



SONOMA COUNTY

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

Legislation Details (With Text)

File #: 2021-0796
Type: Consent Calendar Item **Status:** Agenda Ready
File created: 7/21/2021 **In control:** Board of Supervisors
On agenda: 9/14/2021 **Final action:**
Title: RED Housing Fund
Sponsors: County Administrator, County Counsel
Indexes:
Attachments: 1. Summary Report, 2. Attachment A: RED County Loan Agreement, 3. Attachment B: RED Project Criteria, 4. Attachment C: Budget Resolution

Date	Ver.	Action By	Action	Result
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To: Board of Supervisors

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

Staff Name and Phone Number: Nour Maxwell (707) 565-1743, Christa Shaw, (707) 565-2421

Vote Requirement: Majority

Supervisory District(s): Countywide

Title:

RED Housing Fund

Recommended Action:

- Approve clarifications regarding (1) the geographic areas where funds from the County's \$10 million loan to the RED Housing Fund may be used to support housing projects, and (2) allowing a limited amount of County loan funds to be used to pay for soft costs for market rate housing projects.
- 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 to the RED Housing Fund.
- Adopt a resolution authorizing adjustments to the Adopted Budget for Fiscal Year 2021-2022 to enable the issuance of a loan in the amount of \$10,000,000 to the RED Housing Fund to support development of housing within Sonoma County.
- Appoint Amanda Ruch as County representative to the RED Housing Fund Board of Directors.
- Recommend that Sup. Chris Coursey be appointed as advisor to the RED Housing Fund Board of Directors.

Executive Summary:

On October 6, 2020, the Board of Supervisors preliminarily allocated \$10 million from PG&E settlement funds to a housing fund to be formed by the Renewal Enterprise District (RED). The Board's commitment was contingent on the City of Santa Rosa making an equal commitment to fund housing development through the RED. On February 19, 2021, the Santa Rosa City Council preliminarily approved allocation of \$10 million from its PG&E settlement funds for a loan to a RED housing fund.

On May 11, 2021, your board received an update and information about the proposed RED housing fund. The

RED proposed formation of a new, independent entity, the RED Housing Fund, to administer a financing program for new housing development projects that meet the RED Project Criteria adopted by the RED's Board of Directors. The RED Housing Fund would be seeded with the County's and City's respective \$10 million contributions, with the intent that those initial public sector contributions will attract other private and public investment. In the May 11, 2021 meeting, your board gave direction on key aspects of the term sheet and authorized the County Administrator, in consultation with County Counsel, to:

- A) Execute a nonbinding term sheet that reflects the Board's direction to staff and that will form the basis of the future, binding funding agreement and related documents.
- B) Execute a loan agreement and other related documents for the \$10 million loan to the RED Housing Fund.

This item requests Board approval of clarification regarding the geographic considerations enumerated in the term sheet and use of County loan funds to finance soft costs of market rate housing projects. This item also seeks authorization to execute the negotiated loan agreement with the RED Housing Fund, authorization to issue the loan to the RED Housing Fund, and approval of the appointment of Assistant Auditor-Controller Treasurer-Tax Collector Amanda Ruch as the County's representative on the RED Housing Fund Board of Directors. This item recommends the appointment of Supervisor Chris Coursey as advisor to the RED Housing Fund Board of Directors.

Discussion:

Background. Litigation by the Sonoma County Board of Supervisors against Pacific Gas & Electric to recover damages related to the 2017 Sonoma Complex Fires (2017 Fires) resulted in a settlement allocation of \$149.3 million to the County. On October 6, 2020, your Board preliminarily allocated \$10 million of this amount towards housing through a fund to be established by the Renewable Enterprise District, contingent on an equal commitment by the City of Santa Rosa. The Santa Rosa City Council approved a \$10 million loan from its PG&E settlement funds to a RED housing fund in March 2021. On May 11, 2021, your Board reviewed and provided direction to staff on a draft term sheet for the County's loan to the RED Housing Fund.

Since your Board's May 11 meeting, staff has been engaged in discussions with RED staff and the RED's consultant Forsyth Street Advisors, in coordination with City of Santa Rosa staff, regarding the terms of the County's contribution and the formation of the RED Housing Fund.

Term Sheet. On May 11, your Board reviewed and discussed a preliminary draft term sheet and authorized the County Administrator, in consultation with County Counsel, to finalize a non-binding term sheet reflecting direction given by the Board, and to negotiate and execute a binding funding agreement and related documents based on the term sheet.

As directed, staff and the RED and its consultants finalized negotiations on the term sheet to reflect the Board's May 11 direction. Because the RED Housing Fund's loans are envisioned to be typically short-term in nature (for example, as provided in the Forsyth Street presentation on May 11, subordinate construction loans for market-rate projects would have a term up to five years) and might be repaid before a project is occupied, to carry out the Board's intent, the term sheet was modified to provide that short term rentals will not be permitted in projects funded with County loan proceeds for five years following the date of initial occupancy.

RED request for clarification of the geographic limitations on use of County loan funds. Prior to finalizing and

executing the loan agreement, staff and the RED request that your Board clarify that County loan proceeds may be used for any project that conforms to the adopted RED Project Criteria and complies with other requirements specified in the loan agreement. As discussed above, your Board's May 11 direction to staff limited the geographic scope for projects funded by the County loan to Specific Plan Areas and Priority Development Areas (PDAs) in the unincorporated county, and to incorporated areas of the City of Santa Rosa.

The term sheet provided that projects eligible for funding must meet the RED Project Criteria adopted by the RED's Board of Directors. (Attachment B) To qualify as a RED Project, a housing project must meet all of the following "threshold" criteria:

1. The project must be located on an infill site, as defined;
2. The project must provide mid- to high-density development, as defined;
3. The project must be located entirely within a Transit Priority Area, Priority Development Area, Rural Community Investment Area, Specific Plan Area, High-Quality Transit Corridor, or Qualified Opportunity Zone, all as defined; and
4. The project must be residential or mixed use residential, as defined.

Projects that meet the threshold criteria will then be evaluated by the RED based on the project's incorporation of one or more "evaluation" criteria, such as inclusion of on-site affordable or workforce housing units, off-site construction of affordable or workforce units, mixed-door design, location within a disadvantaged community, and water or energy efficiency features that exceed otherwise applicable requirements.

For unincorporated area projects, your Board's May 11 direction, which was limited to Specific Plan Areas and PDAs in the unincorporated area and the City of Santa Rosa, was somewhat narrower than what would otherwise be allowed under the threshold RED Project Criteria enumerated above, but several of the areas identified in the Project Criteria do not apply in the unincorporated area outside a PDA or Specific Plan Area at this time. Additional cities in Sonoma County may join the Renewal Enterprise District (RED) in the future, and at that time the RED's board of directors would likely amend the RED Project Criteria (Attachment B) to allow for projects in those cities to qualify.

Staff and the RED request that your Board approve the clarification that County loan funds may be used for any project that conforms to the RED Project Criteria. This recommendation is reflected in Exhibit D to the draft loan agreement. (Attachment A) Should your Board provide different direction, the loan agreement will be revised accordingly.

RED Housing Fund request for limited use of County loan funds for soft costs of market-rate projects. In the May 11 meeting, your Board generally accepted the recommendations outlined in the summary report, except where it provided the specific policy direction outlined above. One recommendation was to limit use of County loan funds to construction costs for market rate projects, particularly if the RED Housing Fund may provide financing to projects that have not received major pre-development approvals (i.e., rezoning, use permits, subdivision maps, development agreement), but to allow for financing of soft costs (such as permit fees and fees for services, including project management, architecture, engineering, accounting, appraisal, and legal) for affordable projects because such financing could make a critical difference in getting affordable

projects built. The RED and RED Housing Fund consultant Forsyth Street requested to use up to \$1.5 million of the County loan (15% of the \$10 million loan), total over the 20-year term of the loan, to pay for soft costs of any project that does not include affordable units. The RED Housing Fund consultant Forsyth Street noted that because County loan funds will be used on a revolving basis, a total of \$1.5 million for soft costs of market rate projects may be smaller than 15% in comparison to the total project loans funded by the County's loan.

The RED Housing Fund requests that your Board approve inclusion in the loan agreement of a provision allowing up to 15% (\$1.5 million) of the County's loan, over the 20-year term of the County's loan, to be used to pay for soft costs for any project that does not include affordable units. The Santa Rosa City Council approved a similar provision for the City's term sheet. This recommendation is reflected in Exhibit D to the draft loan agreement. (Attachment A) Should your Board provide different direction, the loan agreement will be revised accordingly prior to execution.

Draft loan agreement. A draft loan agreement (Attachment A) for the \$10 million loan to the RED Housing Fund has been prepared to reflect the final term sheet, including your Board's May 11 direction, and reflecting the two issues outlined above: that all projects that meet the RED Project Criteria are eligible for County loan funds and that up to 15% (\$1.5 million) of the County loan may be used to finance soft costs of projects that do not include affordable units. Staff requests that your Board authorize the County Administrator, in consultation with County Counsel, to finalize negotiations and execute a final loan agreement that substantially conforms to the attachment, incorporating any revisions that may be directed by your Board.

Appointment of Amanda Ruch as County representative on the RED Housing Fund Board of Directors. The RED Housing Fund was created on July 7, 2021, when articles of incorporation were filed with the California Secretary of State to form the RED Housing Fund as a nonprofit public benefit corporation. The newly formed RED Housing Fund is a distinct and independent entity from the Renewal Enterprise District. The Housing Fund is governed by a board of directors that ultimately will have seven voting members, as follows:

- One director appointed by the County of Sonoma;
- One director appointed by the City of Santa Rosa;
- One director appointed by the Renewal Enterprise District;
- Four independent directors recommended by the RED Housing Fund board and appointed by counsel.

Currently there are three members of the Housing Fund board: two independent directors, Veronica Ferguson and Todd Sheffield, and the RED's appointee Michelle Whitman. The City of Santa Rosa is soliciting applications for its appointed director seat. The RED recently conducted a public application process to recruit and select two additional independent directors. The County and City appointees to the RED Housing Fund board may not be members of the Board of Supervisors or City Council, respectively. The initial term of office is four years, and persons appointed are limited to two consecutive terms or eight consecutive years of service. Your Board may replace its appointee director at any time.

Staff recommends that your Board appoint Amanda Ruch as the County's appointed representative on the RED Housing Fund Board of Directors. Amanda Ruch, Assistant Auditor-Controller-Treasurer-Tax Collector at the County of Sonoma, is a Certified Public Accountant with 18 years of experience in accounting, financial reporting and auditing, including 10 years working for the County.

Recommendation that Chris Coursey be appointed as Advisor to the RED Housing Fund board. Under its bylaws, the RED Housing Fund board may select non-voting advisors to provide advice to the Housing Fund board. Like voting members, advisors would have the ability to contribute to discussion, voice opinions and indicate their support for business and credit decisions. However, advisors would not have a vote on any matters before the RED Housing Fund board. Once appointed, an advisor could be removed at any time by a majority vote of the RED Housing Fund board members.

In its August 23, 2021 meeting, the RED's Board of Directors agreed to recommend that the RED Housing Fund board appoint two advisors-one from the County Board of Supervisors and one from the City Council, and likely members of the RED Board-to serve as advisors to the RED Housing Fund board. Staff recommends that your Board take a similar action and recommend that the RED Housing Fund board appoint Chris Coursey as advisor.

Next Steps

With the County and City's joint \$20 million loan commitment, the RED will continue working towards developing a Housing Fund that would pool financial resources to address funding gaps in infill housing.

Prior Board Actions:

10/6/2020: The Board of Supervisors voted to provide a \$10 million loan as seed capital to a housing fund to be established by the Renewal Enterprise District, on the condition that City of Santa Rosa matches the investment.

5/11/2021: The Board of Supervisors voted to authorize the County Administrator, in consultation with County Counsel, to execute a non-binding term sheet that reflects the Board's direction to staff and that will form the basis of the future, binding funding agreement and related documents; and execute a funding agreement and other related documents for the \$10 million contribution to a Renewal Enterprise District housing fund.

FISCAL SUMMARY

Expenditures	FY 21-22 Adopted	FY22-23 Projected	FY 23-24 Projected
Budgeted Expenses			
Additional Appropriation Requested	\$10,000,000		
Total Expenditures	\$10,000,000		
Funding Sources			
General Fund/WA GF			
State/Federal			
Fees/Other			
Use of Fund Balance: PG&E Settlement Funds	\$10,000,000		
Contingencies			
Total Sources	\$10,000,000		

Narrative Explanation of Fiscal Impacts:

The Board of Supervisors approved use of PG&E Settlement funds for this purpose on October 6, 2020.

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

Narrative Explanation of Staffing Impacts (If Required):

None.

Attachments:

- A. RED County Loan Agreement (Draft)
- B. RED Project Criteria
- C. Budget Resolution

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

None.