



SUMMARY REPORT

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**Agenda Date:** 6/10/2024

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**To:** Board of Supervisors of Sonoma County and Board of Commissioners of the Community Development Commission

**Department or Agency Name(s):** Community Development Commission

**Staff Name and Phone Number:** Michelle Whitman, (707) 565-7504

**Vote Requirement:** 4/5th

**Supervisorial District(s):** Countywide

**Title:**

George's Hideaway - Approval of Disposition and Development Agreement and Transfer and Amendment of the Affordable Housing Assistance Payments Contract to West County Community Services

**Recommended Action:**

- A) Adopt a Resolution authorizing the Sonoma County Community Development Commission to enter into a Disposition and Development Agreement with West County Community Services for the transfer and development of George's Hideaway.
- B) Adopt a Resolution adjusting the Fiscal Year 2023-24 budget for an additional fund balance of \$579,584 in Homekey funding, expense and revenue appropriations of \$4,200,000 of Measure O and \$955,000 of United States Treasury Emergency Rental Assistance Program (ERA 2) to be used for George's Hideaway capital expenditures, and appropriation of \$500,000 in ERA 2 to be placed in insurance reserve account with the Sonoma County Community Development Commission.
- C) Authorize the Executive Director of the Sonoma County Community Development Commission to execute the Disposition and Development Agreement and all related documents necessary to effectuate the transfer and development of the George's Hideaway.
- D) Authorize the Executive Director of the Sonoma County Community Development Commission to transfer and amend the Affordable Housing Assistance Payments Contract (AHAP) to be between the Sonoma County Housing Authority and West County Community Services in order to receive Project Based Voucher monthly housing assistance from the U. S. Department of Housing and Urban Development (HUD).
- E) Authorize the Executive Director to file Notices of Exemption in compliance with the California Environmental Quality Act.

**Executive Summary:**

This Board item requests approval for the Executive Director of the Sonoma County Community Development Commission (CDC) to enter into a Disposition and Development Agreement (DDA) with West County Community Services (West County) for the transfer and development of the property known as the George's Hideaway, located at 18100 Highway 116, Guerneville, CA 95446 (the "Property"). The development consists of converting the property to a 21-unit permanent supportive housing (PSH) development (the "Project").

The CDC and West County (Parties) have structured a funding plan to accomplish the proposed conversion to permanent supportive housing. The total development budget, not including acquisition, is \$12,129,518, of

which \$10,454,518 is construction costs. The balance is soft costs such as architectural oversight, administration, and developer fee.

In addition to the \$5,209,584 in Homekey funding awarded to the project for capital costs, the CDC, through the DDA, will provide \$955,000 in ERA-2 funding, \$1,400,000 in Measure O funds previously allocated by CDC, \$2,800,000 of Measure O funds allocated by the Sonoma County Department of Health Services, and an additional \$500,000 in ERA 2 to be placed in an insurance reserve account with the Sonoma County Community Development Commission. Except for the insurance reserve, these funds will be used by West County to pay for the proposed construction and some of the remaining necessary soft costs during construction, such as architectural and engineering inspections.

Additional funding for the development of the project has been secured by both Parties which is not being transferred through the DDA and therefore shows up in the development budget but not in the Fiscal Summary below. The additional funding includes \$370,000 in Measure O funding appropriated to CDC in Fiscal Year (FY) 21-22 and already spent on predevelopment, \$700,000 of Permanent Local Housing Allocation (PLHA) Awarded to West County through the regular annual PLHA funding cycle in FY 23-24, and \$694,934 in Community Development Block Grant CV funds awarded to West County during the FY 23-24 Federal funding cycle for capital costs for the navigation center.

The DDA describes the process through which the property will be transferred to the developer, the source and terms of financing provided by the CDC for capital improvements, the overall financial plan for the project, the development process and schedule, and the affordability covenants that will be required for the project.

Once transfer and development is complete, West County will own and operate the project using operational funding from multiple sources, including \$1.1 million in Homekey operational funding and project-based vouchers (PBV) secured by the CDC that will be transferred to West County through an amendment to the Affordable Housing Assistance Payments Contract after close of escrow. PBV will provide over \$1,700 per month per occupied unit for a 20-year term, plus a 20-year term extension. Additionally, CDC will maintain an insurance reserve account of \$500,000 that West County will be able to utilize until December 31, 2038 to cover increases in fire and property insurance policy premiums that exceed their annual budgeted amount of \$50,000. If the insurance reserve account balance is exhausted prior to December 31, 2038, the title to the Property will automatically revert to CDC, which will become responsible for maintaining and operating the Project in compliance with the Homekey requirements.

**Discussion:**

**Background**

Pursuant to Board action on October 26, 2021, CDC staff submitted a joint application with West County and County of Sonoma as co-applicants to the California State Department of Housing and Community Development (HCD) for \$6,300,784 in grant funds from Project Homekey 2 (Homekey) to acquire, develop, and operate a 21-unit project at George's Hideaway in Guerneville, California. West County was authorized as the co-applicant for the HCD Homekey grant and as the supportive service provider for the Project. The Project will provide permanent supportive housing to formerly homeless and chronically homeless individuals.

In March 2022, HCD informed CDC staff that the Homekey Program was oversubscribed, and George's Hideaway was not approved in the initial screening of applications. The CDC had entered into a Purchase and Sale Agreement with the seller of the Property with a 60-day due diligence period that was set to expire in early April 2022. Rather than lose the right to purchase the property, on April 5, 2022, the Board authorized the use of \$270,000 from the County's Homeless Housing, Assistance and Prevention (HHAP-2) funds and \$715,000 from Reinvestment and Revitalization funds to purchase the Property for \$849,000, plus other closing costs for a total acquisition cost of \$985,000.

In June 2022, CDC staff were notified that some projects, including George's Hideaway, that had originally been unsuccessful in receiving a funding award, were being considered for a supplemental round of funding. On July 28, 2022, HCD sent a Letter of Award to the CDC for \$6,300,784 in Homekey funding for the acquisition, renovation/conversion, and operation of George's Hideaway for permanent supportive housing.

On July 22, 2022, the CDC issued a Request for Qualifications (RFQ) and Proposals for the rehabilitation, construction, long-term management and/or ownership of three Homekey sites currently owned by the CDC. The CDC received only one response to the RFQ - a joint proposal from Burbank Housing Development Corporation and West County for both George's Hideaway and Elderberry Commons, two of the three CDC-owned Homekey projects.

On April 26, 2023, the CDC entered into an exclusive right to negotiate with West County, establishing the terms of the DDA. The DDA and all attachments were prepared by CDC staff and Sonoma County Counsel. CDC and West County met on multiple occasions to review and negotiate the terms of the DDA. In an effort to support West County, CDC has agreed to defend, hold harmless, and indemnify West County for all claims relating to construction cost overruns and hazardous materials contamination on the Property. In order to reduce liability relating to CDC's indemnification of West County, the CDC will have complete oversight of the Project from commencement to completion, CDC will attend monthly progress meetings with West County, the contractor, and appropriate consultants and design professionals. CDC staff will conduct bi-monthly site visits to visually inspect work progress. West County must submit funding approval requests for CDC approval of all expenditures of project funds. West County shall submit any proposed change orders, design changes, or budget changes to CDC for review and approval. These budgetary control and oversight measures will help reduce additional expenses relating to construction cost overruns.

CDC will maintain an insurance reserve account of \$500,000 that will be available to West County until December 31, 2038 to cover increases in fire, lightning, and extended property coverage premiums that exceed West County's \$50,000 annual budget for this type of insurance. If the insurance reserve account balance is exhausted prior to December 31, 2038, the title to the Property will revert to CDC and CDC would release West County from its remaining obligations under the DDA and attachments. CDC would then become responsible for all maintenance, insurance, and operations of the Project in compliance with the Homekey requirements through the remainder of the 15-year term of the HCD Standard Agreement. West County and CDC have come to a complete understanding and mutual agreement to the terms and conditions included in the DDA and attachments included with this report.

The scope of development for George's Hideaway includes the following components.

- Conduct extensive site improvements including utility connections, site paving, grading, foundations, and landscaping.
- Reconstruct the existing lodge building into a navigation center with offices and supportive services space on the ground floor and 9 permanent supportive housing units on the second floor.
- Create 13 additional units on the site for a total of 21 permanent supportive housing units and a resident manager's unit.

The CDC has been working with Praxis Architects to complete the entitlement, design and permitting process for conversion to PSH and a navigation center. To allow for the conversion and support the intended use, the Property must be connected to the Russian River County Sanitation District (RRCSD) sewage disposal system. To allow connection to the RRCSD system the Property must be annexed into the RRCSD through a Local Agency Formation Commission (LAFCO) petition process. The application for the sewer connection was approved by Permit Sonoma and Sonoma Water on May 14, 2024. LAFCO will review for annexation and can begin with annexation approval anticipated in late summer or early fall of 2024. Per the HCD Homekey Standard Agreement Milestones, the property must be ready for occupancy by July 2025.

Due to the tight timeline for the Project to achieve occupancy and the rigorous and lengthy annexation process, the building permits may be issued in advance of LAFCO approval. The Planning division at Permit Sonoma has approved the project, grading and drainage permits were issued in late May 2024, with building permits expected by July 2024. CDC plans to transfer the Property to West County in July 2024, with grading and drainage permits issued to allow for commencement of site improvements. After the transfer and during construction, CDC and West County will work together in obtaining LAFCO approval of the annexation of Property into the RRCSD.

West County will provide development and construction services to complete conversion of the property to PSH. Through the DDA, the CDC is providing up to \$955,000 in ERA 2, \$4,200,000 in Measure O and \$5,209,584 in Homekey funds previously allocated to the proposed PSH Project for capital improvements associated with the conversion of the Property to PSH and the construction of the nonresidential navigation center. The CDC will also provide a \$500,000 fire and property insurance reserve account from ERA-2 funds, for insurance premiums that exceed West County annual budgeted insurance premium amounts of \$50,000.

Capital improvements include the reconstruction of the existing lodge into a navigation center with staff offices, laundry facilities, and a mailroom on the first-floor commercial space. The second floor will be reconstructed to provide 9 residential units of PSH. The 13 new units located behind the navigation center are to be two-story structures. They will be dispersed around a central communal courtyard shared open space. The intent is to provide entry access to the units from the courtyard at both levels via covered walkways on the first floor and second floor. On the first floor there will be at least 3 ADA compliant PSH units accessible to mobility impaired individuals. 3 units (first or second floor) will be accessible to hearing or visually impaired individuals, and all PSH units will be available to persons with chronic mental illness. Additionally, the manager's unit is accessible to mobility impaired individuals. All PSH units will have kitchenettes, bathrooms, and fire sprinklers. Associated infrastructure will include asphalt parking areas, concrete walkways, a courtyard, a catchment wall, and landscaping.

Placement of qualifying individuals and households will be through the Coordinated Entry System managed by

West County. Qualifying individuals and households include those with physical or mental illness, experiencing, or at risk of homelessness with household incomes of no more than 30% of the Area Median Income (AMI).

On May 15, 2023, the CDC received a commitment from the Sonoma County Housing Authority (Housing Authority) for twenty-one (21) Project-Based Vouchers (PBV) for a 20-year term, with a renewal contract option for an additional 20 years. In order to secure the PBV subsidy, the Housing Authority needs to execute an Affordable Housing Assistance Payments (AHAP) contract with the CDC, the current property owner. It is anticipated that the property transfer will occur after this AHAP agreement is executed and therefore it will need to be transferred to West County, as the new owner, for the long-term operation of the property.

**California Environmental Quality Act (CEQA)**

The conversion of the property to a permanent supportive housing project is exempt from CEQA pursuant to Health & Safety Code Section and 50675.1.4 because it involves activities funded by the Homekey program (and meets all statutory requirements for that exemption) and 14 CCR Section 15301 Class -1 Existing Facilities which provides for minor alteration of existing public or private structures, facilities, mechanical equipment, or topographical features. The transfer of ownership of the property is also exempt pursuant to the “common sense exemption” of CEQA Guidelines Section 15061 (b)(3), which provides that CEQA applies only to projects that have potential for causing a significant effect on the environment. The proposed transfer of ownership to West County Community Services will not have any effect on the environment.

**Strategic Plan:**

This item directly supports the County’s Five-year Strategic Plan and is aligned with the following pillar, goal, and objective.

**Pillar:** Healthy and Safe Communities

**Goal:** Goal 3: In collaboration with cities, increase affordable housing development near public transportation and easy access to services.

**Objective:** Objective 2: Identify and leverage grant funding sources for permanent supportive and affordable housing development.

**Racial Equity:**

**Was this item identified as an opportunity to apply the Racial Equity Toolkit?**

No

**Prior Board Actions:**

August 18, 2020: Project Homekey-1

October 26, 2021: Project Homekey-2

March 22, 2022: Update on Homekey-2 and Allocation of Early Capital Match

April 5, 2022: Approval to Purchase George’s Hideaway

March 7, 2023: Approval of an Exclusive Right to Negotiate Agreement with West County

August 15, 2023: Approval of \$1.4 million in Measure O funds for Georges Hideaway PSH Capital

**FISCAL SUMMARY**

<b>Expenditures</b>	<b>FY23-24 Adopted</b>	<b>FY24-25 Projected</b>	<b>FY25-26 Projected</b>
Budgeted Expenses	\$4,630,000		
Additional Appropriation Requested	\$6,234,584		
<b>Total Expenditures</b>	<b>\$10,864,580</b>		
<b>Funding Sources</b>			
Use of Fund Balance Homekey-2 Funds	\$5,209,584		
Emergency Rental Assistance Program (ERA-2)	\$1,455,000		
Measure O	\$4,200,000		
<b>Total Sources</b>	<b>\$10,864,580</b>		

**Narrative Explanation of Fiscal Impacts:**

\$4,630,000 in Homekey expenditures are included in the FY2023-24 Budget. Additional fund balance of \$579,584 (Homekey) is being requested. Additionally, expense and revenue appropriations of \$1,455,000 (Emergency Rental Assistance; including a \$500,000 transfer to be held for insurance premiums) and \$4,200,000 (Measure O) are being requested.

<b>Staffing Impacts:</b>			
<b>Position Title (Payroll Classification)</b>	<b>Monthly Salary Range (A-I Step)</b>	<b>Additions (Number)</b>	<b>Deletions (Number)</b>

**Narrative Explanation of Staffing Impacts (If Required):**

No staffing impacts will be realized as a result of this project.

**Attachments:**

- Attachment 1: Resolution - DDA
- Attachment 2: Resolution - Budget Adjustment
- Attachment 3: Georges Hideaway DDA

**Related Items "On File" with the Clerk of the Board:**

- DDA Attachments
- AHAP Contract
- Standard Agreement 22-HK-17484