



DISCUSSION

City of San Bernardino Request for Council Action

Date: August 7, 2024

To: Honorable Mayor and City Council Members

From: Rochelle Clayton, Acting City Manager; Gabriel Elliott, Director of Community Development & Housing

Department: Community Development & Housing

Subject: **HOME Investment Partnership Program Infill Housing Master Development Agreement with Neighborhood Partnership Housing Services Community Redevelopment, Inc. (Wards 2)**

Recommendation:

It is recommended that the Mayor and City Council of the City of San Bernardino, California:

1. Adopt Resolution 2024-178, authorizing the execution of the HOME Investment Partnership Program Infill Housing Development Master Agreement between the City of San Bernardino and Neighborhood Partnership Housing Services Community Redevelopment, Inc.; and
2. Approve the HOME Investment Partnership Program Infill Housing Development Master Agreement between the City of San Bernardino and Neighborhood Partnership Housing Services, Inc., which:
 - a. Is in the amount of \$744,000.
 - b. Authorizes the transfer of ownership of 3 blighted parcels from the City of San Bernadino to NPHS Community Redevelopment, Inc.
3. Authorize the Director of Finance & Management Services to amend the Fiscal Year 2024-2025 Operating Budget by \$744,000 using HOME Investment Partnership fund balance; and
4. Authorize the City Manager, or designee, to take further actions and execute any further documents as necessary to effectuate the agreements.

Executive Summary

NPHS proposes to utilize the HOME funds to develop affordable ownership units on three parcels located in the City of San Bernardino: 1356 Hillside Drive, 1384 Hillside Drive, and 1394 Hillside Drive (collectively, "Project"). This will have no impact on the City's General Fund.

Background

In 2016, the City initiated the Infill Housing Program, funded through the U.S. Department of Housing and Urban Development's HOME Investment Partnership Program (HOME), which utilizes City-owned properties to construct single-family manufactured houses or rehabilitate existing vacant dwellings. Once constructed, or rehabilitated, the properties are sold to households whose incomes do not exceed 80% of the area median income (AMI) for the County of San Bernardino. For example, in 2024, the 80% AMI for a family of four is \$82,000. The goals of the Infill Housing Program include but are not limited to, encouraging home ownership, stabilizing neighborhoods, and improving economic conditions.

As part of the City's participation in the 2020 Accelerating Investments in Healthy Communities (AIHC) initiative, the City was able to directly promote the potential housing programs to Dignity Health's Community Investment Group (CIG) and the Robert Wood Johnson Foundation. As a result of this effort, a \$2.1 million line of credit and a \$1.5 million revolving loan fund were secured for housing production throughout the City.

On December 2, 2020, the Mayor and City Council adopted Resolution No. 2020-281, authorizing the execution of the HOME Infill Housing Development Master Agreement with NPHS. The HOME Agreement provided grant funding in an amount not to exceed \$350,000. In 2022, Phase I was completed for the following properties:

- 676 W. 10th Street
- 2129 Wall Avenue
- 815 W. Orange Street

NPHS previously leveraged the CIG line of credit in conjunction with the HOME funds from the City to complete Phase I and is now ready to start Phase II.

Discussion

For Phase II, NPHS is requesting that the City donate the following three vacant parcels to NPHS at no cost:

- 1356 Hillside Drive
- 1384 Hillside Drive
- 1394 Hillside Drive

The donation of parcels from the City to the developer is a common practice among projects of this type and is consistent with how the previous phase was carried out. This approach will ensure that the homes remain affordable for low-income families. Subsequently, NPHS proposes to place single-family a manufactured house on each parcel. The Project is proposed to be financed through the following funding sources:

1. \$744,000 in HOME funds provided by the City,
2. \$750,000 in a Dignity Health line of credit secured by NPHS, and
3. Approximately \$259,000 in CalHOME funds awarded to NPHS, which will be provided as downpayment assistance to each homebuyer and will not be utilized as a construction funding source.

To comply with federal HOME requirements, an analysis of NPHS, a Community Development Housing Organization (CHDO), includes the following components:

1. An underwriting assessment to determine the feasibility and to ensure that no more than the necessary amount of HOME funds, in combination with other governmental assistance, is invested by the City to provide affordable housing. Additionally, an assessment of the reasonableness of the Developer Fee and return on investment anticipated to be generated by the Project.
2. An evaluation of NPHS's capacity to develop the Project and sell the units.
3. An assessment of the market for the Project.
4. An assessment of other HOME requirements and deadlines, including the financial commitment documentation submitted by NPHS.

The City must execute a written agreement before committing HOME funds to the Project. The written agreement must capture the Project and financing terms that result from the underwriting process. The following summarizes the financial deal points that must be memorialized in the written agreement:

1. The City must enter into a HOME Infill Housing Development Master Agreement with NPHS.
2. NPHS must construct homebuyer projects on the Eligible Properties as defined in the Agreement.
3. The units must be sold to households earning up to 80% of the area median income for San Bernardino County (AMI).
4. The City proposes to provide a \$744,000 grant of HOME funds to NPHS for the Project, with any program income returned to the City.
5. Given that the City will provide more than \$40,000 in HOME funds per unit, the affordability restrictions must remain in effect for 15 years.
6. A portion of the HOME funds will be a grant secured as silent mortgages against each of the three properties upon the sale of each unit.

The Project's construction period costs are estimated at \$1.494 million while NPHS' secured construction funding sources are estimated at \$750,000, resulting in a construction period financial gap of approximately \$744,000. The construction period financial gap is equal to NPHS's request for \$744,000 in HOME funds from the City. Thus, the analysis demonstrates that the proposed \$744,000 in HOME assistance is necessary to provide the proposed affordable housing units. This is referred to as "HOME Construction Assistance."

The Project consists of the development of three ownership units that will be sold to low-income homebuyers whose incomes do not exceed 80% of the area median income (AMI) for the County of San Bernardino. NPHS set the sales prices at \$453,000 per unit, the 2023 Maximum HOME Sales Price, resulting in an anticipated \$1.359 million in sales revenue. To ensure the affordability of these units for low-income households, NPHS will leverage CalHOME funding as downpayment assistance for each homebuyer. Approximately \$610,000 of the \$744,000 Permanent HOME Assistance will be secured as silent mortgages in a second-lien priority position, with the remaining \$134,000 structured as a development subsidy to NPHS. Additionally,

the City's goal of creating affordable housing will be secured through an affordability restriction on the properties. This restriction will remain in place for 15 years, ensuring that the homes remain affordable to both initial and future buyers.

NPHS has demonstrated the development capacity and fiscal soundness to undertake the Project. Given that the proposed 1st trust deeds are below the average sales prices supported by the sales comparable as well as the 2023 Maximum HOME Sales Price, it can be determined that there will likely be sufficient demand to absorb the units.

2021-2025 Strategic Targets and Goals

Authorization to execute the HOME Master Agreement with NPHS aligns with Key Target No. 3. Improved Quality of Life, by bringing development investments into the City, leveraging limited City resources, and increasing the City's appearance, cleanliness, and attractiveness.

Fiscal Impact

There is no fiscal impact to the General Fund for this item. Fiscal Year 2024/25 Operating Budget will be amended by \$744,000 using HOME Investment Partnership fund balance.

Conclusion

It is recommended that the Mayor and City Council of the City of San Bernardino, California:

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Attachments

Attachment 1 – Resolution 2024-178

Attachment 2 – HOME Infill Housing Development Master Agreement

Attachment 3 – NPHS Infill Housing PowerPoint Presentation

Ward:

Second Ward

Synopsis of Previous Council Actions:

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| October 20, 2021 | Mayor and City Council adopted Resolution No. 2021-248 authorizing the execution of Amendment No. 1 to the Home Investment Partnership Program Infill Housing Development Master Agreement between NPHS San Bernardino Developments, LLC that would allow NPHS to retain program income for additional HOME-eligible activities. |
| December 2, 2020 | Mayor and City Council adopted Resolution No. 2020-281, authorizing the execution of Home Investment Partnerships Program Infill Housing Development Master Agreement with Neighborhood Partnership Housing Services. |