

CITY OF SANTA ROSA  
CITY COUNCIL

TO: MAYOR AND CITY COUNCIL  
FROM: CLARE HARTMAN, INTERIM ASSISTANT CITY MANAGER  
SUBJECT: ALLOCATION OF \$10 MILLION IN PG&E SETTLEMENT FUNDS TO THE RENEWAL ENTERPRISE DISTRICT (RED) HOUSING FUND IN THE FORM OF A LOAN; ALLOCATION OF \$50,000 IN PG&E SETTLEMENT FUNDS TO THE RED TO ADDRESS A ONE-TIME MEMBER ASSESSMENT; AND AMENDMENT TO THE RED'S JOINT EXERCISE OF POWERS AUTHORITY AGREEMENT

AGENDA ACTION: RESOLUTIONS AND MOTION

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RECOMMENDATION

It is recommended by the Planning and Economic Development Department and Housing and Community Services Department that Council: 1) by resolution, allocate \$10 million in one-time PG&E settlement funds to the Renewal Enterprise District Housing Fund in the form of a loan to support infill housing in Santa Rosa and authorize execution of associated loan documents; 2) by separate resolution, allocate \$50,000 in one-time PG&E settlement funds to the Renewal Enterprise District to be used toward establishing a RED General Fund Reserve; 3) by separate resolution, approve the First Amendment to the Renewal Enterprise District Agency Joint Exercise of Powers Agreement; and 4) by motion, approve process for appointment to the RED Housing Fund Board to represent the City of Santa Rosa.

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EXECUTIVE SUMMARY

The Renewal Enterprise District (RED) was created in 2018 as a Joint Powers Authority (JPA) between the City of Santa Rosa (the "City") and the County of Sonoma ("the County") to facilitate the development of infill housing. RED has been pursuing a variety of funding options to address the housing development needs of the community.

On December 8, 2020, the City Council held a study session on the potential use of one-time PG&E settlement funds for housing investment opportunities. Housing was one of the recurring topics of consideration received through the community outreach process for these funds. Specifically discussed at the study session was the potential for investment into the RED Housing Fund.

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On February 19, 2021, at the City Council's goal setting workshop, the Council directed staff to prepare an allocation of \$10 million dollars from the PG&E settlement funds in the form of a loan to the RED Housing Fund. City staff has since developed a draft loan term sheet and has worked collaboratively with RED and County of Sonoma staff on the proposed terms.

In addition to the RED Housing Fund allocation and adoption of terms, City staff is seeking authorization to execute the First Amendment to the RED's Joint Exercise of Powers Agreement. The amendment addresses the interest of the RED Board to use discretion for admitting new members as opposed to allowing them by right.

Lastly, as moved and approved by the RED Board on May 28, 2021, City staff is requesting Council authorization to allocate \$50,000 in one-time PG&E settlement funds to the RED, in support of an assessment on RED members for Fiscal Year (FY) 2021-2022 to be used toward the establishment of General Fund Reserve for the RED.

## BACKGROUND

The Renewal Enterprise District (RED) is a Joint Powers Authority (JPA) formed by County of Sonoma (County) and City of Santa Rosa (City) in 2018 to implement a shared vision and agenda for regional housing development. The effort was an energetic and creative response to what was already emerging as a housing production crisis, compounded by the loss of over 3,000 housing units or 5% of the City's housing stock because of the 2017 wildfires.

The RED is governed by a four member Board of Directors. The Board includes two representatives from the County Board of Supervisors (currently Supervisors Rabbitt and Coursey) and two representatives from the City of Santa Rosa City Council (currently Councilmembers Jack Tibbetts and Victoria Fleming).

The purpose of the RED is to create a trusted, replicable, and enduring model of housing and community development to meet the changing needs of the 21<sup>st</sup> century by:

- Taking a regional approach to housing planning and production
- Pooling and leveraging financing tools and funding sources
- Sharing the risks and benefits of development in new ways
- Streamlining environmental review of housing near jobs and transit
- Centering equity, affordability, and climate resiliency in our housing and economic development programs

Since its creation, the RED has been pursuing funding and advocacy opportunities to address housing development needs of the community. Examples of efforts explored to

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date have included the exploration of the creation of a RED Housing Fund that would provide loans to housing developers, research into the creation of an Enhanced Infrastructure Financing District (EIFD) and, in close collaboration with City staff, the building of partnerships among infill developers to better compete for state and federal grant opportunities.

The next step for RED is the generation of a Housing Fund (Fund) that would pool financial resources to address funding gaps in infill housing. RED has been working with Forsyth Street Advisors (Forsyth), an advisory and asset management firm with a national practice focused on assisting municipal and philanthropic clients with creating new funds for housing. The proposal for a new Housing Fund was researched and tested through outreach to Santa Rosa and Sonoma County's housing development community. The outreach sought to identify ways in which additional affordable and market-rate housing could be generated, and to identify the funding gaps and challenges developers face when looking to create more dense infill housing in an emerging market. Forsyth found that projects in Santa Rosa, especially those located downtown, have been challenging to finance with traditional debt and equity sources. With capital supplied by the Fund, these projects will catalyze and prove there is a market for a more complete urban core comprised of dense infill housing that is climate resilient and transit oriented.

#### PRIOR CITY COUNCIL REVIEW

December 4, 2018, Council approved the formation of the RED and authorized execution of the Joint Powers Agreement.

December 8, 2020, Council held a study session regarding potential use of PG&E settlement funds for housing investment, including potential investment in a RED housing fund and/or potential investment in the City's Housing Authority.

On February 19, 2021, during its Goal Setting session, Council directed staff to prepare materials for the proposed allocation of \$10 million from the PG&E settlement in the form of a loan to the RED housing fund.

#### ANALYSIS

##### *Use of \$10M in PG&E Settlement Funds for the RED Housing Fund*

In July 2020, the City received a \$95 million settlement from PG&E to recoup damages sustained from the 2017 wildfires that were not recoverable through state, federal, or insurance reimbursements. At a study session on December 8, 2020, the Council directed staff to solicit input from survivors of the 2017 fires and the community on ways to use the settlement dollars. Staff held three virtual community forums and conducted a digital survey. Housing was one of the recurring topics of consideration in the

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community outreach process for these funds. Specifically discussed at the study session was the potential for investment into the RED.

On February 19, 2021, at the City Council's goal setting workshop, the Council directed staff allocate \$10 million dollars from the PG&E settlement funds in the form of a loan to the RED Housing Fund. City staff has since developed a draft loan Term Sheet and has worked collaboratively with RED and County staff on the proposed terms.

On May 11, 2021 the Sonoma County Board of Supervisors allocated \$10 million dollars from their PG&E settlement funds as a match to the City's contribution to the Fund and provided direction to County staff on the terms and execution of their loan. Regarding direction on the terms, the Board of Supervisors moved and approved the following: 1) County contribution should be considered a forgivable loan amortized over 20 years; 2) the RED should report annually on the performance metrics to the Board of Supervisors (including financial and information of projects going forward); 3) the jurisdictional area should be the unincorporated areas of the County with specific plans and PDA pending housing sites that are within the RED's jurisdiction and the incorporated areas within the County that are within the RED's jurisdiction; 4) 25-percent (25%) of the total units funded by the County's loan should be affordable; 5) no use of the County funds for administrative overhead for the RED itself; and 6) short term rentals shall be banned for five years following the date of occupancy of the project for any projects funded by the County's loan.

On June 24, 2021, City staff presented to the City's Long Term Financial & Audit Subcommittee and received direction on policy options related to the terms of the City's loan. The Subcommittee supported the terms of the loan as presented by staff with one exception, the use of interest income generated by the proceeds of the City's \$10 million loan.

The Subcommittee directed (2-1) to remove staff's proposed caps on the use of the interest income earned that could be used for operating expenses of the Fund. Staff had presented a cap of 50% of the interest earned in the first 3 years and no interest income to be used for the remainder of the 20-loan term. Staff's proposal was based on the intent of the Fund concept, specifically that most of the income earned from the Fund would be invested in projects, not administrative support. Also, it has been long intended that the Fund, while seeded with the one-time PG&E funds from the City and County contributions, would attract other public and private investors. Staff surmised that these additional investors would likewise help pay into the Funds administrative costs.

RED staff and Forsyth countered that the Fund would need the income to cover operating expenses not just at startup of the Fund but for the life of the Fund's operation, and that it was particularly important in the later years of the term, when less

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new interest income and fees associated with the origination of new loans are expected to be earned. RED staff and Forsyth emphasized also that, while they are hopeful that the Fund will attract contributions from other public and private sources, such contributions are not certain at this time.

As a result, staff has updated the Draft City Loan Term Sheet to reflect the direction by the Subcommittee.

*Draft Term Sheet for \$10M City Loan to the RED Housing Fund*

Staff has been engaged in term sheet discussions with RED staff, Forsyth and County staff, in addition to the City's Long Term Financial and Audit Subcommittee. In accordance with those discussions, the following provides a summary of key terms proposed for the City's \$10 million loan to the RED Housing Fund for infill projects. For reference, the complete Draft Term Sheet is attached to this report.

Summary of RED Housing Fund approach:

- \$10M City Loan Investment matched with County's \$10M;
- Leveraging potential;
- Eligible Project Criteria adopted and amended by the RED Board
- Initial push is to activate the market for mid- and high-rise housing in downtown Santa Rosa;
- Fund is intended to be flexible and will offer a variety of investment platforms and products;
- Housing Fund will be stand-alone entity – 501(c)(3); and
- Administrative readiness – potential to use City's Housing Authority staff for initial Notice of Funding Availability (NOFA) and loan management support

Summary of specific City Loan Terms:

- \$10 million loan; 0% interest
  - 20-year term; principal due on the maturity date
  - Target closing is August 2021
- Subordinate to all other debt
- Compliance with City's Investment Policy for permitted investment instruments
- City funds initially only eligible to projects within City limits
  - Thereafter proceeds distributed in proportion to City's share
- Projects linked to RED Board Project Criteria\*
- Projects to remain residential (30 days or longer) for the term of the loan
- Product types
  - Affordable – all phases
  - Middle income & market rate
    - construction loan
    - permanent loan

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- Soft costs maximums
  - Affordable projects – 25%
  - Middle income and market rate – 15%
- Interest income may be used for Housing Fund administration – no cap
- Performance & Reporting
  - Quarterly Reports
  - Annual Reports w/ audited financial statements
- RED Housing Fund Board
  - 7 voting members
  - 2 advisory members (optional)

\*RED-Adopted Project Criteria. Shortly after its formation, the RED Board adopted project criteria to help determine the types of projects the RED and RED Housing Fund would support. Intentionally broad, these criteria are flexible so as not to exclude any projects that are aligned with the four key principles. To be eligible for Fund monies, projects are required to meet the following:

- Located on an Infill Site: Projects must on urban sites within Santa Rosa or unincorporated Sonoma County that have either been previously developed or are currently vacant but are adjacent to sites with qualified urban uses.
- Provides Mid- to High-Density: Project density is at least at the middle of a jurisdiction's qualified zoning for a site.
- Located in a Transit-Rich/Planned Area: Projects must be located entirely within Transit Priority Areas, Priority Development Areas, Rural Community Investment Areas, Specific Plan Areas, High-Quality Transit Corridors and/or Qualified Opportunity Zones.
- Are Either Residential or Mixed-Use Residential: At least 75% of the total building square footage for the project consists of residential uses.

In addition to the above required criteria, projects eligible for Fund monies will be evaluated based on the project's incorporation of *one or more* of the following criteria: on-site affordable units (determined by the income limits published for Sonoma County by the State Department of Housing and Community Development), on-site workforce housing, on-site "affordable by design" units (e.g., units are smaller than typical market-rate units, are more efficient and have fewer amenities), proximity to transit, energy efficiency, water efficiency, an innovate design component, or other specified criteria.

*Potential to Use City Staff to Process RED Housing Fund Loans*

The Department of Housing and Community Services, staff to the Housing Authority, has been in discussions with RED staff and Forsyth the potential for City staff to provide short-term administrative services to the RED Housing Fund to assist in its startup. There is interest by RED and Forsyth team and capacity within city staff to

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collaborate and assist in this opportunity. Through a contract or Memorandum of Understanding (MOU), the Fund would contract with the City's Housing Authority/Housing and Community Services staff to process the initial \$20M in a combined Notice of Funding Availability (NOFA), and to provide subsequent loan underwriting and administration. Consideration and approval of such an arrangement would be a future action taken by the City's Housing Authority in consultation with the City Attorney's Office.

*Amendment to the RED's Joint Exercise of Powers Agreement (JPA)*

The Joint Exercise of Powers Agreement (JPA) establishing the RED requires the RED Board of Directors to review the JPA terms and the efficacy of the RED, and to consider adding new members after RED's initial two years. Based on this review, the RED Board recommended and approved an amendment to the JPA to clarify that the RED may, but is not obligated to, add new members, as well as the establishment of protocols for adding new members. Under the terms of the JPA, the amendments to the JPA are effective only upon approval by both the County and City.

On December 4, 2018, the Sonoma County Board of Supervisors and Santa Rosa City Council voted to form the RED as a multi-jurisdictional opportunity to develop funding and other criteria to incentivize and encourage climate-smart housing and other community development projects. December 4, 2018 is recognized as the official formation date of the RED, which was created with an initial two-year pilot demonstration period in mind, as well as the effective date of the RED Joint Exercise of Powers Agreement ("JPA").

As set forth in Section 3.05 of the JPA, on December 17, 2020, the RED Board reviewed the terms and conditions of the JPA and the efficacy of RED and the JPA and considered the addition of New Members. "New Member" is defined as "any incorporated city or town within Sonoma County that may subsequently join this Agency with the authorization of the Board, pursuant to Section 4.02 of this Agreement." Section 4.02(a), New Members, provides that "[a]fter two (2) years from formation of the Agency, upon submittal of an application for membership, New Members shall be admitted to the Agency so long as: (1) the New Member is an incorporated city or town located within the jurisdictional boundaries of the County of Sonoma; and (2) the New Member agrees to the terms of this Agreement." Section 4.02(a) further provides that once an application is accepted by the Board of Directors, the JPA shall be amended to add the New Member.

On February 24, 2021, the RED Board voted to move forward a one word clarifying amendment to the RED's JPA. Following Board discussion, the RED Board moved to support a clarifying amendment to the JPA to confirm that New Members "may," rather than "shall," be admitted to RED. This allows for flexibility in considering and adding

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New Members in accordance with adopted protocols and is consistent with provisions of the JPA that require Board authorization for approval of New Members. The change is minor and shown in redline below:

*Section 4.02 – New Members. After two (2) years from formation of the Agency, upon submittal of an application for membership, New Members ~~shall~~ **may** be admitted to the Agency so long as: 1) the New Member is an incorporated city or town located within the jurisdictional boundaries of the County of Sonoma; and 2) the New Member agrees to the terms of this Agreement.*

RED staff also prepared draft protocols for considering New Members consistent with the terms of the JPA. The protocols require an interested entity to contact RED staff and request to present their qualifications and interest to the RED Board. An interested entity must meet the requirements in the JPA and be (1) an incorporated city or town located within the jurisdictional boundaries of the County of Sonoma; and (2) agree to the terms of the joint powers agreement. New Members must also agree to contribute financially to the RED. The protocols provide that the RED Board shall consider the request of an interested entity and that any entity approved to join RED must obtain a resolution from its governing body. Any approved New Member must execute the JPA.

On May 11, 2021, the Sonoma County Board of Supervisors voted to approve the amendment. To fully execute the amendment, the City of Santa Rosa City Council must also approve the amendment.

City staff are seeking authorization to execute the First Amendment to the RED's Joint Exercise of Powers Agreement. The proposed amendment is supported by City staff as it addresses the interest of the RED Board to use discretion and to leverage flexibility with respect to admitting new members.

*Use of \$50,000 in PG&E Settlement Funds for a one-time RED member assessment*

Budget stability is necessary for the ongoing general operation of the RED and accomplishment of its members' housing objectives.

The JPA (Section 8.06 – Agency Funding) states “All fees, costs and expenses incurred by the Agency may be funded from: (i) voluntary contributions from third parties, such as grants; (ii) advances or loans from the Members or other sources; (iii) bond revenue; (iv) taxes, assessments, fees and/or charges levied by the Agency under the provisions of the Act or otherwise provided by law; (v) contributions from an infrastructure Financing District or other tax increment generating mechanism; and, (vi) subject to the unanimous vote of the Board, assessments on the Members to carry out the activities of the Agency generally applicable to all Members.”



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To date, there has been no request made to the RED's Founding Members, Santa Rosa and Sonoma County, to contribute financially to the RED's operating budget. During a budget study session at its February 24, 2021 meeting, RED Board members suggested that assessments on Members should be considered to ensure that the RED is fully funded through the end of FY 2021/2022.

Board members have also recommended establishing a general fund reserve, with the Executive Director suggesting \$100,000 as a target reserve. Best practices from the Government Finance Officers Association of the United States and Canada recommend a total unassigned General Fund Reserve balance equal to 2 months of annual General Fund operating revenues, or \$71,313 for the RED based on the FY 2021/2022 preliminary budget. However, given the RED's relatively dynamic forecast for FY 2021/2022, a reserve of \$100,000 would provide a secure buffer against economic uncertainty and provide for special one-time needs programs.

On May 28, 2021, the RED Board moved unanimously that members assess themselves a one-time total of \$50,000 each to support a combined one-time total of \$100,000 (city and county combined) to be used as RED fund reserves for FY 2021-2022.

Unless another source is identified by the Council, staff is recommending that the Council allocate \$50,000 in one-time PG&E settlement funds to the RED to reflect this one-time member assessment.

*Appointment of one (1) City Representative to the RED Housing Fund Board*

In addition to the loan terms, it is important to understand the makeup of the RED Housing Fund Board and the ability of the Council to appoint one (1) voting member to that Board. The RED Housing Fund Board of Directors will be comprised of representatives from the public and private sectors.

The Board will have seven (7) voting members:

- one (1) Representative appointed by the County of Sonoma;
- one (1) appointed by the City of Santa Rosa;
- one (1) appointed by the RED Board, and
- four (4) Independent Directors recommended by the RED Board and appointed by RED counsel.

A minimum of three (3) Board members are required to form the 501(c)(3) RED Housing Fund entity. In addition, at all times, the Board must consist of a majority of Independent Directors. The rest of the membership may be added later in the year. If desired, the RED Board may consider adding two (2) non-voting Advisory members to

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the RED Housing Fund Board, e.g. one advisory member from the City and one advisory member from the County. Like voting members, the Board advisors can contribute to the discussion, voice opinions and indicate their support for business and credit decisions.

Following a solicitation for candidates by RED staff, the application process was designed to result in a Board that represents a variety of different viewpoints, from public to private, with a balance of different skillsets and expertise.

A total of six applications were received and reviewed based on criteria including:

- Understanding of the role, goals of the RED and Project Criteria;
- Relevant professional experience (backgrounds in finance, development, planning, nonprofit, management, public agencies, etc.);
- Ability to inform and advise on credit decisions;
- Ability to represent the community, as well as the Fund's goals; and
- Ability to provide strategic and organizational guidance to the Fund.

On June 21, 2021, the RED Board considered six (6) potential candidates to fill three seats. By a 4-0 vote, the RED Board appointed Michelle Whitman, Executive Director for the RED as the one (1) RED Board Representative. In addition, they recommended for appointment two Independent Directors: Veronica Ferguson – Former Sonoma County Administrator (2010-2017) and Todd Sheffield - Former CEO of Community First Credit Union (2003–2021).

The RED Board also voted to re-open the Board application window for 30 days to allow for more candidates to be considered for the remaining two (2) Independent Directors. Once the City and the County each appoint their representatives the seven-member Housing Fund Board will be complete.

The City's Charter, Section 15 (g), authorizes the Mayor to make appointments to all county, regional and state bodies on which the City is represented with the approval of the majority of the Council. Staff recommends utilizing this approach in nominating and appointing the City's RED Housing Fund Board representative.

Staff recommends that selection of the candidate be a resident of the City of Santa Rosa and be based on criteria such as:

- Understanding of the role and goals of the RED and Project Criteria;
- Relevant professional experience (backgrounds in finance, development, planning, nonprofit management, public agencies, etc.);
- Ability to inform and advise on credit decisions;
- Ability to represent the community, as well as the Fund's goals; and
- Ability to provide strategic and organizational guidance to the Fund.

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Since the RED Housing Fund Board is a regional entity and not a City Board, it is possible for the Council to consider appointing someone who is also appointed to one of the City's Boards, Commissions, Committees or Authority.

With the approval of Council, staff will solicit applications for appointment to the RED Housing Fund Board and will return to Council for the appointment at a later date. . Per RED staff, it is recommended that the City's appointment be in place by the date of the final execution of the City's Loan Agreement with the RED Housing Fund; anticipated to be complete in late August 2021.

### FISCAL IMPACT

Actions related to this item would result in an allocation of \$10 million in one-time PG&E settlement funds to the RED Housing Fund and in addition, an allocation of \$50,000 in one-time PG&E settlement funds to the RED to establish its reserve.

### 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 Guideline section 15378.

### NOTIFICATION

Not applicable.

### ATTACHMENTS

- Attachment 1 – Draft City Loan Term Sheet
- Attachment 2 – RED Project Criteria
- Attachment 3 – City Permitted Investments from Council Policy No. 000-26
- Attachment 4 – RED JPA First Amendment
- Attachment 5 – RED Memo re Member Assessments
- Resolution 1/Exhibit A - Allocate \$10M one-time PG&E to RED
- Resolution 2 – RED Assessment
- Resolution 3/Exhibit A - First Amendment to JPA

### CONTACT

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