

STAFF REPORT

Date: May 25, 2010
To: Board of Supervisors
From: Department of Human Services
Subject: Fiscal Year 2010-11 CDBG General Allocation Application
Activities: Housing Rehabilitation Loan Program and
Public Improvement in Support of Affordable Housing New Construction

The Department of Human Services recommending Board consider the adoption of a Resolution authorizing the submittal of a Fiscal Year 2010-11 Community Development Block Grant General Allocation Application to the California Department of Housing and Community Development for up to an \$800,000 grant to provide up to \$215,000 in additional resources for the County's ongoing Housing Rehabilitation Loan Program, up to \$525,000 to provide infrastructure in support of the Sunset Lane Apartments affordable housing project on behalf of Mercy Housing California, and up to \$60,000 for general grant administration; committing \$7,500 in budgeted general funds for in-kind staff support to meet the leverage/match requirement during the three-year grant term; authorizing the Chairman to sign the Statement of Assurances; and if awarded, authorizing the Director of Human Services, contingent upon approval by County Counsel and Risk Management, to execute the grant agreement and subsequent amendments thereto that do not affect the dollar amount or the term and to sign other grant-related documents.

Background:

Housing Rehabilitation Programs

The County's revolving loan fund program was established in 1994 through a California State Department of Housing and Community Development (HCD) Community Development Block Grant (CDBG) award approved for submittal on April 5, 1994 by Board of Supervisors Resolution #86-94. The grant award provided for Housing Rehabilitation loans targeted to income eligible households earning no more than 80% of the area median income based on household size. Through subsequent CDBG and HOME grant awards, the County has continued to provide loans to low-income households on the Program's wait list. Since 1994, the Program has provided sixty-four (64) low-income homeowners with \$1.78 million in housing rehabilitation loans to make health and safety repairs to their residences. As the loans are repaid, the funds are deposited into a revolving loan fund and are then made available as loans to new income-eligible applicants, as required by the State-approved Program Income Reuse Plan.

The continuation of the Housing Rehabilitation Loan Program assists the County in meeting the goals identified in General Plan Housing Element Measure HO-29 to "continue to make rehabilitation loans to qualifying very low and low income households"; HO-21 to "work with property owners to preserve the existing housing stock"; and Measure HO-18 "apply for funds in support of housing rehab and weatherization programs for low-income households".

Public Improvements in Support of Affordable Housing New Construction

The County has supported the development of affordable housing projects since 1998, initially through a HOME Investment Partnerships grant award approved for submittal on October 27, 1998 by Board of Supervisors Resolution #265-98. The grant award was applied for on behalf of Mercy Housing California for the Diamond Sunrise II affordable housing project. Through subsequent HOME grant awards and CalHFA loans, the County has continued to support the development of affordable housing in the unincorporated areas of El Dorado County. Diamond Sunrise II, completed in 2002, is located in Diamond Springs and provides 16 units of affordable Senior Housing. The White Rock Village Apartments project, located in El Dorado Hills, completed in 2005, provides 168 units of affordable workforce housing. Both projects provide for a 55-year period of affordability. The Sunset Lane Apartments project is proposed by Mercy Housing California for a new 50 unit affordable workforce housing project in Shingle Springs.

Mercy Housing California is an affordable housing developer that owns and operates 26 rental properties in the Sacramento Valley, Sierra and foothill region, including 3 properties in El Dorado County. Mercy Housing is well connected to social service agencies through its operation of the Diamond Sunrise Apartments Phases I and II, White Rock Village Apartments in El Dorado Hills and Tahoe Valley Apartments in South Lake Tahoe.

Supporting affordable housing developers through CDBG and HOME grant applications and CalHFA loans assists the County in meeting General Plan Housing Element goals, including Policy HO-1.6 to “encourage new or substantially rehabilitated discretionary residential developments to provide for housing that is affordable to low, very low, and moderate income households”, and Policy HO-1.10 to “apply for funds from the state and federal government such as the Community Development Block Grant (CDBG), Home Investment Partnerships Program, and AB 2034 programs, and explore additional ways such funds may be used countywide to support construction of affordable housing.”

Reason for Recommendation:

On April 6, 2010, the Board gave conceptual approval for the submittal of an application under the 2010-2011 CDBG General Allocation Notice of Funding Availability (NOFA) for up to \$800,000 to provide additional funding resources for the County’s ongoing Housing Rehabilitation and Homeownership Loan Programs. Upon further review of the NOFA resulting from an interest expressed by Mercy Housing California for CDBG funding to support the proposed Sunset Lane Apartments affordable housing project, it is proposed to submit an application to provide additional funding resources in the amount of \$215,000 to support the County’s ongoing Housing Rehabilitation Loan Program, \$525,000 for infrastructure in support of the proposed Sunset Lane Apartments affordable housing project and \$60,000 for general administration of the grant.

Housing Rehabilitation Programs

If approved, the proposed grant application will provide funding to continue the Housing Rehabilitation Loan Program and is expected to provide loans for up to five (5) households during the term of the grant. The program has a wait list with sixty-one (61) eligible households and will work closely with the County’s Code Enforcement Division to address fifty-two (52) current cases of dangerous or substandard housing conditions. Existing staff would be utilized to administer the Program activities under this grant.

Public Improvements in Support of Affordable Housing New Construction

Mercy Housing California is proposing the new construction of a 50 unit workforce affordable housing apartment project in the community of Shingle Springs in unincorporated El Dorado County. The units will be a mix of one through three bedroom apartments affordable to a range of El Dorado County household sizes with incomes ranging from 30% to 50% of the Area Median Income. Five of the units are proposed to be reserved for disabled persons who are eligible for special services. The project will also include a 2,500 SF community building. Total project costs are approximately \$13,168,000.

The County has worked with Mercy Housing California to apply for other State grant and loan funding to support the development of the Sunset Lane Apartments project. An application to CalHFA for \$1,500,000 HELP program loan funds to support Mercy Housing California in the development of an affordable housing project was approved on May 6, 2008 by Board Resolution #PHA 2-08. The application was selected for funding award and the loan funds are targeted to the Sunset Lane Apartment project. On July 21, 2009, the Board recognized Mercy Housing of California for its efforts in providing long-term solutions to meeting the County of El Dorado's affordable and workforce housing shortage. On August 11, 2009, the Board approved the submittal of a HOME Investment Partnership application in the amount of \$4,100,000 that was not selected for funding award during 2009.

The proposed CDBG application will provide funding for infrastructure to support the development of the Sunset Lane Apartments affordable housing project. The project will be conditioned for approval by the Department of Transportation to provide a variety of improvements on Becken Lane and Sunset Lane in support of the new housing construction. Improvements for which grant funds are being sought are required for compliance with State and local codes and ordinances, including:

- Demolition/removal and relocation of existing improvements,
- Grading activities to prepare the sites for the new improvements,
- Underground improvements, including storm drainage, sanitary sewer and water distribution services,
- Removal of overhead electrical power lines and placement in new underground utility conduits, with street lighting electrical systems,
- New curb, gutter and sidewalks, and
- New asphalt road sections.

Local government inspections and testing will follow, and tasks will be monitored to maintain quality control.

The County would provide the CDBG grant funds to Mercy Housing for the Sunset Lane infrastructure project as a deferred payment loan secured by Deed of Trust that would be forgiven when the loan term is complete. An Agreement with Mercy Housing California will be developed and executed, upon approval of County Counsel and Risk Management. The Department of Human Services will be responsible for providing grant administration, fiscal management, activity delivery, compliance, and monitoring of the project. Mercy Housing California will be responsible for the management of the project, including construction of approved infrastructure improvements in accordance with grant guidelines.

The environmental review process and the Agreement with Mercy Housing California would be completed as a part of the grant set up conditions as required by the State Department of Housing

and Community Development and would be overseen by County staff. Existing staff would be utilized to administer the activities under the grant. Administrative and staff costs during the grant term will be covered by grant funding and the County in-kind match commitment. Any ongoing monitoring costs for the project are anticipated to be nominal and may be covered by General Fund dollars budgeted for Housing Element/Affordable Housing activities. These ongoing costs would be offset by the overall increase in property tax revenues resulting from the site improvements.

Proposed CDBG Grant Budget

General Administrative Costs during Grant Term:

CDBG Funding - General Administration	\$ 60,000
County of El Dorado - Local Leverage/In-Kind Staff Time	<u>500</u>
Total General Administrative Costs during Grant Term:	<u>\$ 60,500</u>

Housing Rehabilitation Activity during Grant Term:

CDBG Funding - Housing Rehabilitation Loans	\$ 174,150
CDBG Funding - Activity Delivery	\$ 40,850
County of El Dorado - Local Leverage/In-Kind Staff Time	<u>\$ 2,500</u>
Total Housing Rehabilitation Activity during Grant Term:	<u>\$ 217,500</u>

Public Improvement Activity during Grant Term:

CDBG Funding - Public Improvement Activity Costs	\$ 483,000
CDBG Funding - Activity Delivery	\$ 42,000
County of El Dorado - Local Leverage/In-Kind Staff Time	<u>\$ 4,500</u>
Total Public Improvement Activity during Grant Term:	<u>\$ 529,500</u>

Total Costs during Grant Term:	<u>\$ 807,500</u>
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The County allocates the cost of staff wages and benefits to the grant based on actual time worked. Other administrative costs to support the activities conducted under this grant, such as postage, office supplies and space costs are eligible grant expenditures and are included in the above proposed budget. Financial accomplishments and activities conducted under the guidelines of this grant program are monitored by staff and reported to the California Department of Housing and Community Development.

Preliminary Potential Risk Factors Identified

Staff identified and addressed potential risks associated with an application for CDBG funding to provide for the continuation of the Housing Rehabilitation Program and to provide for the infrastructure in support of the Sunset Lane Apartments affordable housing project on behalf of Mercy Housing California.

Housing Rehabilitation Program

POTENTIAL FOR CLIENT LOAN DEFAULT

Financing a revolving loan fund program presents the risk of client loan default impacting the County’s ability to revolve the funds to loan to new Housing Rehabilitation Program applicants. The County currently maintains a very low client default rate of 3% of the total amount of loan funds issued over the past sixteen (16) years. Four of the six defaults were

associated with the initial 1994 program implementation grant, and loan approval criteria has since been strengthened, decreasing the risk of future defaults.

Public Improvements in Support of Affordable Housing New Construction

POTENTIAL FOR PROJECT NOT BEING COMPLETED DURING GRANT TERM

The primary risk factor associated with any affordable housing development, is the potential for the project not being completed within the CDBG grant term. This could be due to unanticipated construction delays or a delay in securing the funds required for completion of the entire project. This risk is minimal for infrastructure improvement projects and is anticipated by the Department of Housing and Community Development, and extensions to grant terms may be requested to allow time for a project activity to be completed to achieve the community benefit described in the grant application.

Next Steps:

- Department of Human Services to proceed with the submittal of the Fiscal Year 2010-2011 Community Development Block Grant General Allocation Application to the California Department of Housing and Community Development.
- Upon receipt of the State Standard Agreement for the grant funding, if awarded, County Counsel and Risk Management approvals shall be obtained prior to the Department Director executing said Agreement.
- If grant funding is awarded, the Department of Human Services to proceed with the development of an agreement with Mercy Housing California for a deferred payment loan secured by a Deed of Trust. County Counsel and Risk Management approvals shall be obtained prior to executing the Agreement.