest in Borrower to Limited Partner, Borrower may designate a person or entity reasonably acceptable to HDP to be the Administrative Agent hereunder. HDP may designate such person or entity (or an affiliate thereof) to be the Servicing Agent for one or more of the Reserve Accounts in accordance with Section 6.1 hereof, provided that such person or entity shall enter into a servicing agreement in accordance with Section 6.2 hereof and shall comply with such agreement.

ARTICLE III
DEPOSITS INTO ACCOUNTS

3.1 Lender's Fee. Upon the sale, if any, of a limited partnership or other equity interest in Borrower, Borrower shall deliver to HDP or its designee an amount equal to the Lender's Fee, unless such payment has been waived by HDP.

3.2 Equity Contributions. Borrower shall deposit the amounts set forth on the Schedule of Contributions on or before the dates set forth in such Schedule (or, if only a year is specified, on April 1 of such year) into the Reserve Accounts in accordance with such Schedule. If no Schedule of Contributions shall be annexed hereto or otherwise approved by HDP prior to the sale of a limited partnership or other equity interest in Borrower, Borrower shall deposit an amount equal to the gross proceeds of such sale into the Operating Reserve Account upon the closing thereof.

3.3 Monthly Replacement Reserve Contributions. On the first day of each calendar month commencing after the Debt Service Date (unless otherwise approved by HDP), Borrower shall deposit an amount equal to one-twelfth (1/12th) of the annual Replacement Reserve Contribution into the Replacement Reserve Account.

3.4 [Intentionally Omitted].

3.5 Annual Surplus Contributions. On April 1 of each calendar year commencing after the Debt Service Date, Borrower shall (to the extent available) apply the Net Adjusted Operating Income, if any, for the preceding calendar year as follows:

(a) first, deposit an amount equal to the Deferred Replacement Reserves, if any, into the Replacement Reserve Account in accordance with Section 3.3 hereof;

(b) second, deposit an amount equal to the Social Service Fee into the Social Service Reserve Account; and

(c) third, deposit the balance of the Net Adjusted Operating Income, if any, less the Incentive Management Fee into the Operating Reserve Account.

3.6 Investment Income. All interest and other income accruing on funds in a Reserve Account shall accrue for the benefit of such account and may not be withdrawn from such account except in accordance herewith.

ARTICLE IV
SUBMISSIONS BY BORROWER; REVIEW OF BUDGET

4.1 Financial Statements, Budgets, Reports and Bank Statements. Borrower shall submit to HDP in each calendar year commencing after the Debt Service Date on or before the following dates or such other dates as shall be directed by HDP, and in form and substance acceptable to HDP, the following:

March 1: (a) Budget for the then current calendar year;

(b) Operating Statement for the preceding calendar year;

(c) balance sheet as of December 31 of the preceding calendar year in the form of Exhibit D annexed hereto;

(d) rent roll as of December 31 of the preceding calendar year indicating for each unit the tenant, the rent, the rent subsidy, if any, and the lease renewal date; and

(e) bank statements showing the balance in the Project Operating Account and Operating Reserve Account as of December 31 of the preceding calendar year together with reconciliation of such balances for the preceding calendar year;

April 1: certified financial statements of Borrower; and

August 1: (a) bank statement for the Operating Reserve Account for the preceding June 30; and

(b) current fire and liability insurance policies for the Project.

4.2 Other Documents. Borrower shall furnish to HDP such additional documentation, including timesheets, payrolls, vouchers, invoices or cancelled checks, as shall be reasonably requested by HDP within thirty (30) days after such request.

4.3 Review of Budget. HDP shall approve or reject a Budget submitted by Borrower under Section 4.1 above by notice to Borrower given on or before the later of (i) April 1 or (ii) thirty (30) days after receipt of such Budget and all other documentation theretofore required to be provided under Sections 4.1 and 4.2 above. If HDP shall reject such Budget, such notice shall be accompanied by a statement of HDP's objections thereto and Borrower shall submit to HDP for approval in accordance herewith a Budget reflecting such objections within ten (10) days thereafter. HDP may, without limitation, reject any Budget in which (a) the Replacement Reserve Contributions shall be less than the Replacement Reserve Targets, (b) the debt service payments shall be less than the debt service due and payable on the Loan, (c) the projected balance in the Operating Reserve Account after deduction of any Project Operating Account Deficit shall be less than the amount reasonably projected to be required for the operation of the Project during the term of the Loan or (d) the Operating Expenses shall, in the reasonable opinion of HDP, be excessive.

If there shall be an Administrative Agent under Section 2.3 hereof, (a) Borrower shall submit to Administrative Agent a copy of each Budget submitted to HDP hereunder; (b) HDP shall give notice of its approval or rejection of each such Budget to Administrative Agent simultaneously with notice to Borrower; (c) HDP shall permit Administrative Agent to furnish comments on such Budgets, provided that nothing contained herein shall prohibit HDP from approving or rejecting a Budget prior to receipt of such comments; and (d) HDP shall be deemed to have approved any Budget approved by Administrative Agent if HDP shall not have rejected such Budget within thirty (30) days after HDP shall have received notice of such approval by Administrative Agent.

ARTICLE V
WITHDRAWALS FROM RESERVE ACCOUNTS

5.1 Withdrawals From Operating Reserve Account.

(a) Budgeted Deficit. If the Budget approved by HDP for any year shall include a Project Operating Account Deficit, HDP shall direct Servicing Agent to transfer the amount of such Project Operating Account Deficit from the Operating Reserve Account to the Project Operating Account in four equal quarterly installments, subject to revocation pursuant to Section 7.2 hereof. If the Administrative Agent, if any, shall be the Servicing Agent for the Operating Reserve Account, such Administrative Agent shall be deemed authorized to transfer the amount of any Project Operating Account Deficit in accordance with this paragraph without further direction from HDP.

(b) Actual Deficit. If a Project Operating Account Deficit shall exist as of December 31 of any year, Borrower may submit to HDP simultaneously with the Operating Statement for such year a Draw Request for transfer of an amount up to such Project Operating Account Deficit from the Operating Reserve Account to the Project Operating Account together with bank statements showing the balance in the Project Operating Account and evidencing the Project Operating Account Deficit as of December 31 of such year. HDP shall evaluate the Draw Request and supporting documentation and, if approved (or deemed approved as set forth below), shall direct Servicing Agent to transfer the amount specified in the Draw Request from the Operating Reserve Account to the Project Operating Account.

(c) Emergency Withdrawals. If Borrower shall require additional operating funds due to reasonably unforeseeable circumstances or events, Borrower may submit to HDP from time to time, but not more frequently than four (4) times in any year, a Draw Request for disbursement of additional funds from the Operating Reserve Account. Such Draw Request shall identify such circumstances or events and shall be accompanied by a twelve month Operating Statement through the end of the most recent calendar quarter. HDP shall evaluate the Draw Request and supporting documentation and, if approved (or deemed approved as set forth below), shall direct Servicing Agent to transfer the amount specified in the Draw Request from the Operating Reserve Account to the Project Operating Account.

If there shall be an Administrative Agent under Section 2.3 hereof, (a) Borrower shall submit to Administrative Agent a copy of each Draw Request for withdrawal from the Operating Reserve Account submitted to HDP hereunder; (b) HDP shall give notice of its approval or rejection of each such Draw Request to Administrative Agent simultaneously with notice to Borrower; (c) HDP shall permit Administrative Agent to furnish comments on such Draw Requests, provided that nothing contained herein shall prohibit HDP from approving or rejecting a Draw Request prior to receipt of such comments; and (d) HDP shall be deemed to have approved any Draw Request approved by Administrative Agent if HDP shall not have rejected such Draw Request within thirty (30) days after HDP shall have received notice of such approval by Administrative Agent.

(d) Excess Funds. From time to time after the seventh (7th) anniversary of the Debt Service Date, but not more frequently than once in any calendar year, HDP may give a notice to Borrower that HDP desires to withdraw from the Operating Reserve Account the amount by which the balance therein shall exceed the amount deemed by HDP to be necessary for the Project and specifying the amount proposed to be withdrawn. Borrower may, within twenty (20) days after receipt of such notice, object to such withdrawal by giving notice thereof to HDP together with current financial projections for the Project including projections of the minimum balance required in the Operating Reserve Account.

If Borrower shall so object to a proposed withdrawal by HDP, HDP and Borrower shall discuss such projections and shall reasonably and in good faith attempt to agree upon the amount, if, any, of excess funds in the Operating Reserve Account. If HDP and Borrower shall agree upon such amount, HDP may direct the Servicing Agent to withdraw such amount from the Operating Reserve Account for payment to the City of __________ in reduction of the Loan. No withdrawal shall be made under this Section 5.1(d) unless and until HDP and Borrower shall agree upon the amount thereof. If Borrower shall not have objected to a proposed withdrawal by HDP within twenty (20) days after HDP's notice, Borrower shall be deemed to have agreed thereto.

If there shall be an Administrative Agent under Section 2.3 hereof, (a) HDP shall give to such Administrative Agent any notice given to Borrower under this Section 5.1(d) simultaneously with the giving of such notice to Borrower; (b) Administrative Agent shall be permitted to object thereto in the same manner as Borrower hereunder and (c) no withdrawal shall be made from the Operating Reserve Account under this Section 5.1(d) unless and until such Administrative Agent shall agree upon the amount thereof. Notwithstanding anything to the contrary contained herein, if there shall be no Administrative Agent, Limited Partner (or a person or entity designated by Limited Partner and reasonably acceptable to HDP) shall have the rights of and may act as Administrative Agent solely under this Section 5.1(d).

5.2 Withdrawals from Replacement Reserve Account.

Borrower may submit to HDP from time to time, but not more frequently than once every four (4) months, a Draw Request for disbursement of funds from the Replacement Reserve Account for replacements of and capital improvements to portions of the Project. Such Draw Request shall identify the work for which such funds are sought and be accompanied by such supporting documentation as may be requested by HDP, which may include architectural drawings, construction plans and specifications and one or more contractors' bids. HDP shall evaluate the Draw Request and supporting documentation and, if approved, shall direct Servicing Agent to disburse funds from the Replacement Reserve Account to pay for such work.

Notwithstanding the foregoing, Borrower may submit a Draw Request under this Section 5.2 at any time and from time to time with respect to unanticipated replacements or capital improvements which, if not undertaken immediately, would compromise the Project or the health and welfare of the tenants in occupancy. Any such Draw Request shall be deemed approved by HDP if not rejected by notice to Borrower within thirty (30) days after HDP shall have received such Draw Request.

For the purposes of this Section 5.2, replacements and capital improvements shall include only (i) replacements and improvements which become part of the real property of the Project and (ii) replacement of appliances and furniture.

5.3 Withdrawals from Social Service Reserve Account.

Borrower may submit to HDP from time to time, but not more frequently than once every four (4) months, a request substantially in the form of a Draw Request for disbursement of funds from the Social Service Reserve Account setting forth the amount and intended use of such funds and such supporting documentation as may be requested by HDP. HDP shall review the request and supporting documentation and, if acceptable to HDP, shall direct Servicing Agent to disburse funds from the Social Service Reserve Account in the amount approved by HDP.

5.4 Withdrawal Upon Maturity.

Upon the maturity of the Loan, whether by acceleration or expiration of the term or otherwise, all amounts then on deposit in the Reserve Accounts, after payment of unpaid Operating Expenses, may, at the option of HDP, be paid to the City of _________ in reduction of the Loan.

ARTICLE VI
SERVICING AGENTS

6.1 HDP may from time to time designate a person or entity to act as Servicing Agent for one or more Reserve Accounts and shall give notice of such designation to Borrower. If a Servicing Agent shall not be designated for a Reserve Account, shall be terminated by HDP or shall cease, for any reason, to act in such capacity, HDP shall be deemed the Servicing Agent with respect to such Reserve Account until another Servicing Agent shall be designated.

6.2 HDP shall obtain the agreement of each Servicing Agent (i) to follow the directions of HDP with respect to the creation of the Reserve Accounts, deposits thereto, investment thereof and withdrawals therefrom, (ii) to exercise the same degree of care with respect thereto as Servicing Agent uses for the protection of its own investments and (iii) to deliver periodic reports to HDP and/or Borrower with respect thereto. HDP shall have no liability to Borrower for any loss or damage arising out of the breach by any Servicing Agent of its agreement with HDP.

6.3 Neither HDP nor any Servicing Agent shall be obligated to segregate funds held in connection with the Project from other funds held by Servicing Agent for the benefit or account of other projects (unless required by law or other agreement), provided that separate accounting records are maintained for the Project.

6.4 Neither HDP nor any Servicing Agent shall have any liability or obligation for loss of all or any portion of the funds in the Reserve Accounts by reason of the insolvency or failure of any institution with which such funds are invested.

6.5 Neither HDP nor any Servicing Agent shall be liable with respect to any action taken or omitted to be taken by it in good faith in the performance of its duties hereunder. HDP and each Servicing Agent shall be entitled to assume the genuineness of signatures or telephone approvals believed by it to be genuine in complying with such directions.

6.6 HDP shall be entitled to withdraw (or to permit Servicing Agent to withdraw) funds from the Operating Reserve Account at any time and from time to time to pay the reasonable fees of Servicing Agent for its services.

ARTICLE VII
DEFAULT; TERMINATION

7.1 Defaults. Failure by Borrower to (a) deliver any payment due under Article III hereof on the date such payment shall be due, (b) submit any documents due under Article IV hereof on the date such documents shall be due or (c) perform any other obligations of Borrower hereunder shall be deemed a default by Borrower under this Agreement.

7.2 Remedies. Upon the occurrence of a default hereunder, HDP may give notice of such default to Borrower and may, at its option, in addition to any and all other remedies available to it, (a) immediately revoke any previous approval or direction given to Servicing Agent (including a direction under Section 5.1(a) hereof), provided that HDP shall, upon a cure of such default, reinstate such revoked approvals and directions **[**and (b) if such default is not cured within thirty (30) days after notice thereof, withdraw any or all funds from the Sinking Fund Account pursuant to Section 5.3(d) hereof.**]**

7.3 Termination. This Agreement shall terminate upon repayment or other satisfaction of the Loan. Any funds remaining in the Reserve Accounts after payment of the principal of and interest on the Loan shall be disbursed in such manner as shall be agreed by HDP and Borrower.

ARTICLE VIII
MISCELLANEOUS

8.1 Notices. All notices, submissions, requests, demands and other communications required or given under this Agreement must be in writing and delivered by hand, by facsimile transmission or by registered or certified mail, return receipt requested, postage prepaid, addressed to the parties at the addresses set forth at the beginning of this Agreement or such other address as shall be designated by the parties in accordance herewith. All notices to HDP shall be sent to the attention of the Assistant Commissioner, Office of Development. Notice will be deemed given for purposes of this Agreement upon receipt thereof by the addressee.

8.2 No Waiver. No failure or delay on the part of HDP to exercise any right, power or remedy under this Agreement or available at law or in equity shall operate as a waiver thereof, or limit or impair HDP's right to take any action or to exercise any right, power or remedy hereunder, without notice or demand, or prejudice its rights against Borrower in any respect.

8.3 Amendments. This Agreement shall not be amended unless consented to in writing by all of the parties hereto.

8.4 Governing Law. This Agreement and the rights of the parties hereto shall be governed by, and construed in accordance with, the laws of the State of California.

8.5 Binding Effect. This Agreement shall be binding upon and inure to the benefit of all successors and assigns of HDP and Borrower, including all transferees of the Project, and all such successors and assigns of Borrower shall, upon request of HDP, promptly execute and deliver to HDP an instrument in form and substance acceptable to HDP expressly assuming the obligations of Borrower hereunder.

8.6 Unlawful Provisions Deemed Stricken. If this Agreement contains any unlawful provision not an essential part of this Agreement and which shall not appear to have been a controlling or material inducement to the making thereof, the same shall be deemed of no effect and shall, upon notice by either party, be deemed stricken from this Agreement without affecting the binding force of the remainder.

8.7 Investigation Clause. The parties hereto agree to comply with the provisions of the Investigation Clause Rider annexed hereto.

8.8 Exhibits. The exhibits listed below and attached to this Agreement are hereby incorporated into and made a part of this Agreement.

Exhibit A: Schedule of Contributions
Exhibit B: Form of Budget
Exhibit C: Form of Operating Statement
Exhibit D: Form of Balance Sheet
Exhibit E: Form of Draw Request

IN WITNESS WHEREOF, this Agreement has been executed by the parties by their duly authorized officers as of the date first above written.

THE CITY OF ___________
DEPARTMENT OF HOUSING DEVELOPMENT AND PRESERVATION

By:_______________________________________
Director

(PROJECT LIMITED PARTNERSHIP)
By: ____________________

By:____
President

EXHIBIT A TO FDA

SCHEDULE OF CONTRIBUTIONS

OPERATING RESERVE CONTRIBUTIONS

Date	Amount
December 1, 2006*	$
April 15, 2007	$
April 15, 2008	$
April 15, 2009	$
TOTAL:	$

SOCIAL SERVICE RESERVE CONTRIBUTIONS

Date	Amount
December 1, 2006*	$
April 15, 2007	$
April 15, 2008	$
April 15, 2009	$
TOTAL:	$

*assumes ______________ __, 200_ completion

EXHIBIT B TO FDA
FORM OF PROPOSED BUDGET

[Annexed]

EXHIBIT C TO FDA
FORM OF OPERATING STATEMENT

[Annexed]

EXHIBIT D TO FDA
FORM OF BALANCE SHEET

[Annexed]

EXHIBIT E TO FDA
FORM OF DRAW REQUEST FOR WITHDRAWAL FROM RESERVE ACCOUNT

Reference is made to that certain Funding and Disbursement Agreement (the "FDA") by and between the undersigned, as Borrower, and the City of __________, acting by and through its Department of Housing Development and Preservation ("HDP"). All capitalized terms used herein shall have the meanings ascribed to such terms in the FDA except as otherwise defined herein.

__ The undersigned hereby requests a transfer of $_______ from the Operating Reserve Account to the Project Operating Account.

_ These funds are intended to fund the projected Project Operating Account Deficit set forth in the current Budget.

_ These funds are intended to cover a Project Operating Account Deficit for the current year arising out of the following unforeseen circumstances: [DESCRIBE]

The Operating Statement and other documentation relating to the cause and amount of such deficit are enclosed in support hereof.

__ The undersigned hereby requests a withdrawal of $________ from the Replacement Reserve Account for payment as set forth below.

_ These funds are intended to pay for the replacements or capital improvements described in the supporting documentation submitted herewith, which includes one or more contractors' bids.

_ These funds are intended to pay for unanticipated replacements or capital improvements which, if not immediately made, would compromise the Project or the health and welfare of the tenants in occupancy and which arose out of the following unforeseen circumstances: [DESCRIBE]

Kindly disburse such amount as follows:
___ By Check to _ Borrower _ Other (specify)
___ By Wire Transfer to [ATTACH WIRE TRANSFER INSTRUCTIONS]

Borrower Name~

By:

APPROVED:
DEPARTMENT OF HOUSING
DEVELOPMENT AND PRESERVATION
By:

Appendix D

Sample Administrative Agent Agreement

AGREEMENT ("Agreement") made as of ____________, 2005 by and among **THE CITY OF** _____________ acting through its Department of Housing Development and Preservation ("HDP") having an address at _________________, **(PROJECT LIMITED PARTNERSHIP)** ("Borrower") having an address at ________________________and **(ADMINISTRATIVE AGENT)** having an address at ______________________ ("Agent").

RECITALS

1. HDP and Borrower have entered into a certain Funding and Disbursement Agreement (the "FDA") pursuant to which Borrower agreed to contribute certain funds to reserve accounts for the benefit of a low income housing project located at __________________ (the "Project"); and

2. Pursuant to the FDA, Borrower has requested and HDP has agreed to appoint Agent as (i) Servicing Agent with respect to the Operating Reserve Account, Replacement Reserve Account and Social Service Reserve Account (each as defined in the FDA and herein referred to as the "Administered Accounts") and (ii) Administrative Agent under the FDA, and Agent is willing to accept such appointment on the terms and conditions contained herein,

NOW THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties agree as follows:

1. Definitions. All capitalized terms used herein shall have the meanings ascribed to such terms in the FDA unless otherwise expressly defined herein.

2. Appointment. HDP and Borrower hereby appoint Agent to act (i) as Servicing Agent with respect to the Administered Accounts and (ii) as Administrative Agent under the FDA, and Agent hereby accepts such appointment. Agent may retain the services of a third party to perform any of the duties of Agent as Servicing Agent with the prior written consent of HDP and Borrower, which consent shall not be unreasonably withheld.

3. Duties as Servicing Agent.

(a) Agent shall promptly establish the Administered Accounts and thereafter administer the Administered Accounts in accordance with this Agreement and the FDA.

(b) Agent shall deposit any and all funds received by it with respect to the Project in accordance with the FDA. Such funds shall be held for the benefit of HDP and Borrower and shall not be commingled with other funds of Agent. Any and all amounts earned on funds in an Administered Account shall be added to such Administered Account and disbursed in accordance with this Agreement.

(c) Agent shall promptly disburse funds from the Administered Accounts in accordance with the directions of HDP. Without limiting the foregoing, HDP shall, upon approval of a Budget, be deemed to have directed Agent to transfer the amount of the Project Operating Account Deficit, if any, reflected in such Budget from the Operating Reserve Account to the Project Operating Account in four equal quarterly installments unless directed otherwise by HDP. Agent shall not disburse any funds from the Administered Accounts except in accordance with this Agreement.

(d) Agent shall maintain true, accurate and complete records regarding the Administered Accounts, as well as all correspondence and Draw Requests, for a period of six (6) years from the termination of this Agreement. Agent shall make such records available to HDP and Borrower for inspection upon request.

(e) Agent shall furnish to HDP and Borrower bank statements showing deposits to, withdrawals from and the balance of the Administered Accounts (i) on or before January 31 of each calendar year as of December 31 of the preceding year, (ii) within thirty (30) days after each deposit or contribution of funds by Borrower and (iii) within ten (10) days after a request by HDP.

(f) Agent shall propose, subject to approval by HDP, which shall not be unreasonably withheld, an investment plan for funds in the Administered Accounts. Such plan shall provide sufficient liquidity to fulfill the purposes of such account, minimize the risk of loss of principal and maximize the investment income accruing to such account.

(g) Agent shall, on the dates set forth in the Schedule of Contributions annexed to the FDA, give notice to HDP and Borrower indicating whether or not it has received the amounts required to be delivered on such date in accordance with the Schedule of Contributions to the FDA.

4. Duties as Administrative Agent.

(a) Agent shall promptly review each Budget and Draw Request furnished to it and shall either approve or reject such Budget or Draw Request by notice to Borrower and HDP within ten (10) business days thereafter. Any notice of rejection shall be accompanied by a statement of Agent's objections thereto. Nothing contained herein shall prohibit HDP from approving or rejecting a Budget or Draw Request prior to approval or rejection by Agent.

(b) Any Budget or Draw Request approved by Agent and not rejected by HDP by notice to Borrower and Agent within thirty (30) days after HDP shall have received Agent's notice of approval shall be deemed approved by HDP.

5. Duty of Care. Agent shall exercise the same duty of care to protect the interests of HDP and Borrower as Agent uses for the protection of its own investments. Neither HDP nor Borrower makes or has made any warranty, express or implied, with respect to the Project

except as set forth in writing signed by the party making the representation. Agent neither makes nor has made any warranty, express or implied, with respect to the Project.

6. Fee. No fee shall be paid to Agent for its services hereunder.

7. Termination. This Agreement may be terminated at any time (a) by HDP for cause immediately upon notice to the parties to this Agreement and (b) by Agent for cause upon three (3) business days' prior notice to the parties to this Agreement. Upon such termination, Agent shall (i) deliver to HDP or its designee all moneys collected and held by Agent pursuant to this Agreement less any amounts due to Agent hereunder and (ii) deliver to HDP, upon request, all documents and correspondence in connection with the Administered Accounts together with a full accounting thereof.

8. Notice. All notices, submissions, requests, demands and other communications required or given under this Agreement must be in writing and given in accordance with the FDA except that notices to Agent shall be addressed as set forth above.

9. Disclaimer. Agent assumes no responsibility under this Agreement for certifying the correctness or evaluating the accuracy of the information provided by the parties to Agent in the performance of its duties as set forth herein. Agent shall only review such information for completeness of response, proper form and consistency with any budgetary information actually provided to Agent. Borrower hereby agrees to indemnify and hold Agent harmless from all actions undertaken by Agent pursuant to this Agreement, except to the extent of Agent's negligence, willful misconduct or fraud in connection with this Agreement.

10. Burden and Benefits. The covenants and agreements contained herein shall be binding upon and inure to the benefit of the successors and assigns of the respective parties hereto. No party may assign this Agreement without the consent of the other parties.

11. Applicable Law. This Agreement shall be construed and enforced in accordance with the laws of the State of California.

12. Headings. All section headings in this Agreement are for convenience of reference only and are not intended to qualify the meaning of any section.

13. Investigation Clause. Sponsor agrees to comply with the provisions of the Investigation Clause Rider annexed hereto.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first written above.

THE CITY OF ______________
DEPARTMENT OF HOUSING DEVELOPMENT AND PRESERVATION

By:______________________

(PROJECT LIMITED PARTNERSHIP)

By:______________________

(ADMINISTRATIVE AGENT)

By:______________________

Appendix E

Sample Calculations for Sizing a Capitalized Rental Subsidy Reserve

Summary

The following are estimated Capitalized Rental Subsidy Reserve requirements for supportive housing projects in five geographic areas of California. The reserve requirements have been calculated over a fifteen-year period and represent the difference between estimated operating costs and the expected tenants' rent paying ability on a **per-unit** basis.

Please note that these are estimates only, and rely on broad assumptions that may not always hold once specific local and programmatic conditions are considered. It should also be noted that a critical assumption made is that no other operating subsidies are available.

The calculation for Contra Costa County is based on staff experience of the costs associated with renting "scattered-site" units from landlords on the private market. The calculation for the other four geographic areas is based on actual cost data from housing developments that are either dedicated to, or provide significant numbers of units for, supportive housing tenants. These costs tend to be significantly lower than those used for Contra Costa County and may be reflecting both savings from economies of scale as well as differences between private and public/nonprofit ownership. For instance, subsidizing rent from private market owners typically includes the owner’s profit.

Notes/assumptions are included for each geographic area providing more information on how the Capitalized Rental Subsidy Reserve was calculated.

Geographic Area	*Capitalized Rental Subsidy Reserve, Per Unit/Per Year*
Contra Costa County	**$112,907**
Kern County	**$50,982**
San Diego	**$58,692**
Los Angeles	**$60,430**
Butte County	**$48,943**

Contra Costa County

This model assumes that units are located at scattered sites and rented from private landlords on the open market. As a result, Average Operating Costs Per Unit are significantly higher than those located in dedicated developments or developments with a significant number of supportive housing units.

Reserve Requirement Per Supportive Housing Unit(1)	**$112,907**

Reserve Calculation (based on 15 year estimate below)

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12	Year 13	Year 14	Year 15
Average Operating Costs Per Unit (2)	$9,600	$9,888	$10,185	$10,490	$10,805	$11,129	$11,463	$11,807	$12,161	$12,526	$12,902	$13,289	$13,687	$14,098	$14,521
Tenant's Rent Paying Ability (3)	$2,610	$2,662	$2,715	$2,770	$2,825	$2,882	$2,939	$2,998	$3,058	$3,119	$3,182	$3,245	$3,310	$3,376	$3,444
Deficit	$6,990	$7,226	$7,469	$7,720	$7,980	$8,247	$8,524	$8,809	$9,103	$9,407	$9,720	$10,043	$10,377	$10,722	$11,077

Notes/Assumptions:

- (1) Average required reserve per unit for a 15-year period.

- (2) "Average Operating Costs Per Unit" (Year 1) is based on staff experience with scattered site rental costs in the Contra Costa County market.

- (3) "Tenant's Rent Paying Ability" is based on 2005 HUD Income Limits for the Oakland, CA PMSA (15% AMI). This model assumes that tenants will allocate 30% of their income towards housing costs.

- Operating costs are assumed to grow at a 3% annual rate; rent paying ability at 2%.

- Reserve amounts are discounted (net present value) based on a 2% discount rate.

Kern County

This model assumes that project units are located in dedicated supportive housing developments or in facilities that include significant numbers of supportive housing units.

Reserve Requirement Per Supportive Housing Unit(1)	**$50,982**

Reserve Calculation (based on 15 year estimate below)

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12	Year 13	Year 14	Year 15
Average Operating Costs Per Unit (2)	$4,680	$4,820	$4,965	$5,114	$5,267	$5,425	$5,588	$5,755	$5,928	$6,106	$6,289	$6,478	$6,672	$6,872	$7,078
Tenant's Rent Paying Ability (3)	$1,548	$1,579	$1,611	$1,643	$1,676	$1,709	$1,743	$1,778	$1,814	$1,850	$1,887	$1,925	$1,963	$2,003	$2,043
Deficit	$3,132	$3,241	$3,354	$3,471	$3,591	$3,716	$3,844	$3,977	$4,114	$4,256	$4,402	$4,553	$4,709	$4,870	$5,036

Notes/Assumptions:

- (1) Average required reserve per unit for a 15-year period.

- (2) "Average Operating Costs Per Unit" (Year 1) is based on data for three supportive housing developments in Bakersfield, CA.

- (3) "Tenant's Rent Paying Ability" is based on 2005 HUD Income Limits for the Bakersfield, CA MSA (15% AMI). This model assumes that tenants will allocate 30% of their income towards housing costs.

- Operating costs are assumed to grow at a 3% annual rate; rent paying ability at 2%.

- Reserve amounts are discounted (net present value) based on a 2% discount rate.

San Diego

This model assumes that project units are located in dedicated supportive housing developments or in facilities that include significant numbers of supportive housing units.

Reserve Requirement Per Supportive Housing Unit(1)	**$58,692**

Reserve Calculation (based on 15 year estimate below)

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12	Year 13	Year 14	Year 15
Average Operating Costs Per Unit (2)	$5,750	$5,923	$6,100	$6,283	$6,472	$6,666	$6,866	$7,072	$7,284	$7,502	$7,728	$7,959	$8,198	$8,444	$8,697
Tenant's Rent Paying Ability (3)	$2,171	$2,214	$2,259	$2,304	$2,350	$2,397	$2,445	$2,494	$2,543	$2,594	$2,646	$2,699	$2,753	$2,808	$2,864
Deficit	$3,579	$3,708	$3,842	$3,980	$4,122	$4,269	$4,421	$4,578	$4,740	$4,908	$5,081	$5,260	$5,445	$5,636	$5,833

Notes/Assumptions:

- (1) Average required reserve per unit for a 15-year period.

- (2) "Average Operating Costs Per Unit" (Year 1) is based on data from three supportive housing providers in San Diego, CA.

- (3) "Tenant's Rent Paying Ability" is based on 2005 HUD Income Limits for the San Diego, CA MSA (15% AMI). This model assumes that tenants will allocate 30% of their income towards housing costs.

- Operating costs are assumed to grow at a 3% annual rate; rent paying ability at 2%.

- Reserve amounts are discounted (net present value) based on a 2% discount rate.

Los Angeles

This model assumes that project units are located in dedicated supportive housing developments or in facilities that include significant numbers of supportive housing units.

Reserve Requirement Per Supportive Housing Unit(1)	**$60,430**

Reserve Calculation (based on 15 year estimate below)

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12	Year 13	Year 14	Year 15
Average Operating Costs Per Unit (2)	$5,760	$5,932	$6,110	$6,294	$6,482	$6,677	$6,877	$7,083	$7,296	$7,515	$7,740	$7,972	$8,212	$8,458	$8,712
Tenant's Rent Paying Ability (3)	$2,063	$2,104	$2,146	$2,189	$2,233	$2,277	$2,323	$2,370	$2,417	$2,465	$2,515	$2,565	$2,616	$2,668	$2,722
Deficit	$3,697	$3,828	$3,964	$4,105	$4,250	$4,399	$4,554	$4,714	$4,879	$5,050	$5,226	$5,408	$5,596	$5,790	$5,990

Notes/Assumptions:

- (1) Average required reserve per unit for a 15-year period.

- (2) "Average Operating Costs Per Unit" (Year 1) is based on data from four supportive housing projects in Los Angeles, CA.

- (3) "Tenant's Rent Paying Ability" is based on 2005 HUD Income Limits for the Los Angeles-Long Beach, CA PMSA (15% AMI). This model assumes that tenants will allocate 30% of their income towards housing costs.

- Operating costs are assumed to grow at a 3% annual rate; rent paying ability at 2%.

- Reserve amounts are discounted (net present value) based on a 2% discount rate.

Butte County

This model assumes that project units are located in dedicated supportive housing developments or in facilities that include significant numbers of supportive housing units.

Reserve Requirement Per Supportive Housing Unit(1)	**$48,943**

Reserve Calculation (based on 15 year estimate below)

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12	Year 13	Year 14	Year 15
Average Operating Costs Per Unit (2)	$4,550	$4,687	$4,827	$4,972	$5,121	$5,275	$5,433	$5,596	$5,764	$5,937	$6,115	$6,299	$6,487	$6,682	$6,883
Tenant's Rent Paying Ability (3)	$1,548	$1,579	$1,611	$1,643	$1,676	$1,709	$1,743	$1,778	$1,814	$1,850	$1,887	$1,925	$1,963	$2,003	$2,043
Deficit	$3,002	$3,108	$3,217	$3,329	$3,446	$3,566	$3,690	$3,818	$3,950	$4,087	$4,228	$4,374	$4,524	$4,680	$4,840

Notes/Assumptions:

- (1) Average required reserve per unit for a 15-year period.

- (2) "Average Operating Costs Per Unit" (Year 1) is based on data from Kern County adjusted for market differences.

- (3) "Tenant's Rent Paying Ability" is based on 2005 HUD Income Limits for the Chico-Paradise, CA PMSA (15% AMI). This model assumes that tenants will allocate 30% of their income towards housing costs.

- Operating costs are assumed to grow at a 3% annual rate; rent paying ability at 2%.

- Reserve amounts are discounted (net present value) based on a 2% discount rate.

Income Data

	Annual Income Data				*Monthly Income Data*			
	15% AMI	30% AMI	50% AMI	100% AMI	15% AMI	30% AMI	50% AMI	100% AMI
Contra Costa County	$8,700	$17,400	$29,000	$58,000	$725	$1,450	$2,417	$4,833
Kern County	$5,160	$10,320	$17,200	$34,400	$430	$860	$1,433	$2,867
San Diego	$7,236	$14,472	$24,120	$48,240	$603	$1,206	$2,010	$4,020
Los Angeles	$6,876	$13,752	$22,920	$45,840	$573	$1,146	$1,910	$3,820
Butte County	$5,160	$10,320	$17,200	$34,400	$430	$860	$1,433	$2,867

Above data is derived from the 2005 HOME Program Rent Limits,
which are based on area median incomes adjusted for unit size.
Above data represents income data adjusted for efficiency units.