



COUNTY OF SANTA CRUZ

PLANNING DEPARTMENT

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TOM BURNS, PLANNING DIRECTOR

May 25, 2008

AGENDA DATE: June 10, 2008

Board of Directors
 County of Santa Cruz Redevelopment Agency
 701 Ocean Street
 Santa Cruz, CA 95060

SUBJECT: PACIFIC FAMILY MOBILE HOME PARK FUNDING REQUEST

Members of the Board:

As your Board will remember, the Agency has been involved with Pacific Family Mobile Home Park since 1990 when the residents purchased it as a limited equity cooperative. Over the years, the Park has experienced serious financial, management and infrastructure problems and County staff has been working with the Cooperative (the park owner) and South County Housing (SCH) and lenders to develop a long-term plan for the non-profit housing corporation to purchase and improve the park. In March of 2006 your Board provided \$175,000 in predevelopment funding to SCH to help them develop a plan for long-term stability, ensure permanent affordability and also define the project budget and the level of additional RDA funds needed to support the project. We are pleased to inform your Board that a great deal of progress has been made to accomplish these goals and the purpose of this letter is to recommend initial Agency funding to SCH to acquire the property.

BACKGROUND

Pacific Family Mobile Home Park is a 33-unit mobile home park in Live Oak that was built in the 1930's. In 1991 the residents acquired the park, primarily with funding from the State Mobilehome Park Resident Ownership Program (MPROP) and the National Cooperative Bank (NCB), and an \$87,450 grant from the Agency, along with an equity contribution of \$1,500 from each member. The Park consists predominantly of very low-income households, and is currently not subject to the County Mobile Home Rent Ordinance because it is resident owned.

The March 2006 report on this project discussed the request by the Cooperative for help from the Agency to work with SCH, NCB, State MPROP, and the John Stewart Company (the property manager), to develop a workout proposal for the park involving the following key features: 1) transferring ownership to SCH and thereby restoring rent control, 2) restructuring the project debt to address underlying problems at the park, 3) establishing long term affordability restrictions in exchange for receiving RDA financial support, and 4) rebuilding and reconfiguring the park infrastructure.

As we discussed in the March 2006 letter, the Park has been struggling with growing financial problems and failing infrastructure over the past few years resulting in a situation where lenders have been unwilling to finance home purchases in the park. Conditions in the park

have reached a point where the Cooperative has depleted its operating funds and is running at a deficit due to their need to maintain basic health and safety systems as conditions further deteriorate. As a result, the Cooperative has been unable to service the debt and fallen into default status on its loans.

Fortunately, State MPROP has been willing to work with SCH, the County and the Cooperative to resolve the issues in the park. Resolving these issues, however, is also dependent on the cooperation of the first lender, NCB. NCB previously indicated a willingness to accept a discounted pay-off on its loan balance and agreed to forestall foreclosure proceedings providing their loan is taken out by the end of the fiscal year.

Prior to recommending a work out plan, however, RDA and SCH first needed to ensure that the key provisions discussed in the March 2006 letter had been met. At this time, the proposed work out plan has now been completed and includes commitments from all the key players. To lock in the NCB willingness to discount its note, and therefore avert the potential foreclosure, it is necessary for SCH to acquire the property and take out the NCB loan. To this end, staff is recommending Agency funding in two parts: Phase 1 funding to SCH to acquire the property; and Phase 2 construction financing that is anticipated to be submitted to your Board in the late summer or early fall, once SCH has completed its scope of work and received firm bids for the improvements.

PROPOSED FINANCIAL RESTRUCTURING AND IMPROVEMENTS

The proposed improvements and financial restructuring address longstanding issues at the Park. The workout proposal includes participation from each of the key parties: NCB, State HCD, the Cooperative, SCH and the RDA. The key provisions of the work out proposal are outlined below:

- ♦ NCB: The NCB first mortgage will be paid off at \$240,000 – approximately 50% of its current value. In 2006 when work out discussions began, the principal balance was approximately \$450,000; at that time principal and interest payments were suspended by the Cooperative.
- ♦ State HCD: The project has been awarded an additional \$1.5 Million in MPROP funds to support the workout. The existing balance of \$465,000 will be assumed by SCH and will be added to the new funds and will be repaid at 3% interest amortized over 30 years
- ♦ Cooperative (Park Owner). The Cooperative's role involves three key areas:
 - They have entered into a Purchase and Sale Agreement with SCH that provides for transfer of park ownership to SCH for \$294,000 and includes assumption of the MPROP loan. The recommended Phase 1 funding of \$322,065 allows for the discounted payoff of the first mortgage (\$240,000), return of member equity (\$54,000) and costs associated with the workout plan (\$28,065).
 - The Cooperative has instituted space rent increases to facilitate taking on additional MPROP debt.

- o The Cooperative has obtained signed documents from coach owners that provides for permanent resale price restrictions, once SCH has completed Phase 2 improvements.'
- ♦ **SCH:** SCH is prepared to take over ownership of the property, maximize outside funding sources to help finance project improvements, obtain all required permits, oversee project construction, maintain high quality property management services, abide by all RDA funding restrictions, including owner occupancy and income eligibility requirements, and ensure long term affordability restrictions for each unit in the park.
- ♦ **RDA Housing:** RDA Housing funds would be used to facilitate the Phase 1 acquisition and additional predevelopment funding and Phase 2 construction gap financing. Consistent with all RDA projects, there will be an agreement with SCH to ensure that the park is subject to standard RDA funding restrictions (as discussed above).

The Phase 1 request from SCH totals \$487,565. The assistance will complete the acquisition of the property by SCH, stabilize the operations through completion of construction and fund final design and construction documents. The construction costs of the necessary improvements are expected to be finalized later this summer. A summary of the proposed Phase 1 financing is illustrated in the chart below:

Proposed Pacific Family Phase 1 RDA Financing	
Acquisition Funding	322,065
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Additional Predevelopment Funding	
Design and Administration	145,000
Deposit to Operating Reserve – stabilizes operations through construction	20,500
Sub-Total	\$165,500
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Total Phase 1 Agency Assistance	\$487,565
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Consistent with RDA participation in other mobile home parks, funds will be loaned to SCH at 1% interest with principal and interest payments deferred until the MPROP loan is paid off in year 30. It is worth noting that County staff has worked closely with SCH in developing the affordability restrictions that are a precondition of the sale of the property to SCH, thereby ensuring that RDA's affordability requirements are fulfilled as part of this project. Because of the urgency of the potential foreclosure by the first lender and the opportunity for discounted payoff, it is recommended that Phase 1 funding be approved at this time.

Summary of Improvements

The ultimate construction work will improve fire safety, address inadequate drainage and sanitary connections, and will update the water and electrical system, replace the road and enhance the minimal community facilities. In addition, the plans will incorporate the

¹ All but one homeowner have agreed to the resale restrictions; prior to beginning with project improvements, SCH will ensure that the remaining homeowner either agrees to the restrictions or pays for their pro-rated share of the improvement costs.

underutilized front area of the Park to accommodate four new mobile home spaces and address overcrowding without reducing the total number of units on the property. SCH is currently working with Iland Engineers to finalize construction and reconfiguration plans and expects the necessary easements, final construction drawings and reconfiguration plans will be done later this summer. Staff anticipates returning to your Board on later this Fall with a Phase 2 funding request.

CONCLUSION/RECOMMENDATION

The proposed plan for Pacific Family Mobile Home Park offers an opportunity to take the first step to create a sustainable affordable housing resource at this troubled site. The proposed Phase 1 financing will cure the current financial problems, place the Park into the ownership of a nonprofit corporation, and set the stage for park improvements that address long standing infrastructure problems, creating a permanently affordable housing resource. The project represents a collaborative effort to address a difficult situation and involves contributions from each of the key players associated with the project; NCB's acceptance of a discounted pay-off of its loan, additional State MPROP funds, the Cooperative's willingness to turn over the property to SCH, accept resale price restrictions and maximize its ability to carry additional debt, as well as gap financing by the Agency. There are sufficient RDA Housing Funds available to cover the financing needed for the project.

It is therefore RECOMMENDED that your Board take the following actions:

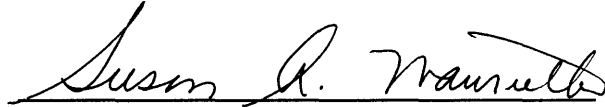
1. Accept and file this status report;
2. Contingent upon the participation of the Cooperative, State HCD and NCB as outlined in this letter, authorize a funding commitment of up to \$487,565 of RDA Funds to SCH to assist the project; and
3. Authorize the Planning Director to negotiate and finalize a Financing Agreement with South County Housing in accordance with the terms outlined in this letter and take other related actions.

Sincerely,



Tom Burns
 Planning Director

RECOMMENDED:



SUSANA A. MAURIELLO
 RDA Executive Director

TB: ES:JMC

cc: RDA
 Department of Housing and Community Development
 Board of Directors, Pacific Family Cooperative
 National Cooperative Bank
 The John Stewart Company