



COUNTY OF SONOMA

575 ADMINISTRATION
DRIVE, ROOM 102A
SANTA ROSA, CA 95403

SUMMARY REPORT

Agenda Date: 8/30/2022

To: Board of Supervisors

Department or Agency Name(s): County Administrator's Office

Staff Name and Phone Number: Nour Maxwell, 707 565 1743

Vote Requirement: Majority

Supervisorial District(s): Countywide

Title:

Approval of First RED Housing Fund (RHF) Annual Report

Recommended Action:

- A) Accept RED Housing Fund (RHF), a California nonprofit public benefit corporation, Annual Report and associated audited financial statements as required by the \$10 million loan agreement with the County.
- B) Approve RHF Annual Report which is required by the loan agreement, as the condition from which the County can issue Year 1 Statement of Partial Loan Forgiveness, representing 5% of the original loan amount or \$500,000.

Executive Summary:

On September 14, 2021, your Board authorized the County Administrator, in consultation with County Counsel, to execute a loan agreement and any related documents for the County's \$10 million loan to the RED Housing Fund ("RHF"). The loan agreement (Attachment A) provides that the loan is forgivable over a 20-year period, with 5% being eligible for forgiveness each year provided that RHF is in compliance with the loan agreement. Section 8 of the loan agreement states that the Board of Supervisors' review and approval of each Annual Report is a condition precedent to requesting forgiveness of the loan each year. Review is intended to verify that County loaned funds be solely used for providing financing, credit enhancement, and/or guarantees to support development of housing projects that meet RED investment criteria.

On June 23, 2022, RHF timely submitted its Annual Report (Attachment B) for its first fiscal year ending December 31, 2021. Due to the organization's infancy, RHF's first fiscal year - January 1, 2021, through December 31, 2021, period does not include loans in its portfolio. However, RHF issued a first Notice of Funding Availability ("NOFA") on December 21, 2021.

The Auditor-Controller-Treasurer-Tax Collector's Office has reviewed the Annual Report for fiscal year ending December 31, 2021 and determined that it demonstrates compliance with Section 6 of the loan agreement. Although no housing project loans have been issued from RHF, the CAO and ACTTC staffs conclude RHF's Annual Report is compliant with the loan agreement forgiveness terms and recommend approval to issue Year 1 Statement of Partial loan forgiveness in the amount of \$500,000.

Discussion:

Section 8 of the loan agreement requires RHF to provide an annual report to the Board within 180 days

following the close of RHF's first fiscal year. Section 8 of the loan agreement assumed that date would be June 30, 2021, but RHF's first fiscal year ended December 31, 2021. The specific date of RHF's fiscal year end is not material to the loan agreement and does not change any of the rights and obligations of the parties under the loan agreement. Accordingly, on June 23, 2022, RHF timely submitted its first Annual Report for its first fiscal year ending December 31, 2021, in conformity with the requirement of Section 8.

RHF's Annual Report includes key updates, including a pipeline and portfolio update, and a statement of financial position. It describes activities taking place prior and during the reporting period.

By the close of the Reporting Period, RHF had secured its initial capital target and established the governance and operational structure required to support its lending program. Regarding the portfolio and pipeline update, RHF did not have a portfolio of projects as of the close of the 2021 fiscal year.

Responses to the NOFA were due January 31, 2022. Shortly thereafter, RHF began a close review of the ten applications received from a mix of both affordable and market-rate developers. Across the ten applications received by RHF, over \$32 million in financing was requested to support the development of 830 units. RHF decided to offer preliminary term sheets to six projects (four affordable projects and two market-rate projects) by the close of Q1 2022. RHF anticipates its first loans closing in the second and third quarters of FY 2022.

The Report reiterates that RHF intends to support projects that meet the RED Housing Fund threshold criteria spelled out in Exhibit D of the loan agreement, which includes geographic location, affordability criteria, limits up to 15% of the loan proceeds to finance projects' soft costs, and not provide units for short term rentals. Given that the loan agreement was not effective until November 4, 2021, it is reasonable RHF is not reporting projects loans.

In addition, each future RHF Annual Report will include:

- The number of affordable units financed or otherwise assisted in the reporting year
- The aggregate number of affordable units financed or otherwise assisted to date, and
- The number of those units actually built or under construction to date.

The Auditor-Controller-Treasurer-Tax Collector's Office has reviewed the Annual Report for fiscal year ending December 31, 2021 and determined that it demonstrates compliance with Section 6 of the loan agreement, which describes permissible uses of the County loaned funds. In addition to the Annual Report, RHF also submitted their Statements and Independent Auditor Report, for the period from July 7, 2021 (commencement of operations) through December 31, 2021 (Attachment C). As a newly formed start-up organization, RHF had minimal revenue and expenses, and by the close the Reporting Period, RHF had just issued its first NOFA and commenced its lending program.

The loan agreement provides that the County's loan to RHF is forgivable over a 20-year period, with 5% (\$500,000) forgiven annually provided that your Board approves its Annual Report. The Board of Supervisors review and approval of the RHF Annual Report is a condition for requesting the annual forgiveness of the County's loan. RHF is required to request forgiveness at least 60 days in advance of the first anniversary of the effective date (by 9/4/22 for the 11/4/22 first anniversary of the effective date). Five percent of the original amount of the loan, i.e., \$500,000 shall be forgiven commencing on the first anniversary of the effective date, and on each anniversary thereafter during the term of the loan provided that all requirements and conditions

are met.

Next Steps:

Once the Board of Supervisors reviews and approves the RHF Annual Report, RHF will request loan forgiveness and the County will provide the Statement of Partial Loan Forgiveness, not earlier than the anniversary date, (see Attachment D, which provides the template documented as Exhibit B of the Loan agreement).

Strategic Plan:

N/A

Prior Board Actions:

9/14/2021: The Board voted to authorize the County Administrator, in consultation with County Counsel, to execute a loan agreement and any related documents for the County's \$10 million loan financed from the PG&E Settlement fund to the RED Housing Fund.

FISCAL SUMMARY

Narrative Explanation of Fiscal Impacts:

\$500,000 of the PG&E Settlement Fund will not be replaced given the County forgiveness terms being met by the RHF Annual Report.

Narrative Explanation of Staffing Impacts (If Required):

N/A

Attachments:

Attachment A: County and RED Housing Fund Loan Agreement

Attachment B: RED Housing Fund First Annual Report

Attachment C: RED Housing Fund Financial Statements

Attachment D: Exhibit B of the Loan Agreement: Statement of Partial Loan Forgiveness

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

None