

HDFC Second Draft Regulations Highlights

The Housing Development and Finance Committee (HDFC) staff reviewed every comment received on the first draft regulations published August 31, 2026, and evaluated changes over the last few weeks. We revised and clarified where possible, and while there are many areas of interest in the second draft regulations, this document highlights 23 policy themes that garnered special attention from the public. Below, each theme includes a summary of the comments received, the proposed second draft regulations approach to that theme, and the rationale for proposed approach in response to the feedback.

Table of Contents

1. Regional Allocation	3
2. Rural Set-Aside	4
3. Supportive Housing Special Needs & Capitalized Operating Subsidy Reserve ..	5
4. Tiebreaker Public Benefits/ Tiebreaker Cost-Adjusted Request	6
5. Community-Based Developer (CDB) and Emerging Developer (ED)	7
6. Tribal Entities	8
7. Readiness to Proceed	9
8. 9% LIHTC and State Tax Credits	10
9. Sort/Funding Order	11
10. High Density Housing	12

11. Senior Housing	13
12. Farmworker Housing	13
13. Funding Caps	14
14. Coordination with HCD.....	14
15. Developer Fee	15
16. Monitoring Fee	16
17. Construction Phase Funding Disbursement	17
18. Prevailing Wages	18
19. Negative Points	18
20. Phase I/II Environmental Site Assessment (ESA)	18
21. Climate and Location Scoring	19
22. Access to Opportunity/Affirmatively Furthering Fair Housing (AFFH)	21
23. Affordability.....	22

1. Regional Allocation

A. Comments Summary

- 1) Use Regional Housing Needs Allocation (RHNA) Very Low Income (VLI) data for regional allocations instead of HUD cost-burden households data.
- 2) Consider removing Fair Market Rent (FMR) adjustments from the regional allocation formula or use CTCAC Threshold Basis Limits (TBLs).
- 3) Adjust or remove the 50% cap on any one city's awards within a geographic allocation per round.
- 4) Add/adjust number of regions, including adding a standalone San Joaquin/Central Valley region.

B. Second Draft Proposal

- 1) Maintained HUD cost-burden households data as basis for regional distribution.
- 2) Replaced FMR with TBLs as regional cost adjustment factor.
- 3) The cap limiting cities to no more than 50% of the funds within a region is expanded to include counties. The cap now limits cities/counties to the greater of 50% of the region's allocation or 50% of the maximum Project award (e.g. \$27.5M with a \$55M max Project award).
- 4) Maintained use of 5 regions, modeled after the California Debt Limit Allocation Committee (CDLAC) regions, for funding distribution. HDFC regulations include more regions than HCD Multifamily Finance Super NOFA (MFSN), which had only 3 regions.

C. Rationale

- 1) Using RHNA as the basis would add complications because some regions are still in the 6th cycle RHNA and others in the 7th cycle and would open the HDFC methodology to inconsistencies in timing. Assessing need based on share of cost-burdened lower-income renter households provides a clear and replicable starting point for annual updates for HDFC.
- 2) Threshold Basis Limits, published annually by the California Tax Credit Allocation Committee (CTCAC), are a reliable and well-established source to adjust for regional cost differences in housing production that demand relative resource adjustments from HDFC.
- 3) HDFC considered creating flexibility to award more than 50% of a region's allocation to a larger city/county via a Tiebreaker check, in which HDFC could override the 50% cap when the Project that would have been skipped is

significantly more in line with HDFC's policy goals than the next in line Project based on Tiebreaker score, but this was decided against due to added complexity and unpredictability of results.

- 4) Due to the variability of the type and amount of state funding HDFC is anticipated to receive, adding more regions would be challenging and could leave many regions without enough funding for a single Project per round. Rather than adding more regions, HDFC proposes a county cap to address concerns raised in the Inland Region that prevent certain counties from receiving funding. The caps allow for HDFC to still fund Projects in full to address concerns raised by comments from the Bay Area and Los Angeles. This ensures in low funding rounds, Projects may still be fully funded at \$27.5M (\$55M max Project award) while maintaining regional equity for larger funding rounds.

D. Request for Feedback

- 1) When triggered, is 50% a reasonable cap to balance the goal of geographic equity and complete Project funding?
- 2) What funding threshold, if not 50% of a Project maximum award, should trigger the city/county cap in a region?

2. Rural Set-Aside

A. Comments Summary

- 1) Request that Farmworker Housing Grant Program (FWHG) funds are not used to satisfy the Rural set-aside.
- 2) Increase set-aside from the proposed 10% to align with historic 20% levels.
- 3) Allow Rural Projects to compete in geographic regions if not competitive in the Rural set-aside.

B. Second Draft Proposal

- 1) No change from first draft. All funds remain eligible within each set-aside and region.
- 2) Increased Rural set-aside from 10% to 12.5% by decreasing the geographic regions allocation.
- 3) No change from first draft. Rural Projects will only compete in the Rural set-aside.

C. Rationale

- 1) HDFC has conducted testing to limit certain funding types (such as FWHG aka “Serna”) across regions and the results lead to skipping higher ranked Projects as funds run out faster than the current system, which rewards top ranked Projects with requested funds evenly through a rotating selection system across set-aside and regional pools of funds.
- 2) The increase in the Rural set-aside reflects the state priority to fund affordable housing in Rural communities. Following HDFC’s geographic regional allocation methodology would yield less than 2% of the funds to Rural areas, which is why a set-aside is needed. Any further increase to the Rural set-aside would require a further reduction to HDFC resources going to Geographic Regions or other Set-asides.
- 3) HDFC’s geographic regions do not identify predominantly Rural counties. Adding these counties to regions would require further analysis and would introduce complexity into the evaluation process.
 - a. CTCAC and HCD’s MFSN also only allow Rural Projects to compete in the Rural set aside. CTCAC and HCD’s MFSN also only allow Rural Projects to compete in the Rural set-aside.
 - b. Note that Projects located in Rural areas may choose to compete in another set-aside.

D. Request for feedback

- 1) Recognizing that the Climate and Location point categories may not be as relevant for Rural communities, what are some quantifiable alternatives to the Climate and Location point categories for Rural communities?

3. Supportive Housing Special Needs & Capitalized Operating Subsidy Reserve

A. Comments Summary

- 1) Lower Supportive Housing (SH) 40% units per Project threshold from 25% and align with HDFC Special Needs (SN) and CTCAC requirements; Broaden SH Chronic Homeless Population requirements to serve experiencing or at-risk of homelessness.
- 2) Replace Supportive Housing 10% set-aside with Special Needs set-aside or expand to include Special Needs to address competitive disadvantage.
- 3) Clarify Capitalized Operating Subsidy Reserve (COSR) Tiebreaker Penalty and increase COSR limit allowed to be excluded from Tiebreaker penalty in denominator, to allow higher COSR than proposed. Due to lack of federal

operating and other subsidies to serve SN/SH populations, the COSR is a critical resource to make available at sufficient levels.

B. Second Draft Proposal

- 1) No change to the 40% Supportive Housing Population and unit mix threshold if Project requesting MHP SH funds, due to statutory requirements governing these funds.
- 2) Maintained 10% SH set-aside and expanded to make SN Housing Type eligible for that set-aside.
- 3) Increased the amount of COSR allowed before it is penalized in Tiebreaker from \$3M to \$6M. Projects with Project-Based Vouchers (PBVs) rise to the top of Tiebreaker.

C. Rationale

- 1) The 40% SH unit threshold comes from statutory language (HSC §50675.14(c)) tied to the MHP Supportive Housing Program (MHP SHP) funding. The threshold enables funds to support SH populations at scale, rather than a small number of housing/services in each Project.
- 2) Special Needs Populations do overlap with Supportive Housing Populations, and the changes to the set-aside and Tiebreaker reflect that. However, the 40% unit requirement is specific to the SH populations.
 - a. Per HSC §50675.14(c)(2), HDFC may decrease the number of units required above if the MHP SH Program funds are undersubscribed after HDFC issues one NOFA that includes SH funds, and only to the extent necessary to deploy funds.
 - b. Until that happens, HDFC must maintain the 40% targeting requirement to comply with state law, which would be also required under Proposition 1 (2026), if approved by voters.
- 3) Adjusted Tiebreaker penalty in response to feedback from stakeholders.

4. Tiebreaker Public Benefits/ Tiebreaker Cost-Adjusted Request

A. Comments Summary

- 1) Revise "Resource Area Benefit" to apply to all Housing Types in high/highest resource areas and increase priority.
- 2) Create tiered climate benefits based on Greenhouse Gas (GHG) reduction levels.

- 3) Address concerns of a “race to the bottom” if the Tiebreaker incentivized Extremely Low-Income (ELI) units without rental subsidy; cap ELI population benefits to avoid excessive weighting.
- 4) Add a population benefit for farmworker housing.
- 5) Clarify Tiebreaker denominator sources.

B. Second Draft Proposal

- 1) Increased weighting for highest and high resource area boosts, and expanded eligibility to more housing types.
- 2) Added benefits for farmworker and Tribal housing Projects.
- 3) Added tiered weighting for GHG reduction to better differentiate Project impact so AHSC Projects with the deepest GHG reductions are prioritized in the Tiebreaker.
- 4) Corrected for the “race to the bottom” concern by aligning with CDLAC regs to limit rent savings and VLI benefit below 40% AMI, unless the Project has federal project-based rental assistance.
- 5) Include Tiebreaker denominator weighting for 9% credits.

C. Rationale

- 1) HDFC made Tiebreaker adjustments to reinforce public benefit priorities, informed by stakeholder feedback and additional testing. While the Tiebreaker was originally based on the CDLAC model, HDFC has adjusted it to better reflect the allocation of state subsidy and state policy priorities.

5. Community-Based Developer (CDB) and Emerging Developer (ED)

A. Comments Summary

- 1) Include the 7.5% set-aside for CBDs from past MFSN round.
- 2) Align definition for CBD with prior HCD MFSN and expand or clarify definition changes (e.g. place-based, organization size, etc.).
- 3) Change Emerging Developer (ED) terms (fee split, project caps, ownership and timing limits).
- 4) Revise timing limits that conflict with investor hold periods and limit concurrent Projects.

B. Second Draft Proposal

- 1) Added CBD to the ED set-aside and increased the combined CBD/ED set-aside from 5% to 7.5%.

- 2) Used the HCD MFSN definition of CBD, with one small revision to exclude statewide/national development organizations that do not have offices located in the community served. Aligned Emerging Developer criteria with CTCAC.
- 3) Changed the developer fee split to 60/40 between the Established Developer (60%) and the Emerging Developer (40%); Added flexibility to support joint-venture structures.

C. Rationale

- 1) HDFC Regulations use the MFSN definition of CBD for continuity.
- 2) The change in the developer fee split acknowledges the work and structural investment of the established developer, incentivizing these joint ventures, and leveraging existing firms to build a new generation of developers.

6. Tribal Entities

A. Comments Summary

- 1) Request to create a Tribal set-aside.
- 2) Reduce need for AB 1010 waiver requests.
- 3) Specify Tribal flexibility.
- 4) Address challenges Tribes face with issuing tax-exempt bonds.

B. Second Draft Proposal

- 1) No change from first draft regarding the Tribal set-aside.
- 2) Clarified that Tribal Entities may request waivers or modifications in the HDFC application – while the AB 1010 waiver process remains a tool to provide flexibility for Tribal Entities, HDFC has built these flexibilities into the draft HDFC regulations with the intent of making the AB 1010 waiver process unnecessary.
- 3) Clarified flexibility for Tribal Entity development experience, establishing site control, and for referrals, occupancy and property management standards.
- 4) HDFC is committed to collaborating with Tribes, Tribal partners, and CDLAC to assess the barriers that Tribes face in issuing tax-exempt bonds, and to working proactively with Tribes to find solutions.
- 5) Additionally, the regulations:
 - a. Added a provision stating that Tribal Entities are not required to provide a Limited Waiver of Sovereign Immunity (LWSI) and are not required to consent to the jurisdiction of any forum to participate in HDFC's funding programs.

- b. Added a Tribal benefit within the Tiebreaker to boost equity and increase access.
- c. Established minimum unit count for Projects proposed by Tribal Entities at 4 instead of 5 units.
- d. Expanded the Tribal Entity definition to include non-federally recognized tribes.
- e. Expanded the Tribal Land definition to include a Tribal Entity's Indian Area.

C. Rationale

- 1) The HDFC regulations do not create a Tribal set-aside. However, the regulations retain the Tribal Housing type, which gets an automatic 35 points, and are designed to reduce administrative barriers for Tribes.
- 2) The regulations reflect HDFC's authority to provide Tribes with flexibility to meet program requirements instead of relying on AB 1010 process and a project-by-project approach.
- 3) Specific flexibilities reflect years of collaboration between the state and Tribal partners and lessons learned from the Homekey, Tribal Homekey+ and Tribal MFSN programs, as well as the AB 1010 process.
- 4) HDFC will offer technical assistance to support California Tribes applying for HDFC programs.

7. Readiness to Proceed

A. Comments Summary

- 1) The 270-day construction start deadline is too rigid.
- 2) Align the construction start deadline to match tax-credit/bond sequencing.

B. Second Draft Proposal

- 1) Added a ministerial 30-day extension to the 270-day construction-start deadline.
 - a. Projects that do not meet the 300-day timeline will be disencumbered and may receive negative points.
 - b. Appealable at a HDFC Executive Committee meeting.
- 2) Clarified separate timing and process will be identified for HDFC Projects seeking 9% tax credits.

C. Rationale

- 1) The HDFC regulations allow more time to demonstrate readiness than other affordable housing finance programs, like CDLAC/CTCAC's 180-day readiness timeline.
 - c. Accelerating housing is a shared responsibility – HDFC is streamlining its processes, shifting the system to support full financing for ready projects, and requests that sponsors meet the revised timelines.

8. 9% LIHTC and State Tax Credits

A. Comments Summary

- 1) Clarify pathway for Projects seeking HDFC funding and 9% LIHTC.
- 2) Clarify allocation of state tax credits for HDFC projects, including but not limited to Mixed Income Program (MIP) Projects.

B. Second Draft Proposal

- 1) Specified that HDFC shall coordinate with CTCAC to establish predictable financing pathways for these Projects and will size its subsidy commitments with the reasonably anticipated amount of 9% LIHTC available.
Implementation details and procedures will depend on applicable CTCAC requirements, allocation decisions, and stakeholder input.
- 2) Specified that HDFC may award funds to Projects requesting state tax credits, and that as the administrator of MIP, HDFC will designate MIP subsidy awards for state credits allocated by CTCAC.
- 3) Other clarifying edits include specifying that state credits are included in the HDFC Request for funds, and that 9% credits are included in the Tiebreaker at a factor of 85% versus tax-exempt bonds and other HDFC Requested resources to evaluate applications across credit types.

C. Rationale

- 1) Stakeholders have emphasized that certain affordable housing projects require both state subsidy and federal 9% tax credit equity to achieve their intended affordability and remain financially feasible (e.g. farmworker housing, special needs and permanent supportive housing, and rural communities).
 - a. HDFC and CTCAC share policy priorities for many projects in the 9% Rural, Special Needs, and Nonprofit set-asides. Without clarity and coordinated processes, requiring separate, competitive application submissions to both HDFC and CTCAC could delay Projects for several months or longer.

- b. The regulations make other clarifying edits to specify that state credits are included in the HDFC Request for funds, and to note that 9% credits are included in the Tiebreaker at a factor of 85% versus tax-exempt bonds and other HDFC Requested resources to evaluate applications across credit types.

D. Request for feedback

More predictable coordination between these resources could help applicants assemble financing, enable HDFC to size and sequence subsidy commitments, and stretch limited state resources to support additional affordable homes.

Approaches could include:

- 1) Annual credit amount or percentage for HDFC Projects. This could be separate from existing set-asides or within the rural, special needs, and nonprofit set-asides.
- 2) Targeted prioritization of eligible HDFC Projects within existing policy set-asides.
- 3) Targeted Tiebreaker adjustment that adds weight to HDFC funding to reflect shared priorities and effective use of public resources.
- 4) For these or other approaches:
 - a. How should anticipated demand, available credits, and HDFC subsidy resources inform the size and scope of coordinated pathways?
 - b. What approaches would preserve meaningful access and certainty for Projects with and without HDFC subsidy?
 - c. What deadlines and procedures should apply when HDFC-funded Projects do not receive 9% credits, including opportunities to pursue viable alternative financing, or for HDFC to release subsidy commitments for reprogramming?

9. Sort/Funding Order

A. Comments Summary

- 1) Fund set-asides before geographic regions; spell-out funding order round robin process.
- 2) Clarify funding order and address risks with alternative funding/skipping process. Mirror CDLAC skipping provisions if insufficient balances within a set-aside or geographic region do not fully fund the next Project.
- 3) Codify and publish exact award ranking methodology and timing.

B. Second Draft Proposal

- 1) Clarified that set-asides will be funded first via round robin, before funding geographic regions via round robin, and alternating between the two toward fulfilling the allocation goals.
- 2) Clarified that HDFC will allow applicants to select preferred alternate funding, and if their primary funding source is not available in the full amount requested, their application will be considered for the alternate funding source before being skipped. HDFC will not make partial awards. Projects awarded alternate funding will still be restricted by the Tiebreaker and scoring commitments made in their application.
- 3) Clarified that HDFC will publish self-scores within 10 days of application deadline.

C. Rationale

- 1) Funding set-asides, clarification of risks and requirements, and commitment to publishing award and ranking information are in service to prioritizing state funding to better meet state policy priorities.

10. High Density Housing

A. Comments Summary

- 1) Remove High Density as a Housing Type.
- 2) Remove/adjust cap from High Density Housing Type.
- 3) Protect against micro-units; consider impact of units per acre.

B. Second Draft Proposal

- 1) Retained High Density Housing Type.
- 2) Retained cap on amount of funding awarded at 25%.
- 3) Added minimum unit requirements for single-room occupancy/studio units.

C. Rationale

- 1) Retained High Density Housing Type to align with goals of AHSC and TOD funding.
- 2) The density levels are new and warrant further tracking in HDFCs first few rounds to ensure they are achieving climate goals. Until we have more analysis, the cap on funding should be limited for this housing type.
- 3) Added minimum unit requirements to discourage micro-units.

11. Senior Housing

A. Comments Summary

- 1) Align regulations with CTCAC and CA Civil Code at 55+ age eligibility standard for Senior Housing Types, instead of HDFC's 62+.
- 2) Remove cap or adjust percentage in this Housing Type.

B. Second Draft Proposal

- 1) Clarified that Senior housing residents may be 55+ in any Project with 35 units or more, for other Projects, 62+ age requirement applies.
- 2) Removed 25% cap on this Housing Type.

C. Rationale

- 1) Aligned with CTCAC per feedback.
- 2) Removing cap addresses significant need to house Seniors.

12. Farmworker Housing

A. Comments Summary

- 1) Work with CTCAC to prioritize/preserve the pipeline for Joe Serna Jr. FWHG funded projects with the \$25M state tax credit set-aside.
- 2) Define 'substantial portion' of income threshold and align to USDA Rural Development standards.
- 3) Provide flexibility for the number of farmworkers served in a project qualifying for Joe Serna Jr., FWHG funding.

B. Second Draft Proposal

- 1) CTCAC draft regulations announced that beginning in calendar year 2028, state tax credits may be allocated for projects awarded Joe Serna Jr., FWHG funding. No change to HDFC regulations.
- 2) No change.
- 3) HDFC will prioritize funding to projects that dedicate 25% or more of the units to serving farmworkers, while incentivizing any unit dedicated to serving this population (via Tiebreaker benefit).

C. Rationale

- 1) State credits are a CTCAC administered resource. HDFC will continue to collaborate with CTCAC on further updates and clarity in the HDFC regulations.
- 2) HDFC is continuing to research in collaboration with HCD how to best update the 'substantial portion' of income threshold for farmworkers to align with USDA RHDFC Development standards.
- 3) Revisions to HSC §50517.5(c)(1) statute allow HDFC to determine the number of units dedicated to farmworkers to be eligible for Serna.

13. Funding Caps

A. Comments Summary

- 1) Eliminate some or all the award limits from the first draft. This included a limit on the % of Total Development Cost (TDC) (75%) for HDFC awards, per-unit limits (\$350k/1-bed unit), and per-project (\$50M) caps.
- 2) Focus cost containment efforts in the HDFC Tiebreaker which incentivizes lower cost Projects, rather than keep the per-project and per unit caps.

B. Second Draft Proposal

- 1) Increased per-Project cap to \$55M after further testing.
- 2) Moved the per-unit caps to an HDFC publication outside of the regulations, which will be increased to \$400k/1-bed unit.

C. Rationale

- 1) HDFC continues to view per-unit and per-project caps are a necessary protection of state resources, particularly in the new competitive system as we better understand outcomes of the new Tiebreaker. Moving the per-unit caps to an HDFC publication outside of the regulations preserves these protections while allowing HDFC to adjust the caps more quickly in response to changing market conditions, program performance, and cost trends.
- 2) The caps are intended to curtail excessive requests for funds; based on our research, caps would have excluded less than 3% of Projects awarded tax credits between 2021-2025.

14. Coordination with HCD

A. Comments Summary

- 1) Request that HDFC administer Portfolio Reinvestment Program (PRP) and Loan Portfolio Restructuring (LPR).
- 2) Clarify whether HCD Uniform Multi-family Regulations (UMRs) or HDFC Regulations apply and address any conflicts.

B. Second Draft Proposal

- 1) For 2027, PRP and LPR Projects that are fully funded except for bonds/credits can access the HDFC Bond Pool with a letter of support from HDFC, and corresponding award/support letter from HCD.
- 2) Updated regulations clarify that Projects with prior HCD awards that are not seeking new HDFC gap financing will continue to follow the original HCD award terms and closing process. Projects with prior HCD awards that request HDFC gap financing after HDFC regulations are adopted will be governed by the HDFC regulations. If strict adherence to the HDFC rules would jeopardize or significantly delay closing, or conflict with any law, HDFC may allow adherence to certain terms of the original HCD award, on a case-by-case basis.

C. Rationale

- 1) The coordinated HDFC review process will allow an applicant to pursue HDFC gap financing and/or bond authority in conjunction with a PRP award or an approved LPR transaction. The HDFC process will include partners from all the administrative entities that coordinate through the HDFC Regulations, including HCD.
- 2) HDFC and HCD will partner closely through the multi-year transition. Currently, HCD maintains statutory authority and administrative oversight of LPR and PRP (to the degree funding becomes available). Once the HDFC Regulations are adopted, the HDFC Regulations will serve as the successor regulations to the Uniform Multifamily Regulations of 2017. HDFC and HCD are working on the details of transitioning from past HCD requirements to HDFC regulations. HDFC will continue to collaborate with partner agencies, including HCD, to streamline where feasible and permitted by law and harmonize requirements.

15. Developer Fee

A. Comments Summary

- 1) Fully align with CTCAC developer fee rules and remove the \$10M total cap on developer fee. Additional deferred developer fee helps Projects solve funding gaps, because it generates eligible basis and tax credit equity.
- 2) Remove the 5% limit on developer fee for acquisition basis and align with CTCAC. Allow 15% of acquisition basis for Acquisition/Rehabilitation Projects.

B. Second Draft Proposal

- 1) HDFC's proposed \$10M cap allows a maximum of \$6M cash developer fee, with the remainder as priority developer fee paid prior to residual receipts payments.
- 2) Retained 5% limit on developer fee for acquisition basis, consistent with HCD past practices.

C. Rationale

- 1) HCD has historically limited developer fees beyond CTCAC/CDLAC maximums, which increased in recent years. HCD's UMRs limited cash fee and priority developer fee paid prior to residual receipts payments to \$3.5M.
- 2) HDFC's analysis did not find that Projects were using additional deferred fees beyond the \$10M total cap to solve Project gaps. HDFC analyzed real Projects that converted from 9% to 4% structures in 2026 and found that these projects did not exceed deferred developer fee beyond \$3.1M.
- 3) Applying 15% for construction-related basis and 5% for acquisition basis is intended to reflect proportionate measures of development and acquisition work, consistent with CTCAC's 9% developer fee calculation for acquisition basis. Applying 5% is also in line with developers' approach; HDFC's analysis found that over half of developers applying for 4% credits in 2026 were voluntarily reducing their acquisition basis developer fee to 5% or to 0%.

16. Monitoring Fee

A. Comments Summary

- 1) HDFC should set a reasonable monitoring fee in the final HDFC regulations.
- 2) The monitoring fee should be scaled based on units rather than size of the HDFC loan as the current 0.42% fee.

B. Second Draft Proposal

- 3) No updates until HCD monitoring fee audit is completed in 2027.

C. Rationale

- 1) The Monitoring Fee cannot be determined at this time. HDFC will consider the results of the HCD monitoring fee audit when identifying the eligible activities, expenses, and applicable cost factors that will form the basis of the Monitoring Fee assessment. Until the audit findings are finalized and verified, HDFC cannot calculate or assign the Monitoring Fee.

17. Construction Phase Funding Disbursement

A. Comments Summary

- 1) Consider metrics and policies to mitigate risk and enable periodic construction disbursements or rely on construction lender or third-party investor oversight.

B. Second Draft Proposal

- 1) No change from first draft. HDFC is managing construction loan loss risk by limiting funding to two disbursements: One at construction loan close, the second at completion. The initial disbursement will be in an amount equal to the percentage of the HDFC loan amount that is the same as the percentage of tax credit equity funded at construction loan close. The full balance of the HDFC construction loan will be funded at completion. HDFC anticipates that the requirements to evidence completion will be limited to straightforward things like a Temporary Certificate of Occupancy and an Architect's Certificate of Substantial Completion.

C. Rationale

- 1) HDFC is managing construction loan loss risk by limiting funding to two disbursements. Although this will enhance Project feasibility, this approach still means that HDFC is exposed to completion and lease up risk. Limiting eligibility for construction phase financing to applicants who meet HDFC's financial capacity threshold metrics is a tool to help manage construction lending risk.
- 2) This approach to disbursing HDFC construction loan proceeds will result in a much faster paydown of the large bank construction loan and reduce the sizing of the Project's construction loan interest reserve.
- 3) It is important that unlike years past when there might be some delay with the state entering the transaction for the first time at perm loan conversion, the state will be funding into the transaction with executed and recorded documents with other sources in the capital stack at construction loan close.

This will eliminate material delays that sometimes arise if the state was only coming into the transaction at conversion.

18. Prevailing Wages

A. Comments Summary

- 1) Clarify how Prevailing Wage requirements will apply to Projects funded by the various funding sources administered by HDFC.

B. Second Draft Proposal

- 2) No change from first draft.

C. Rationale

- 3) The HDFC regulations state that Sponsors must certify compliance with prevailing wage law, as applicable to their use of funds. HDFC is not the agency that determines the applicability of prevailing wage.

19. Negative Points

A. Comments Summary

- 1) Extend the 7-day timeline to appeal negative points.
- 2) Publish a clear policy and process for HDFC negative points, including how CalHFA, HCD and State Treasurer's Office negative points policies will be applied.

B. Second Draft Proposal

- 1) No change from first draft.

C. Rationale

- 2) HDFC is still developing a specific negative points structure in coordination with CalHFA, HCD and State Treasurer's Office. For now, the HDFC Regulations allow negative points to be assessed for major nonperformance indicators or demonstrated patterns of non-compliance.

20. Phase I/II Environmental Site Assessment (ESA)

A. Comments Summary

- 1) Replace the 12-month recency requirement for Phase I/II Environmental Site Assessments (ESAs) with a longer window (commonly 3-5 years, or tied to site acquisition/closing) to avoid paying to re-order unchanged reports.
- 2) Allow Phase II ESA to be waived (or eliminated) when a known issue can be mitigated via budget line item.

B. Second Draft Proposal

- 1) No changes to the timeline for updated Phase I/II reports.
- 2) Clarified that Phase II ESA is required only if recommended in a Phase I ESA or if significant environmental conditions are present.

C. Rationale

- 1) Because projects should be ready to commence construction within 9 months of award, these ESA reports should be current to reduce risks and avoid project delays due to environmental compliance.
- 2) Added clarity to when a Phase II applies but retained the requirement to ensure proper documentation is in place for projects to move quickly from award to construction commencement.

21. Climate and Location Scoring

A. Comments Summary

- 1) Strengthen AHSC/TOD scoring to drive real GHG reductions by increasing points for transit-oriented, infill, and high-density projects, especially those directly adjacent to high quality transit; add clearer and more consistent transit definitions.
- 2) Create equitable scoring pathways by adding a community need option recognizing disadvantaged community status, overcrowding, rent burden, environmental justice factors, local contributions, and streamlined approvals; provide partial credit for Moderate Resource Areas and full points for SB 535 Disadvantaged Communities.
- 3) Address Rural and small city challenges by offering alternatives to walkability metrics, scaling transit expectations by community size, allowing appropriate parking, and replacing/augmenting federal tools with key-destinations methods.
- 4) Revise and expand the AHSC/TOD point menu by adding points for infill, high-density development, State Excess Sites, donated land, improved bike/ped/transit infrastructure, and partnerships with transit agencies;

- increase disadvantaged community scoring and eliminate points that reward only previously funded communities.
- 5) Clarify and rebalance the overall scoring structure by reconsidering automatic High/Highest Resource points, refining confusing regulatory text, ensuring parity between AHSC and non-AHSC options, addressing overreliance on the Tiebreaker, and reassessing the \$50M project funding cap for large transit oriented developments.

B. Second Draft Proposal

- 1) Strengthened AHSC/TOD scoring by awarding points for climate-aligned features such as proximity to climate-related public investments, walkability, reduced parking, and transit-supportive amenities.
- 2) Expanded equitable scoring pathways by providing partial credit for Moderate Resource areas, recognizing Disadvantaged Communities, Pro Housing jurisdictions, Rural Disadvantaged Communities, VMT-efficient locations, and projects on State Excess Sites, Local Surplus Land, or faith-based properties.
- 3) Addressed Rural and small-city needs through tailored Rural site-amenity scoring, expanded rural walkability options, and the ability for Rural to earn climate-supportive points such as parking reductions and bicycle parking.
- 4) Broadened the AHSC/TOD point menu by incorporating additional point opportunities, including climate-investment proximity, Disadvantaged Communities status, parking limits, transit passes, bike parking, and development on State Excess Sites or faith-based land
- 5) Clarified and balanced the scoring structure by defining eligibility for multiple point categories, distinguishing between general and AHSC/TOD scoring pathways.

C. Rationale

- 2) Regulation changes provided establish a clear, multi-pathway system that accommodates diverse project types statewide:
 - a. Support transit-oriented, high-density, and infill development that drives real GHG reductions and climate-beneficial outcomes.
 - b. Support community-need based development priorities.
 - c. Ensure rural projects can equitably compete with climate-supportive point options.

22. Access to Opportunity/Affirmatively Furthering Fair Housing (AFFH)

A. Comments Summary

- 1) Strengthen incentives to advance AFFH by expanding the scope of the resource area benefit and Housing Types.

B. Second Draft Proposal

- 1) Increased the weighting of the high/highest resource area benefit in the Tiebreaker.
- 2) Added more housing types to the eligibility for the high/highest resource area benefit. Large Family, Special Needs, Supportive Housing and High Density Housing are all eligible for the high/highest resource area benefit.

Location Category	10/26 Regulations Benefit per bedroom- adjusted unit	8/31 Regulations Benefit per bedroom- adjusted unit
Highest Resource Area	\$90k	\$30k
High Resource Area	\$60k	\$20k
Moderate Resource Area	\$10k	\$10k
Neighborhood Change Area	\$30k	\$30k
Community Revitalization Area Benefit	\$20k	\$20k
Community-Based Developer Benefit	\$20k	\$20k
Tribal Entity Benefit	\$20k	N/A - added in 10/26 Regs

C. Rationale

- 1) Increased the weighting of projects located in Highest and High Resource Areas. The HDFC Tiebreaker prioritizes lower costs/subsidy per unit and development in high/highest typically calls for greater investment from state funding through higher land costs. In order to offset these costs, the

- weighting was increased to ensure development is competitive for funding in the high/highest resource areas.
- 2) Opened the benefit to more kinds of projects, emphasizing the benefits of siting projects in Highest and High Resource communities.

23. Affordability

A. Comments Summary

- 1) Require an average of 50% AMI for all Restricted Units.

B. Second Draft Proposal

- 1) Pushed general affordability rates lower, by requiring additional 10% of units at 50% AMI and below (not applicable for Rural, Special Needs, or Supportive Housing). This matches CDLAC's affordability requirements.

C. Rationale

- 1) In response to requests for deeper affordability, HDFC has added an additional required 10% of units at 50% AMI (not applicable for Rural, Special Needs, or Supportive Housing), pushing projects towards more sustainable affordability.