



County of Monterey

Board of Supervisors
Chambers
168 W. Alisal St., 1st Floor
Salinas, CA 93901

Board Report

File #: 13-0180, **Version:** 1

- a. Conduct a Public Hearing on amending the County's Neighborhood Stabilization Program 3 (NSP3) Action Plan to add Financing Mechanisms as an eligible use;
- b. Authorize the Economic Development Director to amend the Action Plan to include Financing Mechanisms as an eligible use and make minor modifications as necessary;
- c. Approve a \$325,000 Neighborhood Stabilization Program 3 (NSP3) Pre-development Loan to Rockrose Housing Corporation;
- d. Approve loan documents for the transaction including a Loan Agreement, Promissory Note, and Corporate Guarantee (Loan Documents);
- e. Authorize the Director of Economic Development to execute the Loan Documents and make minor modifications as necessary; and
- f. Approve and authorize the Auditor-Controller to amend the Fiscal Year 2012-2013 adopted budget by increasing appropriations and revenues by \$100,000 in the Capital Development Grant Unit 8200, Fund 013, Appropriation Code DEO003 to partially fund the Rockrose Housing Corporation loan and associated administrative costs (4/5th vote required).

RECOMMENDATION:

It is recommended that the Board of Supervisors:

- a. Conduct a Public Hearing on amending the County's Neighborhood Stabilization Program 3 (NSP3) Action Plan to add Financing Mechanisms as an eligible use;
- b. Authorize the Economic Development Director to amend the Action Plan to include Financing Mechanisms as an eligible use and make minor modifications as necessary;
- c. Approve a \$325,000 Neighborhood Stabilization Program 3 (NSP3) Pre-development Loan to Rockrose Housing Corporation;
- d. Approve loan documents for the transaction including a Loan Agreement, Promissory Note, and Corporate Guarantee (Loan Documents);
- e. Authorize the Director of Economic Development to execute the Loan Documents and make minor modifications as necessary; and
- f. Approve and authorize the Auditor-Controller to amend the FY 2012-2013 adopted budget by increasing appropriations and revenues by \$100,000 in the Capital Development Grant Unit 8200, Fund 013, Appropriation Code DEO003 to partially fund the Rockrose Housing Corporation loan and associated administrative costs (4/5th vote required).

SUMMARY:

The County received a Neighborhood Stabilization Program 3 (NSP3) grant in the amount of \$1,284,794 from the U.S. Department of Housing and Urban Development (HUD) in March 2011. The HUD Action Plan prepared for the NSP3 application included three eligible uses: Acquisition and Rehabilitation; Demolition; and Redevelopment. The recommended action will add Financing Mechanisms as an eligible use of NSP3 grant funds. The Financing Mechanism will allow the use of NSP3 funds for pre-development costs associated with eligible projects. HUD considers this action a substantial amendment of the Action Plan and requires a public hearing before the amendment can be approved. The recommended action to approve a pre-development loan for Rockrose Housing Corporation will enable the County to meet grant expenditure requirements.

DISCUSSION:

The County's NSP3 Action Plan included three activities: the purchase of two houses in Soledad for rental to households earning 50% of the Area Median Income (AMI); the purchase of three houses for rental to households earning up to 120% of AMI; and assistance

to Interim, Inc.'s Rockrose Gardens project for rental to households earning 50% of AMI. Interim, Inc. is a local non-profit developer and service provider with a mission of aiding people with psychiatric disabilities. The Rockrose Garden project involves acquisition, demolition and new construction. Rockrose Housing Corporation, an Interim, Inc. affiliated entity, will demolish the existing buildings located on the former Fort Ord in the City of Marina and replace them with twenty one units of new, affordable multi-family housing for persons with psychiatric disabilities and a manager's unit.

The NSP3 grant requires that at least 25% of the funds be used to provide housing to households earning no more than 50% of the AMI. HUD recognizes that this requirement will most likely be met through the provision of rental housing rather than through home ownership. The County's Action Plan identified Interim Inc.'s proposed Rockrose Gardens project as the rental project which would meet HUD's income requirements. The NSP3 grant also includes specific grant expenditure milestones which, if not met, could result in the forfeiture of the remaining grant funds. The County will reach the first of these expenditure milestones on March 16, 2013, when the County will need to have expended 50% of the \$1,284,794 grant.

The Action Plan was based on a schedule for Rockrose Gardens to be under construction in early 2013 and NSP3 funds would be drawn down prior to expenditure milestone. The project has experienced delays primarily due to their HUD 811 funding source which provides funds for both construction and permanent financing. Staff expected to purchase at least one other house in Soledad in order to meet the expenditure deadlines. There is limited inventory for sale in the target area and the last two offers to purchase houses have been rejected by the sellers. As of January 31, 2013, the County had expended approximately \$508,165 of the grant. An additional \$134,232 needs to be expended by March 16, 2013.

To meet the expenditure deadline, it is necessary to amend the Action Plan to add a Financing Mechanisms activity. The proposed amendment to the NSP3 Action Plan will enable the County to provide NSP3 funds for pre-development costs for the project. The most significant difference between the current activity of demolition and redevelopment and the Financing Mechanism activity is that the County will be able to loan Interim, Inc. NSP3 funds for pre-development purposes prior to acquisition of the land. Interim, Inc. will provide a Corporate Guaranty for the loan. When the land is purchased and the construction loan is closed, the County NSP3 loan will convert to a grant as originally proposed.

There have been delays associated with the HUD 811 funding for the Project which have resulted in delaying the acquisition of the property for the Project. The NSP3 regulations require that the County expend at least 50% of the NSP3 grant by March 16, 2013. In order to meet the deadline and not lose HUD grant funds, staff and HUD have worked out a solution. Funds can be spent on pre-development costs for the project prior to Rockrose Housing Corporation closing on the purchase of the property and closing its acquisition and construction financing. The NSP3 guidelines do allow the County to use grant funds for pre-development costs before acquisition of the real property. Pre-development costs include activities such as architectural services, engineering studies, environmental review and other due diligence activities. Since Interim has achieved 100% of the financing required for the Project and entitlements, it is expected that the project construction close will occur in August of 2013 with construction to be completed in August of 2014.

The County's NSP3 funds for the Project will be in the form of a grant to the development. The NSP3 funds are proposed to be used to reimburse pre-development costs prior to acquisition of the land so the County must advance these funds as a short term loan. Interim, Inc., as the Project sponsor, will execute a Corporate Guaranty to secure Rockrose Housing Corporation's performance. The Corporate Guaranty gives the County a method of recapturing the funds in the event that Rockrose Gardens is not built, as the grant funds will have to be repaid to HUD. The risk is further mitigated by a performance bond required by the HUD 811 financing. The loan and promissory note will be converted to a grant when Rockrose Housing Corporation purchases the land and closes the construction financing. Conversion of the loan to a grant is consistent with the original intent of the NSP3 Action Plan and required by other funding partners in the Rockrose Garden development. Staff will return to the Board of Supervisors with final documents which will become part of the construction close.

OTHER AGENCY INVOLVEMENT:

HUD has been consulted on the proposed amendment and concurs with it. County Counsel has reviewed the Loan Agreement, Promissory Note and Corporate Guaranty as to form.

FINANCING:

There is no negative impact on the General Fund as a result of this action. To date \$508,165 of the \$1,284,794 grant award has been expended. The current FY 2012-13 Adopted Budget included total appropriations with matching revenues of \$718,958, however projected expenditures and revenue receipts are projected to be \$100,000 higher, of which \$51,283 of the \$100,000 is attributed to the Rockrose project loan of \$325,000 and the balance is associated with administrative staff costs. Therefore, staff is recommending modifying the FY 2012-13 Adopted Budget to reflect an increase of \$100,000 to both appropriations and revenue for the Community

Development Grant Unit 8200, Fund 013, Appropriation Unit DEO003.

Prepared by:

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Approved by:

Linda Guillis, Management Specialist
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Attachments: NSP3 Action Plan: Activity #1 (as adopted on 2/15/11); Proposed NSP3 Action; Plan Amendment: Activity #1; NSP3 Loan Agreement; Promissory Note; and Corporate Guaranty