



**ATTACHMENT D - Amended
MENTAL HEALTH SERVICES ACT (MHSA) FUNDING
TERM SHEET**

The OC Community Resources, OC Housing and Community Development (OCHCD) provides below market rate financing for the development of permanent supportive rental housing that includes housing affordable to extremely low-income households who are experiencing homelessness, using Orange County (County) funding, which includes but is not limited to: Federal HOME Investment Partnerships Program (HOME), HOME American Rescue Plan Program (HOME-ARP), Mental Health Services Act (MHSA), 15G Reserves and Housing Successor Agency (HSA) funds. The funds may be used for acquisition, new construction, and acquisition and rehabilitation of Supportive Housing.

Each fund noted above may have special target populations for eligibility purposes; this term sheet is specifically related to the requirements for the MHSA funding only.

OCHCD may also provide one hundred and fifty (150) Housing Choice, Mainstream and/or Veterans Affairs Supportive Housing Project Based Vouchers for extremely low-income households who are homeless, for projects that meet the requirements of this NOFA (regardless of whether or not capital funding is requested under this NOFA).

OCHCD may also allocate funds for the Capitalized Operating Subsidy Reserve (COSR) if project-based rental assistance vouchers or other rental subsidies are not available through the County and/or a participating city. The purpose of COSR funding is to address operational deficits associated with restricted supportive housing units for MHSA-eligible residents. If approved, COSR funding will be included as part of the total financial assistance awarded by OCHCD, subject to any determination of maximum eligible gap financing made available by the County for a proposed supportive housing development.

COSR funding will be considered only for supportive housing developments with rental homes restricted for MHSA-eligible residents and when an MHSA permanent loan is requested for the financing of the development; COSR-only loans without an MHSA permanent loan will not be approved by OCHCD. The COSR loan is designed as a zero-interest, deferred payment, forgivable loan, with a minimum term of 15 years and a maximum term of 20 years (Section 2.01 of the 2025 NOFA).

Eligible Projects are those which provide a minimum of five (5) new permanent rental homes with supportive services for extremely low-income individuals living with a serious mental illness and experiencing homelessness; these projects may result from new construction, acquisition or acquisition and rehabilitation. Conversion of commercial and light industrial use buildings to residential use may be eligible on a case-by-case basis as determined by OCHCD.

Eligible applicants include non-profit and for-profit organizations, joint ventures, or partnerships that serve the identified purpose of the NOFA.

General Loan Terms and Conditions

All of the policies and lending practices of OCHCD for permanent financing set forth within the NOFA shall also apply to all projects funded with MHSA funds. **The following additional requirements shall apply to all of the MHSA funded units:**

- The population to be served shall include extremely low income (30% of Area Median Income for Orange County), individuals experiencing homelessness who are living with a serious mental disorder as defined in WIC 5600.3(b), verified by a State Licensed Mental Healthcare Professional and has been deemed to meet the MHSA Housing Program eligibility (MHSA Certified) by Health Care Agency MHSA Housing Program staff.
- The maximum MHSA capital and COSR loan limit will increase by 4% every year but the specific amount for a project will be locked in at the time of application. For projects funded under the 2025 NOFA, the maximum loan limit for the MHSA capital funds is \$199,264 per regulated unit. An additional request of \$199,264 per regulated unit may be requested for MHSA COSR.
- Restricted rents for the MHSA funded units shall not exceed 30% of the HUD-published 30% Area Median Income (AMI) levels for Orange County, adjusted for designated household size (less a utility allowance unless included in the rent) with the **tenants rent portion not to be more than 30% of their Social Security Income/Social Security Pension (SSI/SSP) or not more than 30% of their total gross household income (if additional income beyond SSI/SSP is received)**. If federally funded-Project-Based Vouchers are provided, the developer shall comply with the federal regulations for maximum rent and tenant rent portions.
- For projects with PBVs or COSR, there shall be no minimum income or rent requirement. Zero income tenants shall be accepted with ongoing efforts by service providers to connect tenants to eligible income (unless alternate condition is agreed to in the Tenant Selection Plan, approved by HCA and finalized prior to lease-up, and Regulatory/COSR Agreement).
- OCHCD requires that units assisted under this NOFA be occupied by tenants who are prioritized through the Coordinated Entry System (CES). The Developer shall utilize the local CES to screen for eligible residents currently experiencing homelessness and with a documented serious mental disorder.
- Housing units and building features must meet the needs of the MHSA tenants to be served at the development, including privacy, housing activities and community interaction. There shall be no requirement for non-related, single, adult tenants to share bedrooms. There shall be adequate number of bedrooms to accommodate the housing composition. **Units are encouraged to have at least one-bedroom and be at least 450 square feet.**
- Rental homes must have an identifiable and private living area, sleeping area, full kitchen area and a full bathroom. The kitchen area shall at a minimum include a sink, full size refrigerator, cupboard space, counter area, microwave or oven, and a two-burner stove or built-in cooktop.
- All units should be furnished with standard furnishings applicable to the unit type, such as bed, living area furniture, table and chairs for eating area.

- Developers are encouraged to provide units that are pre-wired for high technology and internet access.
- The building must include common space, such as a community room that can accommodate a variety of community building activities and where tenants can choose to interact with one another.
- The building must include a designated office space on-site to provide services to MSHA tenants.
- The design and operation of the housing shall incorporate features designed to increase efficiency and reduce ongoing expenses.
- The housing shall incorporate appropriate and feasible green design practices, such as the use of ENERGY STAR rated energy-efficient appliances and water-conserving fixtures and products.
- The housing must also utilize durable materials chosen to reduce future maintenance costs and renewable building supplies.
- Tenants shall be provided with information to assist them to participate in environmentally friendly practices such as energy and water conservation, recycling and use of non-toxic household products.

Required Operating, Replacement and Subsidy Reserves

All developments using MSHA funds must provide for the following reserves:

Capitalized operating expense reserve, at a minimum, shall equal the amount required to pay three (3) months of operating expenses and three (3) months of mandatory debt service under stabilized occupancy.

Capitalized replacement reserve for rehabilitation projects shall be based on a physical needs assessment and/or one or more Building Inspection Reports and a Replacement Reserve Needs Analysis. New construction projects shall have a capitalized replacement reserve of at least \$500 per unit/annually for all units in a project.

Capitalized operating subsidy reserve ("COSR") shall be required for projects without rental assistance vouchers (or other rental subsidies) to subsidize operating costs for the MSHA Regulated Units. COSRs must be funded to allow for operating cost subsidies for a minimum of 15 full years unless waived by OCHCD. If the developer can demonstrate adequate revenue to pay for annual operating costs through a diverse rent structure of mixed rates, OCHCD will consider an exemption from the COSR or other rental subsidies requirement. A determination of adequate rental revenue to cover expenses shall be made following underwriting review by OCHCD. If developer is unable to demonstrate that there is adequate funding for operating deficits for the MSHA Assisted Units and intends to apply for COSR funds from OCHCD, please read the information noted below before submitting an application.

Developer/Borrower is required to continually seek future commitments of rental or operating subsidies for the MSHA Regulated Units (e.g., project-based Section 8) for the life of the MSHA Loan.

A capitalized transition reserve, shall be required and at shall at a minimum, cover expenses for one year, preventing rent increases following the loss of rental assistance or exhaustion of COSR funds. A transition plan must be submitted to OCHCD for approval two years before

the estimated COSR exhaustion date. If rental assistance is no longer available or the project experiences a loss of rental subsidy, the borrower may request approval to allow households with 50% AMI to occupy MHSA Assisted Units and increase rent on MHSA Assisted Units affordable to households with 50% AMI, if it is allowable under the MHSA Regulatory Agreement. The rent for MHSA Assisted Units should not exceed 30% of 50% of the AMI for Orange County or as set forth in the recorded Regulatory Agreement.

COSR FUNDING REQUEST, TERMS & CONDITIONS

OCHCD will consider a 20-year, zero interest, and forgivable loan for COSR funds to address development operating deficits attributable to MHSA Assisted Units.

To be eligible to apply for COSR, the applicant/developer must provide proof that: 1) All possible federal, state, and local sources of rental assistance and other operating assistance to support the MHSA Assisted Units have been identified; 2) Applications or other written requests to the appropriate entities to secure Project-based rental or other operating assistance to support the MHSA Assisted Units have been made and documented; and/or 3) Other evidence from the appropriate entities has been provided that rental assistance and other operating assistance is not available to support the MHSA Assisted Units.

OCHCD will fund COSR for approved developments for operating costs subsidies for a minimum of 15 years and maximum of 20 years. Annual operating subsidy will be sized to pay the difference between the rent-paying ability of the expected tenants and the actual (higher) cost of operating the property. In order to fully capitalize the operating subsidy reserve, the operating shortfall shall be forecast over a fixed period of time (minimum 15 years/maximum 20 years) through a technique known as discounting; this stream of deficits can be reduced to the one-time payment needed to capitalize the reserve upfront. The applicant for COSR funds shall list all assumptions used to size the anticipated operating deficits for the COSR Assisted Units and include projected COSR in the project proforma cash flow analysis for operations for review by OCHCD. At a minimum, the sizing for the COSR shall consider:

- The maximum % of MHSA eligible units per development in need of an operating subsidy;
- The expected vacancy rates at any given time;
- Anticipated revenue for operations including rent payments and other related income; other project-based operating or rental subsidies; and/or other tenant-based rental subsidies attributable to the COSR Assisted Units, including the term of those contracts.
- Percentage of households expected to be receiving SSI/SSP or other sources of stable income; and,
- Operating expenses that are ineligible for payment of COSR.

OCHCD will establish procedures for disbursement of amounts from the COSR to the development. OCHCD shall monitor the COSR balance, routinely, to determine if adjustments

need to be made to disbursement levels to ensure the long-term sustainability of the COSR fund for operation purposes.

The following terms and conditions shall apply to COSR funding:

1. Developer/Borrower is required to continually seek future commitments of rental or operating subsidies for the MHPA Assisted Units (e.g., project or tenant-based Section 8 rental assistance vouchers) for the life of the permanent MHPA Loan. If and when other operating subsidies are received for the development, the Borrower will no longer be disbursed funding from the COSR account.
2. COSR funds are disbursed annually in the form of a 20-year (maximum), zero interest, deferred payment and forgivable loan.
3. The COSR funds will have a Promissory Note secured by a Deed of Trust.
4. The maximum COSR loan amount is **\$199,264** per restricted MHPA Assisted Unit; the loan amount shall be based on development operating deficits attributable to the MHPA Assisted Unit. OCHCD may adjust the per-unit subsidy limits for the COSR portion of the loan from time to time as may be necessary to achieve OCHCD policy objectives, including, but not limited to, adjustments based upon increases in the Consumer Price Index. Any changes shall be applicable to new awards and contracts subsequent to posting of adjustments, and not to existing contracts or loan agreements.
5. **Initial COSR Disbursement Request**
 - a) The initial COSR disbursement request for the property's first fiscal year (FY) shall be submitted no later than 60 days prior to the closing of the permanent loan, as referenced in the chart below. The request shall include the COSR Disbursement Request Form and the initial Operating Budget.
 - b) The initial annual COSR disbursement to address operating revenue shortfalls specific to COSR Assisted Units shall cover the initial operating year (first FY) and the rent-up period (after the Certificate of Occupancy is received) preceding permanent loan closing. The initial disbursement can be up to 7% of the total COSR award. Subsequent COSR disbursements will take place at the end of the property's fiscal year following OCHCD's review of the Annual Report/Audit and the new disbursement request.
6. **Annual COSR Disbursement Request:**
 - a) COSR Disbursement Request Form shall be submitted annually within 180 days after the end of the property's fiscal year to receive an operation subsidy payment, as referenced in the chart below. The Disbursement Request Form shall include evidence of the separate accounting of revenue and expenses for the COSR Assisted Units.
 - b) An annual operating budget of the development's projected Operating Expenses and anticipated income shall be submitted to the OCHCD. The annual operating budget shall reflect COSR distribution requested for the year. The annual operating budget shall be bifurcated and distinguish the MHPA Assisted Units from those units that do not receive subsidy.

Action	Timeframe
Initial Disbursement Request for Operating FY 1 at permanent loan close	
Borrower submits the FY 1 Operating Budget and FY 1 COSR Disbursement Request Form	Submittal date – approximately 60 days before the MHSA permanent loan closes
Disbursement Request for Operating FY 2 and beyond	
Borrower submits the FY 2 Operating Budget, FY 2 COSR Disbursement Request Form, and FY 1 bifurcated annual independent audit	No later than 180 days after the end of the FY 1

7. Annual Review:

- a) An annual bifurcated independent audit shall be submitted within 180 days of the end of the property’s fiscal year. The COSR balance and annual disbursement amount shall be reviewed at the time of submission of this audit to “true up” the COSR payment and determine if adjustments need to be made to disbursement levels to ensure the long-term sustainability of each COSR.
 - b) Following the annual review of the bifurcated independent audit, if OCHCD determines that the project did not need as much from COSR, the OCHCD may: (1) provide less COSR payments than the borrower requested; and/or (2) recalculate the remaining amount of COSR payments that can be disbursed each year until the twentieth year.
 - c) The amount of the COSR Disbursement shall be based on the difference between (i) the anticipated revenue of the COSR Assisted Units and (ii) the anticipated vacancies and estimated annual operating costs of the COSR Assisted Units. The annual disbursement shall be limited to up to 7% of the total COSR award unless an exception is made for extraordinary expenses that are documented and approved at the sole discretion of OCHCD.
8. Eligible Operating Expenses include all approved operating expenses in excess of actual development income attributable to the COSR Assisted Units, including annual monitoring or servicing fee (if applicable). Asset management fees, partnership management fees attributable to the Assisted Units that cannot be paid for out of cash flow from the non-assisted unit may only be paid for out of the COSR if all other eligible Operating Expenses have been paid and the total amount of the COSR payment for that year does not exceed 5 percent of the total COSR Award.
 9. COSR may continue for up to three (3) months when the MHSA Eligible Resident is in the hospital, an acute or long-term care facility, or other institutional setting, provided that the MHSA Eligible Resident is expected to return within the three-month period and the tenant portion of the rent is paid. COSR may continue for up to two (2) months upon vacancy of a COSR Assisted Unit to allow for processing a new referral from the Coordinated Entry System that is determined to be MHSA eligible and consistent with the OCOCHCD approved regulatory/COSR agreement.
 10. COSR Funds shall not be used to pay:

- Amortized debt service payments;
- Costs/Expenses associated with non-Assisted Units;
- Any loan payments;
- Ground lease payments;
- Sponsor Distributions
- Asset management fees, partnership management fees and deferred developer fees attributable to the MHSA Assisted Units that can be paid for out of cash flow from the non-Assisted Units. Asset management fees, partnership management fees and deferred developer fees attributable to the Assisted Units that cannot be paid for out of cash flow from the non-Assisted Units can only be paid out of the COSR if all other eligible Operating Expenses have been paid and the total amount of the COSR payment for that year does not exceed five percent of the total COSR award;
- Deposits to reserves beyond those required by State OCHCD under the UMRs, including reserves required by other Project financing sources;
- Vacancy loss beyond two months for a tenant who has left the Assisted Unit. Where vacancy loss is paid through the COSR, this amount shall not exceed 80 percent of the approved Rent for the Assisted Unit. If the Unit is receiving rental assistance, the requirements of the rental subsidy source shall apply.
- Supportive services costs not permitted as part of the Project budget;
- Residual Receipt payments, monitoring, or servicing fees owed to other lenders;
- Balloon payments on other loans;
- Under no circumstances may COSR funds be used for or in connection with a limited partner buyout, substitution, or assignment of ownership interest, neither during an operating (fiscal) year nor at any potential restructure or re-syndication transaction; and
- Other costs not approved by OCHCD.

Proposals requesting funding for a COSR must ensure multi-year cash flow projections accurately reflect expected operating deficits attributable to MHSA Assisted Units.

Application and Loan Commitment Notes

Upon review of the borrower application and a decision to loan MHSA funds, the following will be determined by OCHCD and set forth in a commitment letter: 1) the regulated unit loan amount; 2) the percent of MHSA regulated units as it relates to the entire Project; 3) the size of the regulated units to best meet MHSA tenants needs (bedroom count); 4) any permissible occupancy preferences (adults; seniors; transition age youth); 5) the maximum COSR (if applicable) to carry the project through the first 20 years of operations; 6) any permissible developer fees for non-tax credit transactions; and 7) permissible overlaying occupancy, rent or income restrictions from other financing or tax credit sources.

Supportive services provisions and a Social Services Plan and operating budget from the primary or lead service provider(s) shall be provided.

All units assisted with MHSA funding through this NOFA shall additionally include supportive services provided by the Orange County Health Care Agency (HCA) Behavioral Health Services (BHS) as the lead service provider, or an HCA BHS-contracted service provider. The developer

shall work with HCA MHSA Housing Program to develop and provide a supportive services plan that meet and address the needs of the MSHA tenants for the term of the OCHCD Loan.

Primary supportive services shall be provided on site to meet the specific needs of the population to be served.

All MHSA tenants must be MHSA Certified by HCA MHSA Housing Program staff as outlined in the MHSA Certification and Referral Process. It is important to note that in no event shall a person be required to be a client of the Orange County Behavioral Health department or a recipient of mental health or other services in order to qualify for or remain in an Assisted Unit.

NOTE: This term sheet is subject to change.