

**City of Visalia
Agenda Item Transmittal**

Meeting Date: February 16, 2010

Agenda Item Number (Assigned by City Clerk): 11

Agenda Item Wording: Approve 3rd Amendment to the 2006-07 Action Plan, 4th Amendment to the 2007-08 Action Plan, 5th Amendment to the 2008-09 Action Plan and 1st Amendment to the 2009-10 Action Plan redirecting federal Community Development Block Grant (CDBG) and federal HOME Investment Partnership funds and allocate Federal HOME Community Housing Development Organization (CHDO) funds to Community Services Employment Training, Inc (CSET) to acquire foreclosed single family dwellings, rehabilitate and resell to income qualifying families.

Deadline for Action: February 16, 2010

Submitting Department: Housing and Economic Development

Contact Name and Phone Number: Ricardo Noguera (4190); Rhonda Haynes (4460); Ruth Peña (4327); Nancy Renovato (4462)

Department Recommendation:

That the City Council approves:

- 1.) Amendments to Action Plan program years 2009/10, 2008/09, 2007/08, and 2006/07, to reflect the reduction of declining program income and redirect both federal funded CDBG and HOME funds due to the changing needs of the community. (see Appendix "A")
- 2.) Approve Community Services Employment Training, Inc (CSET) as a certified HOME funded Community Housing Development Organization (CHDO); and
- 3.) Authorization to execute a HOME funded Community Housing Development Organization (CHDO) Agreement between the City of Visalia and Community Services Employment Training, Inc. (CSET) for the use of HOME-CHDO funds in the amount of \$260,000 to acquire vacant, foreclosed properties within eligible targeted areas, rehabilitate and resell to income qualifying families; and
- 4.) Authorization to redirect \$24,000 of 2009/10 HOME funds from First Time Homebuyer (FTHB) Program to CSET as a HOME-CHDO, to utilize as eligible operating expenses; and
- 5.) Authorize the City Attorney to make any minor or technical revisions or corrections to the respective agreement

Summary/Background:

Each spring the City Council considers the adoption of an Action Plan which summarizes the proposed spending of federal Community Development Block Grant (CDBG) and HOME Investment Partnership Funds (HOME). Each September, the City prepares a Consolidated

For action by:

- City Council
- Redev. Agency Bd.
- Cap. Impr. Corp.
- VPFA

For placement on which agenda:

- Work Session
- Closed Session

Regular Session:

- Consent Calendar
- Regular Item
- Public Hearing

Est. Time (Min.):15

Review:

Dept. Head _____
(Initials & date required)

Finance _____
City Atty _____
(Initials & date required or N/A)

City Mgr _____
(Initials Required)

If report is being re-routed after revisions leave date of initials if no significant change has affected Finance or City Attorney Review.

Annual Performance and Evaluation Report (CAPER) which summarizes the last year's results from use of these two funding sources toward projects and programs benefiting low income families, low income areas, public improvements and economic development opportunities. Lastly, every five years the City is required to prepare a Consolidated Plan which provides projections for the proposed spending of the federal funds.

Each time the City alters its' plans or use of funding, it is required to complete an amendment to its Action Plan. In recent years, staff has been preparing amendments to Action Plans because anticipated program income is falling short of projections. Program Income represents funds received by the City through the sale of homes or loan payments made on mortgages funded. The recent significant decline in values of properties and reluctance to sell properties has resulted in the major decrease in program income. Additionally, demands for rehabilitation loans have declined while the need to fund park improvements, rehabilitation of mobile homes for seniors and support for neighborhood preservation/code enforcement services has caused for the amendments in action plans.

Summary of Proposed Actions

Action Plan Amendment: 2009/10- (1st)

In April 2009, staff presented the 2009/10 Action Plan to City Council and although a conservative approach was taken, some of the forecasts were a bit too optimistic, primarily with Program Income (derived from paid-off loans). As a result of the foreclosure crisis, and the inability for borrowers to pay-off loans, program Income has not met anticipated levels. Consequently, staff is recommending modifications be made to balance the 2009/10 Action Plan Budget due to such decline as follows with details addressed in Appendix "A":

- Eliminate the HOME funded Housing Rehabilitation Program
- Decrease the allocation to the HOME funded First Time Homebuyer Program (FTHB) by \$150,000; and
- Decrease CDBG funded Code Enforcement Program by \$33,750; and
- Decrease CDBG funded Oval Park Project by \$33,739; and
- Decrease CDBG Mobile Home Senior Handicapped Access Repair Program (Mobile SHARP) by \$5000 and
 - Increase grant from \$5,000 to \$7,000 per participant to address additional repairs; and
- Decrease CDBG funded Job creation by \$100,000.

Staff also recommends reducing the HOME-CHDO to correct the allocation and meet the minimum requirement, (15% set aside) decreasing from \$140,101 to \$84,600. Staff's previous recommendation included regular HOME funds in error. The decrease of \$55,501, Staff recommends it be redirected the CSET for operating expenses and also the HOME funded First Time Homebuyers (FTHB) Program. The recommendation is as follows with details addressed in Appendix "A":

- Redirect \$24,000 from 2009/10 HOME- CHDO to HOME-Operating expenses for CSET; and
- Redirect \$31,501 from 2009/10 HOME-CHDO to Home funded FTHB

Action Plan Amendments: 2008/2009- (5th), 2007/2008- (4th), 2006/2007- (3rd)

Emergency Repair and Basic Needs – Job Creation: The Program years 2006/07 through 2008/09, federal CDBG funds were directed to the Emergency Repair and Basic Needs (ERBN) Program. These funds were provided, as a second mortgage to existing homeowners so that they may address emergency, health and safety repairs. Whereas this program utilized up to

\$10,000 equity in a home, the downturn in the housing market reflected upon appraised values, therein eliminating equity, making the program lien mechanism monetarily unfeasible.

Staff's recommends that the funds set aside for the CDBG-ERBN program, be redirected to CDBG Job Creation which lost 2009/10 funding due to the loss in program income. This assists with fulfill the initial goal of job creation and our continued efforts toward economic development. The following budget modifications to fiscal years 2006/07 through 2008/09: Appendix "A" provides a detail of the recommendation, along with Table I

- Redirect a combined total of \$175,202 previously earmarked for the CDBG funded Emergency Repair and Basic Needs (ERBN) program to CDBG Job Creation.

CSET as a designated CHDO: Additionally, the HOME Investment Partnership Fund Program requires that fifteen (15%) of its annual allocation be set aside exclusively for housing that is owned, developed or sponsored by a 501 © non-profit, community-based service organizations, known as a HOME funded Community Housing Development Organization (CHDO), to develop affordable housing within our community. Currently, the City works with two certified HOME-CHDO's; Visalian's Interested in Affordable Housing and Self-Help Enterprises. Community Services Employment Training, Inc (CSET) has the capacity and shall be certified as one of three designated CHDO's, working with the City to develop affordable housing. Herein, Staff requests Council approval of their certification to begin working with the City of Visalia as a certified HOME-CHDO.

Staff is recommending that previous year HOME-CHDO set aside funds totaling \$260,000, be combined and directed to CSET as one of the City's designated CHDO's as a 501 © non profit agency, to acquire foreclosed single family dwellings, rehabilitate and re-sell to income qualifying families.

Of the \$260,000 CHDO set aside funds, no more than \$15,000 of the set aside funds, will be directed to pre-development costs as a loan to be repaid. All proceeds will be returned to the City to reinvest in additional properties. Staff recommends the following, with details addressed in Appendix "A":

- Redirect a combined total of \$260,000 from HOME-CHDO set aside funds (Program Years 2006, 2007, 2008, and portion of 2009) to CSET as a designated HOME-CHDO for a specific CHDO Project.

Prior Council/Board Actions: Adoption of the 2005/10 Consolidated Plan and adoption of the 2007-2008 Action Plan (May 07, 2008) and 1st & 2nd amendments (July 14, 2008 and September 15, 2008) and Action Plan 2008/2009 (April 21, 2008) and 1st, 2nd & 3rd Amendments (November 3, 2008- NSP funding, April 20, 2009 and June 1, 2009- CDBG-R funding)

Committee/Commission Review and Actions:

Alternatives: None recommended.

Attachments

Appendix "A" Details of Action Plan Amendments and CHDO Allocation
Exhibit "A", Targeted Area Map for use of CHDO funds
Exhibit "B", Agreement between City and CSET as a designated CHDO

Recommended Motion (and Alternative Motions if expected):

Move to approve

That the City Council approves:

1. Amendments to Action Plan program years 2009/10, 2008/09, 2007/08, and 2006/07, to reflect the reduction of declining program income and redirect both federal funded CDBG and HOME funds due to a reassessment of community needs. (see Appendix "A")
2. Approve Community Services Employment Training, Inc (CSET) as a certified HOME funded Community Housing Development Organization (CHDO); and
3. Authorization to execute a HOME funded Community Housing Development Organization (CHDO) Agreement between the City of Visalia and Community Services Employment Training, Inc. (CSET) for the use of HOME-CHDO funds in the amount of \$260,000 to acquire vacant, foreclosed properties within eligible targeted areas, rehabilitate and resell to income qualifying families; and
4. Authorization to redirect \$24,000 of 2009/10 HOME funds from First Time Homebuyer (FTHB) Program to CSET as a HOME-CHDO, to utilize as eligible operating expenses; and
5. Authorize the City Attorney to make any minor or technical revisions or corrections to the respective agreement

Environmental Assessment Status

CEQA Review: N/A

NEPA Review: to be completed

Tracking Information: *(Staff must list/include appropriate review, assessment, appointment and contract dates and other information that needs to be followed up on at a future date) Agreements with CSET as a CHDO*

Appendix “A”
Details of Action Plan Amendments and CHDO Allocation

Proposed Amendments & Re-allocations						
Table I						
Year	Funding	Program	Previous Allocated Amount	Allocation Adjustment	Amendment Revised Allocation	Use of Funds
09/10	HOME	Housing Rehab Program	250,000.00	(250,000.00)	0.00	Funds not available due to decreased Program Income. Budget revised based upon loans paid off and reimbursed to date.
09/10	HOME	First Time Homebuyer (FTHB)	517,500.00	(118,499.00)	399,001.00	Unallocate \$150,000 due to decreased Program Income + increased allocation \$31,501 from CHDO line item funds. This nets is a reduction of \$118,499 for FTHB.
09/10	HOME-CHDO	CHDO Program	140,101.00	(55,501.00)	84,600.00	Correct CHDO annual allocation to 15% requirement. Difference of \$55,501 to be reallocated: \$24,000 to CHDO as Operation Expense; \$31,501 to FTHB.
09/10	HOME	CHDO Operation Expense	0.00	24,000.00	24,000.00	Allocate \$24,000 from CHDO line item funds; Regular HOME funds for use by CSET- operating expenses as a new CHDO
09/10	CDBG	Job Creation	100,000.00	75,202.00	175,202.00	Unallocate \$100,000 due to decreased Program Income in 09/10 + Allocate \$175,202 from Emergency Repairs Program funding for 08/09, 07/08, 06/07.
09/10	CDBG	Oval Park	119,739.00	(33,739.00)	86,000.00	Unallocate \$33,739 due to decreased Program Income in 09/10.
09/10	CDBG	Code Enforcement	200,000.00	(33,750.00)	166,250.00	Unallocate \$33,750 due to decreased Program Income in 09/10.
09/10	CDBG	Mobile Home SHARP	95,000.00	(5,000.00)	90,000.00	Unallocate \$5,000 due to decreased Program Income in 09/10.
08/09	CDBG	Emergency Repairs Program	65,202.00	(65,202.00)	0.00	Emergency Repair Program funds totaling \$175,202 for 08/09, 07/08, 06/07 reallocated to Job Creation.
07/08	CDBG	Emergency Repairs Program	100,000.00	(100,000.00)	0.00	
06/07	CDBG	Emergency Repairs Program	10,000.00	(10,000.00)	0.00	

Program Income: Many of Staff’s recommendations are based upon the declining program income received. The definition of “program income” is the principle and interest received from City loan program funds paid in full.

The City utilizes both federal CDBG and HOME funds to owner occupied single family residents residing within the city limits, who meet HUD and City program requirements, specifically low to moderate income who are at or below 80% of the Annual Median Income (AMI) (i.e. family of 4 @ 80% of AMI = \$44,650). Upon a borrower paying off their loan, the principal and interest accrued is returned to the City as “program income”. The funds are then recycled to assist additional families. Specific programs with these features are the HOME- First Time Homebuyer (FTHB); HOME- Housing Rehabilitation Program and the CDBG- Emergency Repair and Basic Needs Program.

Program income has been declining since the foreclosure crises and market value of home reductions, causing many families to remain in their home, therein not refinancing or paying their loan in full.

Housing Rehabilitation Program: The Housing Rehabilitation Program is currently being administered by Self Help Enterprises (SHE). The program funding was allocated based upon HOME allocation and program income. Due to the decrease in program income the program has been eliminated for this program year to meet the annual budget. This program has not been successful due to the property value reductions as well.

First Time Homebuyer Program: The First Time Homebuyer Program is currently being administered by Community Services and Employment Training, Inc (CSET). They have been successful in providing up to \$40,000 second mortgages, at an interest rate of three percent (3%) for a thirty-year (30) term, to new homeowners. The recommendations herein are a reflection of decrease in projected program income for the program year. The allocation has been decreased to meet the annual budget.

CSET use of CHDO Funds:

The Agreement shall be effective through June 30, 2011, with three (3) one-year extensions thereafter declaring CSET as a designated HOME-CHDO to assist in activities of development of new or retention of affordable housing and declared to be eligible to apply for HOME-CHDO funds for use on City approved projects, programs or activities on a project-by-project basis and

CSET desires to work cooperatively with the City to acquire vacant, foreclosed, single family dwellings in areas earlier identified by the City through the NSP funding (attached map). CSET shall utilize \$260,000 from CHDO set aside previous years, as shown in *Table I*, to acquire, rehabilitate and re-sell a **minimum of two (2)** single family dwellings to income qualifying families.

Table I			
City CHDO Contribution /Disbursement			
CSET- CHDO			
<i>Funding:</i>	<i>Year Allocation from:</i>	<i>Amount</i>	<i>Use of funds</i>
HOME CHDO	portion of 2009	\$15,000.00	Pre-Development Loan (to be repaid)
HOME CHDO	portion of 2009	\$61,056.12	Toward Acquisition, Rehabilitation
HOME CHDO	2008	\$73,757.40	Toward Acquisition, Rehabilitation
HOME CHDO	2007	\$76,354.80	Toward Acquisition, Rehabilitation
HOME CHDO	2006 Remainder	\$33,831.68	Toward Acquisition, Rehabilitation
<i>Total CHDO Allocations</i>		\$260,000.00	
HOME Regular funds**	2009	\$24,000.00	For organizational operating expenses to support the project; disbursed in stages
**Allowed 5% of annual allocation of regular home funds toward operating expenses			

Additionally, from the HOME CHDO set aside allocated funds, \$15,000 shall be utilized as pre-development costs as a loan and disbursed in stages and upon the eligible pre-development costs associated with each transaction, such as site control, title clearance and upfront project expenditures. CSET shall work closely with a realtor to identify specific properties to make offers upon.

CSET proposes to rehabilitate the acquired properties, utilizing CSET's construction crew. CSET will provide the City with the labor and material costs for the rehabilitation of each property. An Affordability Covenant for twenty (20) years shall be placed upon the property to maintain affordability. The sales price shall be reflective of the costs of acquisition and rehabilitation, not including maintenance costs, and shall not exceed the fair market value as determined by an appraisal. The property shall be sold to an income qualifying family (80% of

the Visalia area median income or below). No additional HOME assistance will be applied to these properties as it relates to down payment assistance. Ultimately, the invested funds, including pre-development costs, shall be returned to the City upon CSET selling the home to an income and mortgage loan qualified family.

Uses of Funds:

HOME CHDO funds are derived from

- 1.) HOME CHDO funds, in the amount of \$260,000 shall be set aside for CSET as a designated CHDO. The funds shall specifically be utilized to:
 - a. Acquire vacant, foreclosed single family dwellings (\$245,000) (minimum of two (2) properties)
 - b. Pre Development Costs (\$15,000) provided as a loan to be repaid with proceeds from the sale of property.
- 2.) Operating Expenses not to exceed twenty-four thousand dollars (\$24,000)- (Note: Operating Expenses are not part of CHDO proceeds); and

The **pre development costs** shall be utilized as a “Site Control Loan” and is limited to initial feasibility studies, consulting fees, cost of preliminary financial applications; fees for architects, (if applicable), legal, engineering; site control expenses and title clearance costs and upfront project expenditures. These funds are to be repaid. Although a site control loan does not require environmental clearance, the City is requiring that when preparing an offer, that an environmental review be completed prior to the expenditure of the funds on a particular property. CSET and City will work closely to complete this process.

The City is electing to provide CSET with operating funds for reasonable and necessary costs for the operation of the CHDO. The City shall allow an initial \$24,000 for operating expenses as an upfront starting cost. **Operating expenses** are defined as reasonable and necessary costs for the operation of a CHDO. Such costs include salaries, wages, and other employee compensation and benefits; employee education, training, and travel; rent; utilities; communication costs; taxes; insurance; and equipment, materials and supplies to operate as a designated CHDO.

City staff has shared with CSET its transactions success and process in acquiring foreclosed properties, with the NSP Funding. The acquisition costs have ranged from \$55,000 to \$95,000. CSET shall acquire properties within this range, utilize CSET’s funding for the rehabilitation and resell the properties. Funds from the sale of the home will be returned to the City.

CHDO Agreement and loan contracts.

The City has incorporated the standard agreement between the City and Community Services and Employment Training, Inc. (CSET). CSET’s role as a designated CHDO shall be as a “Developer”. This allows CSET to own the property, rehabilitate the property, and then transfer the property and HOME covenant obligation to an eligible homebuyer within a specified timeframe of project completion. CSET will work with the City to complete and place an affordability covenant by recording a document upon the property for a minimum of twenty (20) years. The new owner(s) shall obtain a mortgage from a local lending institution with the funds then returning (recycling) to the City’s account for future transactions. CSET, as a designated CHDO agrees to provide all transaction documentation to the City, as well as qualifying buyer’s transaction documentation. CSET also agrees to require buyers to obtain a 30 year fixed rate mortgage and be “underwriter” qualified as well as other terms referenced in the agreement herein attached as (Exhibit “B”)

CHDO Project Management

Additionally, each individual property must be reviewed by City staff and the completion of an environmental review must be conducted prior to disbursement of funds. Once CSET identifies

a specific property, a secondary agreement will be created, identifying the specific property location, description of the project, specific use and amount requested of CHDO funds, total costs, milestones and other requirements under HUD's HOME CHDO Regulations.

Job Creation Within the 2009/10 Action Plan, Staff initially set aside \$100,000 to meet the objective in creating job opportunities, however, due to the loss in program income, leaving no funds from the 2009/10 budget available, Staff is recommending that the funds set aside for the CDBG-ERBN program, be redirected to CDBG Job Creation.

Emergency Repairs and Basic Needs (ERBN)- The Emergency Repair and Basic Needs (ERBN) program is currently being administered by Self-Help Enterprises. The program serves very low income families to address health and safety issues to their home. The program, formerly an amortized loan with two percent interest was modified in April 2009, to a deferred loan with no interest to make the program more attainable to families in need; however, due to declining property values many homeowners owe more than their property's value, making a second loan infeasible to underwrite. Once the economy improves, this program may be re-evaluated for funding.

Staff is recommending that funding from previous years totaling \$175,202 be combined and redirected to the CDBG-Job Creation.

Oval Park: In 2008, the City Council directed staff to work with the residents and businesses from both the Washington School and Oval Park neighborhoods in order to foster revitalization efforts. The following departments have actively participated in these efforts: Housing & Economic Development, Building, Police, and Engineering, Public Works, Fire and Community Development Departments.

City Council also provided staff with the direction to identify the needs of the Oval Park Area. In addition to leveraging CDBG funds in 2008, the City received a Cal Trans Grant to analyze the area as it relates to traffic, safety and lighting. Community meetings have been held at the Oval Park, obtaining community input, coordination with local non-profit agencies to utilize the existing building and create a more family friendly park.

Additionally, City Engineering in a coordinated effort with Southern California Edison will be repairing inoperable and new street lights in the Washington School area and specifically, repairing inoperable street lights (11) in the Lincoln Oval Park neighborhood by July 2009 to improve lighting conditions and address public safety concerns.

Within the 2009/10 Action Plan, Staff initially set aside \$119,739, however, with the declining program income, as stated throughout, Staff recommendation reduces the annual allocation by \$33,739, making this year's allocation \$86,000.

The City contributed \$60,000 in 2007/08 and an additional \$20,000 from an Amendment completed in July 2008 for which funds are derived from the 2007/08 program year funding. This brings the total allocated funds for the Oval Park Area improvements to \$166,000

Code Enforcement: In 2009/10 Action Plan, Staff initially allocated \$200,000 to CDBG- Code Enforcement; however, due to the decline in program income received, Staff's recommendation reduces the allocation by \$33,750 bringing the annual allocation to \$166,250.

Mobile Home Senior Handicapped Assistance Repair Program: The CDBG funded Mobile Home Senior Handicapped Assistance Repair program is currently being administered by Self-Help Enterprises. The program serves very low income families to address health and safety issues to their mobile home in the form of a grant, up to \$5,000. A majority of the grants are

utilized toward floor and roof repairs. This program continues to be successful, with the average grant provided being \$5,800. Although the program is very successful, due to the decreased program income, Staff recommends reducing the annual allocation from \$95,000 to \$90,000, a reduction of \$5,000.

Additionally, Staff is recommending that the grant be increased to \$7,000 to accommodate the increased cost of materials, labor and address additional repairs needed.

Exhibit "A", Area Map for use of CHDO funds

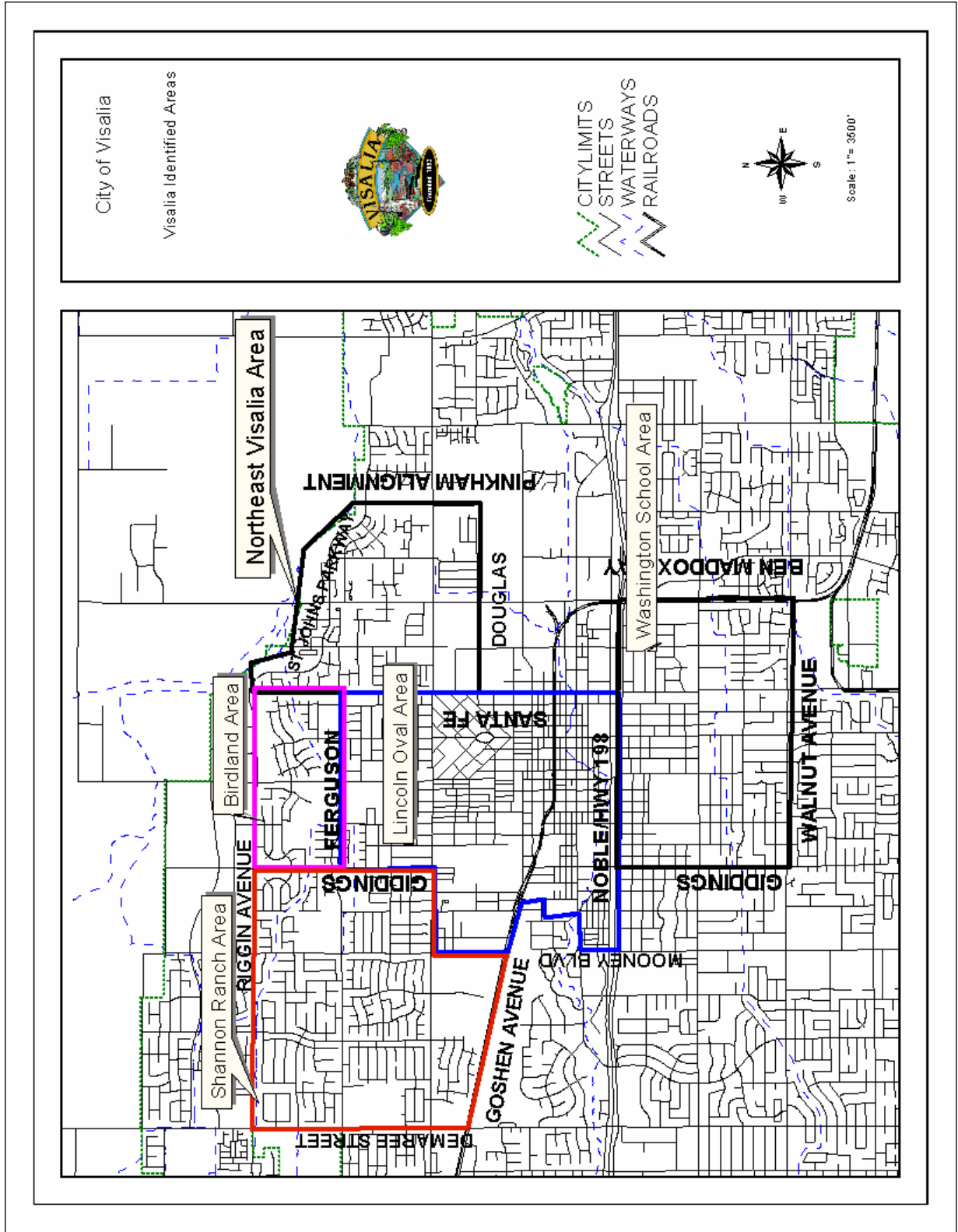


Exhibit "B"
CHDO Agreement