

- e. Approve the Modification of the Deed of Trust (58 Brooklyn Street - HOME Loan) securing the County's security interest in the property and authorize the Director of Economic Development to execute the Modification; and
- f. Approve Pajaro Valley Shelter Services as the new property manager.

RECOMMENDATION:

It is recommended that the Board of Supervisors:

- a. Approve the Assignment and Assumption of the County of Monterey and Housing Successor Agency of the Redevelopment Agency of Monterey County's Regulatory Agreement and Declaration of Restrictive Covenants (58 Brooklyn St - CDBG/Agency Loan), Pajaro, CA to South County Housing by Pajaro Valley Shelter Services, Inc., and authorize the Director of Economic Development to execute the Agreement;
- b. Approve the forgiveness of approximately \$93,818.21 in accrued interest on the County's CDBG loan and Redevelopment Agency loan; and,
- c. Approve the Modification of the Deed of Trust (58 Brooklyn Street - CDBG/Agency Loan) securing the County and Redevelopment Agency's security interest in the property and authorize the Director of Economic Development to execute the Modification;
- d. Approve the Assignment and Assumption of the County of Monterey's Regulatory Agreement and Declaration of Restrictive Covenants (58 Brooklyn St - HOME Loan), Pajaro, CA to South County Housing by Pajaro Valley Shelter Services, Inc. and authorize the Director of Economic Development to execute the Agreement;
- e. Approve the Modification of the Deed of Trust (58 Brooklyn Street - HOME Loan) securing the County's security interest in the property and authorize the Director of Economic Development to execute the Modification;
- f. Approve Pajaro Valley Shelter Services as the new property manager.

SUMMARY:

In June 2003, the County and Redevelopment Agency made three loans totaling \$315,958 to South County Housing Corporation (SCHC) to purchase and rehabilitate two manufactured homes located at 58 Brooklyn St., Pajaro (the "Property") as temporary housing while the Salinas Road/Nuevo Amanecer project was under construction. South County Housing has continued to manage the units as rental housing affordable to low income households since Nuevo Amanecer was completed in 2006. The recommended action will allow Pajaro Valley Shelter Services, Inc. (PVSS) to assume SCHC's obligations related to the Agency and County Regulatory Agreement and make needed investments in correcting deferred property maintenance issues. It will further pay off the remaining loan balances in full in exchange for a waiver of all accrued interest.

DISCUSSION:

SCHC was an affordable housing developer that had eight affordable housing complexes in Monterey County. SCHC has ceased operations and Eden Housing has assumed operational responsibility for most of SCHC's housing complexes and outstanding obligations. The two-unit 58 Brooklyn development does not fit with Eden Housing's portfolio and they do not want to assume this property and its obligations from SCHC.

The County made three loans to SCHC to finance the purchase and rehabilitation of the Property. The loan sources and terms are: \$110,258 Community Development Block Grant (CDBG) and \$102,700 Redevelopment Housing Set-Aside loans repaid from residual receipts over 30-years and accruing 3% simple interest; and, a \$103,000 HOME loan due in 30 years at 0% interest. All three loans mature in 2033. To date the rental income has been insufficient to allow SCHC to make any payments on the loans.

PVSS, a non-profit assisting homeless women, children and families to obtain stable housing through temporary shelter and services is interested in purchasing the Property. PVSS is willing to assume the Property, pay off the principal balance of all three loans, and assume the ongoing affordability obligations limits from

SCHC. Most significantly, PVSS is not going to evict the current tenants. The tenants will be permitted to remain if they would like under their current month to month lease.

As part of their pre-purchase due diligence, PVSS ordered a property inspection and followed up with a roof inspection which identified numerous deferred maintenance issues with the Property, a copy of which is attached to this Staff Report. Based on the cost of these repairs and the limited rental income stream from low-income tenants, PVSS has requested that the County waive the accrued interest on the outstanding loans. As of April 1, 2018, the loans and the outstanding principal and interest balances will be:

Agency Loan

Principal	\$102,700.00
Accrued Interest	<u>\$45,244.27</u>
Estimated Payoff	\$147,944.27
Per Diem Interest	\$8.44

County CDBG Loan

Principal	\$110,258.00
Accrued Interest	<u>\$48,573.94</u>
Estimated Payoff	\$158,831.94
Per Diem Interest	\$9.06

County HOME Loan

Principal	\$103,000.00
Accrued Interest	<u>\$0.00</u>
Estimated Payoff	\$103,000.00
Per Diem Interest	\$0.00

CDBG and Redevelopment law give the Agency and County the authority to waive accrued interest. The staff recommendation to forgive the accrued interest is based on the historic financial performance of these units, as evidenced by the lack of residual receipts income to make loan payments and the deferred maintenance issues identified during the property inspections. Addressing the deferred maintenance issues and removing the debt obligations from the property are essential to maintaining these two units as affordable housing.

The proposed modifications to the Deed of Trusts securing the three loans removes references to repayment of the loan principal while leaving the other restrictive covenants in place. These references will not be necessary after the property is transferred because the principal will have been repaid.

OTHER AGENCY INVOLVEMENT:

County Counsel has reviewed the documents as to form and legality. PVSS and SCHC have both reviewed the Agreement and agreed to it.

FINANCING:

There is no impact on the General Fund, because the loans were funded using money from CDBG, HOME and the Redevelopment Housing Set-Aside Trust Fund. All repaid principal and interest may only be used for other projects as allowed by the original source of funding. The Agency loan repayment will be available for affordable housing projects. The CDBG repayment will be added to the Urban County Program and allocated to projects as part of the Annual Plan process. As noted above, the rental income from these two-units has been insufficient to make any loan payments. Changing ownership and management without increasing the rent limits is not likely to have a material effect on the financial performance of the units going forward. Because of

the past financial performance, writing off the accrued interest is necessary to retain the units as affordable. Perhaps the best way to think of the forgiven interest as an operating subsidy that will allow PVSS to keep the units affordable in much the same way that HUD's Project Based Rental Assistance (aka Project Based Section 8) subsidies are used for public housing projects.

BOARD OF SUPERVISORS STRATEGIC INITIATIVES:

Allowing Pajaro Valley Shelter Services to assume these responsibilities will allow the County to retain two units of housing restricted to low-income households. The immediate repayment of the various loans will provide additional financial resources that the County can use of affordable housing and community development.

Mark a check to the related Board of Supervisors Strategic Initiatives

- Economic Development
- Administration
- Health & Human Services
- Infrastructure
- Public Safety

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Approved by: _____
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Attachments:

- Attachment A - Assignment Assumption of Reg Agreement - CDBG Loan
- Attachment B - Modification of Deed of Trust Final - CDBG Loan
- Attachment C - Assignment Assumption Reg Agreement - HOME Loan
- Attachment D - Modification of Deed of Trust - HOME Loan
- Attachment E - Inspection Report: 58 Brooklyn St A & B Royal Oaks CA 95076