

State of California

MEMORANDUM

To: CalHFA Board of Directors

Date: September 9, 2011

From: Robert Deaner, Director of Multifamily *RJD*
CALIFORNIA HOUSING FINANCING AGENCY

Subject: Mental Health Services Act (MHSA)

BACKGROUND

The MHSA Housing Program ("the Program") is a unique partnership between the California Housing Finance Agency (CalHFA), the California Department of Mental Health (DMH) and 51 of the 58 California County Mental Health Departments. The Program provides funding for the capital costs and operating subsidies to develop permanent supportive housing for persons with serious mental illness who are homeless, or at risk of homelessness. It is a unique collaboration among government agencies at the local and state level, targeting, transition age youth, adults, older adults and families where a child is often the qualifying member.

The Program embodies both the individual and systemic transformational goals of the Mental Health Services Act by acknowledging that housing is an essential service component for mental health clients.

The partners in this collaboration include CalHFA with our housing and financial expertise; DMH, with responsibility for overseeing the mental health system and ensuring that consumers have access to an appropriate array of services and support; and county mental health departments, which have ultimate responsibility for the design and delivery of mental health services and support at the local level throughout the State of California. Through this collaboration, the Program offers safe, decent and affordable housing and the critical supportive services that will enable individuals to live more healthy and independently in their communities.

HOW IT WORKS

The California counties transferred approximately \$400 million (funded through the MHSA's 1% tax on incomes in excess of \$1 million) to CalHFA to provide residual receipts capital loans and operating subsidies to projects in each of the participating counties. The counties choose which projects will receive the funding allocated to them and act as a co-applicant with the project developer. The counties agree to direct clients to their developer partner and also to provide support services to the MHSA residents in the housing for the duration of the regulatory agreement.

CalHFA then underwrites requests for capital funds and capitalized operating subsidies. DMH evaluates each applicant's proposed target population and supportive services

plan. Flexibility has been designed into the program to allow for exceptions to program guidelines when necessary.

Capital funds (currently \$112,486 per MSHA unit) may be used for either Rental Housing Developments or Shared Housing Developments. Rental Housing refers to an apartment building with five or more units where a designated number of units are restricted to occupancy by at least one MSHA eligible resident. For Rental Housing Developments, applicants are required to obtain capital funds from a range of programs administered by other agencies. However, for Shared Housing Developments—defined as one to four unit developments where all of the bedrooms are leased to MSHA eligible residents—funds may be used to cover all capital costs up to the funding limits specified in this application. Operating Subsidy funds are available to subsidize MSHA tenant rents for 15 to 20 years.

Once funding is awarded, CalHFA issues the final commitments, closes both MSHA predevelopment and permanent loans, and executes and administers subsidy contracts. CalHFA is the note holder until the loan matures and provides asset management services for the term of the MSHA loan. DMH oversees the provision of services, including an ongoing assessment of whether the population served continues to meet the Program requirements.

RESULTS

While it may seem daunting to orchestrate collaboration between so many government agencies, CalHFA has put its administrative expertise to good use: In the first three years, the MSHA Housing Program has achieved the following milestones:

- As of June 30, 2011,
 - Over \$1,500,000,000 has been **leveraged with only \$222,000,000 in MSHA Housing Program funds
 - 116 project applications have been submitted
 - 100 projects are Rental Housing, 16 projects are Shared Housing
 - 90 of 116 projects have received MSHA commitment, 60 of the 90 projects are funded
 - 1,648 of the 5,938 total units are MSHA eligible units (28% of total units)
 - 1,506 units are rental housing, 132 units are shared housing units
 - 32 of the 46 counties with allocated fund have submitted applications
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** Leveraged refers to the total development cost of all the projects as it relates to the total 5,938 affordable units created.

Future

As of September 12, 2011 CalHFA has received applications on 17 projects with a total of 837 units (of which 164 are MSHA units) totaling \$20.4 millions that have not yet received an MSHA commitment. In addition, there are 27 projects with a total of 1,065 total units (including 429 MSHA units) seeking MSHA funds totaling \$42.7 million that are being reviewed at the county level. CalHFA has received direct inquires on 13 potential projects with a total of 698 units (including 419 MSHA units) who are interested in an addition \$78.0

million in MHSAs funds.

Given the remaining MHSAs funds available, the limited sources of new financing available and the volume of projects that have been submitted or will be submitted soon, we believe that MF Programs has an estimated 18 months of work remaining on MHSAs production.