California
Behavioral Health
Planning Council
ADVOCACY • EVALUATION • INCLUSION

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Johnathan Klein

Executive Director

Housing Development and Finance Committee

651 Bannon Street, 10th Floor

Sacramento, CA 95811

RE: Feedback on the Draft Housing Development and Finance Committee (HDFC) Regulations

Dear Mr. Klein:

The California Behavioral Health Planning Council (CBHPC) congratulates the Housing Development and Finance Committee (HDFC) on its formal creation. We appreciate HDFC's leadership in developing a regulatory framework to advance housing development across California and thank the Committee for the opportunity to comment on the first draft of the proposed regulations.

Public Law 102-321 requires CBHPC to advocate for people with lived experience of serious mental illness. Under Welfare and Institutions Code §§ 5771 and 5772, we also advise the Department of Health Care Services (DHCS) and the Legislature on behavioral health policies and priorities. Consistent with our statutory responsibilities under the Behavioral Health Services Act (BHSA) §§ 5604.2(a), 5610(a)(1), 5610(b)(1), and 5664(a), CBHPC provides guidance on statewide behavioral health planning, helps ensure accountability in the use of BHSA funding, and collaborates with state agencies to support effective and equitable behavioral health services across counties.

Our members include people with lived experience, family members, parents of children with serious emotional disturbances, service providers, professionals, and representatives from state departments. Their

perspectives help shape our recommendations. CBHPC's Housing and Homelessness Committee (HHC) reviewed the draft regulations and developed the feedback and recommendations in this letter. Our recommendations are intended to strengthen coordination across systems, expand access to supportive housing, and promote stability for Californians with behavioral health needs.

Limited Behavioral Health Expertise Reflected

Housing plays a critical role in behavioral health treatment, recovery, and long-term stability. In 2024, voters approved Proposition 1, which established the Behavioral Health Services Act (BHSA). Administered by the California Department of Health Care Services (DHCS), the BHSA expands supportive housing for people with serious behavioral health needs, especially those experiencing or at risk of homelessness. This demonstrates California's ongoing commitment to strengthening behavioral health services and supporting its most vulnerable residents.

We recommend that CBHPC and DHCS take an active role in shaping HDFC's regulatory and funding decisions, given its responsibility for overseeing California's behavioral health system. While Proposition 1 provides support for both housing and treatment facilities, most of the funding supports treatment infrastructure, and more than half of the housing funds are reserved for homeless veterans. Including DHCS and CBHPC in the regulatory development process will help ensure the regulations reflect the broader needs of individuals with mental health and substance use disorder (SUD) conditions.

May Exclude Services-Focused Developers

CBHPC is concerned that the regulations may unintentionally create barriers for small but essential groups of developers who also function as behavioral health service providers. These organizations often deliver county-wide behavioral health services under contracts and maintain smaller but critical portfolios of supportive housing for people with behavioral health needs. They typically rely on Housing and Community Development (HCD) funding combined with other local and philanthropic funding and generally cannot qualify for tax credits due to the size of the projects and low-income levels of the tenants. These smaller services-focused developers often provide intensive services that traditional developers are not equipped to deliver and frequently can be more

effective in housing very low-income individuals with serious behavioral health issues.

CBHPC recommends creating a "Services-Focused Developer" category, with eligibility based on the share of organizational revenue derived from Medi-Cal or behavioral health service contracts. This category would support mission-driven providers that have historically used funding through the Mental Health Services Act (MHSA) Housing Program, HOME Investment Partnerships Program (HOME), and the Multifamily Housing Program (MHP) to develop small supportive housing projects. Adopting this recommendation would help ensure the regulations recognize specialized providers and meet the housing and service needs of individuals with serious behavioral health conditions.

Over-reliance on Tax-Credit Project Models

CBHPC is concerned that the draft regulations rely too heavily on tax-credit financing structures, which many supportive housing providers cannot use. Projects serving low-income tenants with incomes often below 30% of Area Median Income (AMI) typically do not qualify for tax credits. Small supportive housing developments in rural or non-urban areas also struggle to meet the size requirements needed for tax-credit financing. Traditional tax-credit financing requires renting a portion of units to tenants at higher income levels, such as 60% AMI, to make projects financially viable. However, supportive housing providers rarely have tenants at these income levels. As a result, income-mix requirements limit the ability of these providers to utilize tax-credit financing and reduce the overall feasibility for supportive housing projects.

CBHPC recommends that HDFC incorporate flexible financing pathways for supportive housing and special needs providers that cannot rely on tax credits. Expanding eligible financing options will better support projects serving extremely low-income tenants and ensure rural and smaller-scale developments can access HDFC resources.

Capitalized Operating Subsidy Reserves (COSR) Inclusion Within Project Funding Limits

Many supportive housing developments rely on capitalized operating subsidy reserves (COSR) due to limited availability of federal

project-based rental subsidies. Counting COSR within the restricted HCD funding maximum of 75% of total development budget places these projects at a disadvantage, often forcing them to seek additional local or philanthropic funding to remain viable.

CBHPC recommends excluding HCD provided or any other COSR funds from the HCD funding limitation allowing no more than 75% of project costs from HCD sources. Doing so would ensure that supportive housing providers serving very low-income populations are not penalized for relying on an essential operating funding mechanism.

Definition of Supportive Housing is Too Narrow

Limiting eligibility for supportive housing to individuals who are chronically homeless is overly restrictive and does not reflect Behavioral Health Services Act's (BHSA) broader focus on individuals who are homeless or at risk of homelessness. This narrow definition prevents providers from serving many people with serious behavioral health needs who meet BHSA criteria but do not fit the "chronically homeless" definition.

CBHPC recommends that HDFC revise the definition for eligibility for supportive housing to include individuals who are homeless or at risk of homelessness, consistent with BHSA[1]. This adjustment would ensure the regulations encompass the full range of Californians in need of supportive housing.

Grant Funding Should Be Available for Supportive Housing

Under the draft regulations, supportive housing projects are ineligible for grant funding and limited to loan financing. Many behavioral health-focused supportive housing developments, particularly smaller projects or those serving extremely low-income residents, require grant funding to be financially viable. Restricting these projects to loans limits development and reduces access to housing for individuals with serious mental health and substance use disorders (SUD) needs.

CBHPC recommends allowing supportive housing projects to qualify for grant funding. Grant eligibility would help providers close financing

[1] Section C.9.6 Capital Development Projects, Behavioral Health Services Act County Policy Manual, Version V1.5.1. Department of Health Care Services.

gaps that loans cannot cover, reduce long-term debt burdens, and improve feasibility for developments serving low-income residents.

CBHPC appreciates the opportunity to provide this feedback and looks forward to continued collaboration as these regulations evolve. Thank you for your leadership and for your consideration of our recommendations. Should you have any questions regarding our recommendations, please contact CBHPC's Executive Officer, Jenny Bayardo, by email at Jenny.Bayardo@cbhpc.dhcs.ca.gov or by phone at (916) 750-3778.

Sincerely,

Barbara Mitchell
Chairperson
CBHPC Housing and Homelessness Committee

Cc: Tim Parham, Assistant Deputy Director, Housing Development and Finance Committee
Michelle Baass, Director, California Department of Health Care Services (DHCS)
Paula Willhelm, Deputy Director of Behavioral Health, DHCS