

CITY OF SANTA ROSA
HOUSING AUTHORITY

TO: HOUSING AUTHORITY COMMISSIONERS
FROM: MEGAN BASINGER, DIRECTOR
HOUSING AND COMMUNITY SERVICES
SUBJECT: REQUEST TO RELEASE THE REGULATORY AGREEMENT ON
3555 SONOMA HIGHWAY UPON SALE AND REPAYMENT OF
LOAN

AGENDA ACTION: RESOLUTION

RECOMMENDATION

It is recommended by the Housing and Community Services Department that the Housing Authority, by resolution, authorize the termination and release of the 30-Year Regulatory Agreement for Stonehouse/Athena House upon the repayment of the outstanding principal and interest of the Housing Authority loans.

EXECUTIVE SUMMARY

In 2010, the non-profit California Human Development Corporation (CHDC) received a loan from the Housing Authority for the acquisition of the Stonehouse/Athena House located at 3555 Sonoma Highway (Property) for use as a drug and alcohol treatment facility. The loan, accompanied by a recorded Regulatory Agreement, required that 28 of the 40 beds at the Property be reserved for individuals at or below 80% of area median income. CHDC has ceased operations at the site and is selling the property. CHDC is requesting the Regulatory Agreement be released upon sale of the Property and repayment of the outstanding loans.

BACKGROUND

1. Stonehouse House/Athena House is a 9,233 square foot building constructed in 1909 located on 0.71 acres at 3555 Sonoma Highway (Property). The Property has 14 bedrooms with private bathrooms, dining room, commercial kitchen and several communal spaces, as well as a large parking lot.
2. In 2010, CHDC was provided a \$200,000 loan from the Housing Authority; the loan was accompanied by a 30-year Regulatory Agreement restricting the use of the Property as a residential drug and alcohol treatment site with 28 of 40 beds restricted to low-income individuals.

3. In 2011, CHDC was provided a further advance in the amount of \$27,151 for rehabilitation of the Property.
4. In August 2012, the Property began providing services as required by the Regulatory Agreement, initiating the 30-year term. Between August 2012 and July 2022, CHDC operated the Property in compliance with the Regulatory Agreement. In spring 2022, CHDC announced that they could no longer fund the operations of the program operated at the Property and closed the facility in July 2022.
5. Since spring 2022, CHDC has worked with real estate professionals to obtain a buyer for the Property. CHDC has received a confidential offer on the Property, the buyer's due diligence period runs through January 25, 2023 and escrow is schedule to close on February 24, 2023.

PRIOR HOUSING AUTHORITY REVIEW

On July 1, 2010, Housing Authority, by Resolution 1489, approved a loan in the amount of \$200,000 to CHDC for the acquisition of a 3555 Sonoma Highway.

On August 22, 2011, the Housing Authority, by Resolution No. 1524, approved a further advance in the amount of \$27,151 for the rehabilitation of 3555 Sonoma Highway.

ANALYSIS

1. CHDC applied for Housing Authority funding to acquire the Stonehouse. The loan funds were accompanied by a 30-year Regulatory Agreement restricting the use of the Property as a residential drug and alcohol treatment site with 28 of the 40 beds restricted to individuals at or below 80% of AMI.
2. The Property operated from August 2012 to Spring 2022. In Spring 2022, staff learned that CHDC planned on closing the facility due to funding constraints. Staff contacted CHDC to discuss the requirements of the Housing Authority loan and the Regulatory Agreement recorded against the property. The site served its last clients on July 29, 2022.
3. CHDC listed the Property, as well as the adjacent, undeveloped parcel that is owned by associated entity, with a local commercial real estate broker and was actively listed in July 2022 for over 170 days with extensive marketing outreach including mailings, online listing on Loopnet, a site specific Youtube video, and nearly two dozen showings. CHDC did not receive any viable offers that would have allowed the treatment facility to resume operations. A confidential offer has now been received with the condition that the Regulatory Agreement be released from the Property. The confidential offer, a common real estate practice, prevents the potential buyer's information from being made public.

4. Staff has had discussions and met with CHDC, consultants and legal counsel over the course of the past eight months while the property has been vacant. The goal of the Housing Authority's loan and Regulatory Agreement are to provide and preserve affordability for Santa Rosa's low-income residents.
5. The intention of each recorded Regulatory Agreement is that it remain in place for its full initial term. Following eight months of discussions and attempts by CHDC and their representatives to find a buyer to continue using the facility as intended, no viable offer has been received. The offer that has been made on the facility is not consistent with the Housing Authority's mission or the restrictions established in the Regulatory Agreement.
6. If the Housing Authority supports the Termination and Release of the Regulatory Agreement, accompanied by a repayment of the remaining principal and interest on the Housing Authority's secured loans, those funds will be returned to the Housing Authority's affordable housing production budget and allow for additional units to be preserved, rehabilitated or constructed.
7. The Housing Authority's approval is conditional based on CHDC continuing its amortized payments until close of escrow, followed by full repayment with interest at close of escrow. The conditional approval valid for six months from date of approval to address any potential extensions to the sale.

FISCAL IMPACT

Approval of this action and repayment of the outstanding principal and interest on the Property will provide the Housing Authority with repayment funds to be incorporated into the Fiscal Year 2023/2024 Notice of Funding Availability to advance new construction, rehabilitation or preservation of affordable housing units.

ENVIRONMENTAL IMPACT

This action is exempt from the California Environmental Quality Act (CEQA) because it is not a project which has a potential for resulting in either a direct physical change in the environment, or a reasonably foreseeable indirect physical change in the environment, pursuant to CEQA Guidelines Section 15378.

COUNCIL/BOARD/COMMISSION/COMMITTEE REVIEW AND RECOMMENDATIONS

Not applicable.

NOTIFICATION

CHDC staff and consultants

ATTACHMENTS

- Attachment 1 – January 10, 2023 letter from CHDC Legal Counsel
- Resolution

CONTACT

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