



BOARD OF SUPERVISORS  
AGENDA LETTER

Agenda Number:

Clerk of the Board of Supervisors  
105 E. Anapamu Street, Suite 407  
Santa Barbara, CA 93101  
(805) 568-2240

**Department Name:** Housing and  
Community  
Development  
**Department No.:** 055  
**For Agenda Of:** 11/01/11  
**Placement:** Departmental  
**Estimated Tme:** 45 minutes  
**Continued Item:** No  
**If Yes, date from:**  
**Vote Required:** Majority

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**TO:** Board of Supervisors  
**FROM:** Department Sharon Friedrichsen, Housing and Community Development *SMF*  
Director(s)  
Contact Info: Sharon Friedrichsen. 568.3520

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**SUBJECT: Update on Lompoc Housing and Community Development Corporation**

**County Counsel Concurrence**

As to form: Yes

**Auditor-Controller Concurrence**

As to form: N/A

**Recommended Actions:**

- A. Receive a report regarding the status of financial and operational issues pertaining to the Lompoc Housing and Community Development Corporation (LHCDC).
- B. Provide direction to staff related to contingency planning for services associated with properties owned by LHCDC including affordable housing, transitional housing and emergency shelters.

**Summary Text:**

The Lompoc Housing and Community Development Corporation (LHCDC) is a California non-profit public benefit corporation that develops and manages low-income housing within Lompoc. Its real estate holdings presently include affordable housing units, a homeless shelter, a transitional housing facility and commercial properties. LHCDC was certified as a Community Housing Development Organization (CHDO) by the County in 1995. A CHDO is defined by the U.S. Department of Housing and Urban Development (HUD) as a private non-profit, community-based service organization whose primary purpose is to provide and develop decent, affordable housing for the community it serves. Certified CHDOs are eligible for HUD types of funding under the HOME program.

Under the HOME Program, HUD provides formula HOME grants to State and local jurisdictions to fund activities to buy, build or rehabilitate affordable housing for low-income households. Several affordable housing properties owned by LHCDC have been funded through HOME loans made by the County and/or the City of Lompoc. As the lead agency in the County HOME Consortium, which also includes the cities of Buellton, Carpinteria, Goleta, Lompoc, Santa Maria and Solvang, the County is responsible

for administering the annual grant process, preparing HOME loan documents and regulatory agreements, and monitoring of projects for compliance with federal requirements.

LHCDC has announced its intention to dissolve as an organization and transfer its assets to other organizations. The purpose of this Board item is to provide an update on the current status of LHCDC actions and County negotiations with LHCDC and seek direction from the Board regarding contingency planning for services associated with properties owned by LHCDC including affordable housing, transitional housing and emergency shelters.

**Background:**

*Summary of Technical Assistance Request:*

As part of ongoing annual monitoring, County Housing and Community Development (HCD) staff identified that LHCDC was facing significant financial systems and management oversight deficiencies affecting the organization's ability to manage and maintain properties they owned. Recognizing the County's role as lead agency under the HOME Consortium, the Urban County Partnership, and the McKinney-Vento Continuum of Care, the County offered assistance through HUD to LHCDC to enter into an organizational and financial "workout" plan to ensure the services provided to the Lompoc community remained intact. HCD staff met with LHCDC on numerous occasions to discuss LHCDC's progress in addressing concerns identified through monitoring reviews necessary to strengthen the financial and operational capacity of the agency. On January 25, 2011, the County requested technical assistance (TA) from HUD on LHCDC's behalf. The purpose of the TA was to explore "workout" options and possibly assist in the preparation of a formal "workout" plan to restore property compliance and viability. In addition, the County Auditor-Controller, contacted LHCDC on February 16, 2011 outlining the County's intent to conduct a preliminary review of LHCDC to help ascertain the extent of the agency's current fiscal difficulties. In a follow-up letter to LHCDC dated March 9, 2011, the Auditor-Controller recommended no additional funding be provided to LHCDC until the completion of outstanding audits for 2007, 2008 and 2009.

On April 7, 2011, HUD responded to the County's January 25th request and identified Enterprise Community Partners (Enterprise) as the provider of technical assistance to LHCDC. Enterprise identified three tasks to be completed: (1) conduct a financial analysis of LHCDC's organizational and portfolio financial condition; (2) assist LHCDC to prepare 3-year cash flow projections by program, running several scenarios to identify best and worst case scenarios for sustaining operations in a revitalized or restructured organization; and (3) review LHCDC's current real estate portfolio performance and provide recommendations to strengthen asset management. On May 12, 2011, Enterprise recommended a modification to the proposed "workout" plan to the County and HUD. Based upon Enterprise's discussions with LHCDC's Board of Directors and Executive Director, as well as two Notice of Defaults on property loans, Enterprise recommended immediate action to transfer affordable housing units to viable CHDO's and non-profit agencies that would be able to own, rehabilitate, and operate the existing properties. Enterprise proposed modifying the contract with HUD to allow Enterprise to contract directly with a property disposition consultant. Both HUD and the County supported this new approach.

While Enterprise was researching property disposition consultants, LHCDC contacted Cabrillo Economic Development Corporation (CEDC), a CHDO operating in Ventura County. On May 19, 2011, CEDC submitted a draft letter of intent to LHCDC offering to help stabilize LHCDC's housing portfolio in the short-term, and explore the possible merger or other form of ownership in the long-term. A meeting with Enterprise, HUD, LHCDC, CEDC, the City of Lompoc and County staff occurred on

June 8, 2011 that allowed County staff to learn more about CEDC as an organization and its proposed approach to assisting LHCDC. CEDC proposed a number of short-term activities related to financial assessment and of LHCDC's portfolio including providing bookkeeping services, developing financial statements, completing audits, providing interim executive director services, providing property management services and facilitating a contract with Good Samaritan for the management of homeless services. A management agreement was therefore being negotiated between the two organizations. County staff was collaborating with CEDC and LHCDC, with the assistance of Enterprise, on aspects of the management agreement, including analyzing any potential funding that would be needed to undertake the specified activities. On August 18, 2011, County staff received correspondence from LHCDC Attorney that LHCDC and CEDC were unable to reach agreement and that CEDC would not be offering its assistance to LHCDC. Furthermore, according to correspondence, LHCDC was soliciting interest from other non-profit community housing organizations regarding the transfer of LHCDC assets; engaging lenders regarding forbearance and initiating dissolution proceedings.

*Receivership of Affordable Units:*

The County received court filings by Pacific Western Bank on September 29, 2011 that sought the temporary appointment of a receiver to take possession of seven low-income properties, six of which are subject to County loans and County imposed income and rent restrictions. The next day, the Court appointed a receiver, a neutral agent of the Court, tasked with taking possession of the properties in order to manage and preserve the properties. The receiver is using a local property management firm to manage the properties. In addition to receivership, Pacific Western Bank filed a complaint for judicial foreclosure. If these properties are sold through foreclosure and the affordability restrictions eliminated, the County could be subject to repayment of HOME funds to HUD. The total amount of HOME funds on the properties subject to the receivership, and which could be subject to repayment obligations to HUD are approximately \$1 million. Early communications with Pacific Western Bank indicated that they desire to transfer the properties to an entity that would maintain them as affordable.

The receivership that was placed on the properties with Pacific Western Bank loans was applied for in conjunction with a judicial foreclosure action. Receiverships are judicially imposed and are generally only available as part of a separate legal proceeding such as foreclosure. As a public entity, the County has interests in the properties that are in addition to its role as a lender, such as trying to avoid displacement of low income residents. As a consequence, staff is not recommending judicial action relating to its loans on LHCDC properties at this time.

We are also informed by LHCDC that they are in discussions to sell the other affordable housing properties to a housing provider with the intent that they remain affordable. If those negotiations break down, there is a strong likelihood that the other lenders may also pursue foreclosure. The potential County repayment liability for the properties in the Pacific Western Bank receivership is \$1 million as illustrated in the attached funding matrix. In addition, the County has an outstanding potential repayment liability to HUD of \$400,000 for the Gianni Apartments. The primary lien-holder on that property is a private lender and the County has not received any notice of default, receivership filing or notice of foreclosure activity at this time.

*Shelter Services:*

LHCDC also owns and operates a 56-bed homeless shelter (Bridgehouse) and a 19-bed transitional housing facility (Mark's House). Operating funding for these two facilities is largely based on annual federal funds from HUD and local funds from the City of Lompoc and the County. The primary lenders on Bridgehouse and Mark's House are the County and the City of Lompoc respectively.

There are various options regarding ensuring the provision of shelter services for the Lompoc area.

County and City staff have engaged LHCDC staff in discussions regarding the possibility of transferring shelters to other appropriate parties including, but not limited to County and City. Those discussions are in a preliminary stage and any decision will be subject to Board of Supervisors' approval.

In addition, the County has the option to reallocate its discretionary local funds of approximately \$50,000 to another shelter provider. It is recommended that as part of contingency planning the Board authorize County staff to issue a Request for Proposal ("RFP") to community providers to solicit proposals for interim management of shelter services within the Lompoc area. It is recommended that proposals be reviewed by a Committee that would include representatives from the City of Lompoc, the City of Lompoc Human Services Commission, the County's Human Services Commission, and bring forward recommended providers to the Board for consideration.

The RFP would include the identification of sites for shelter services. However, if organizations have the experience, but do not have facilities in the Lompoc area (for example current facilities are already at capacity), then the County will need to identify new facilities or acquire existing shelter facilities owned by LHCDC. County staff are currently in the process of identifying County owned properties within Lompoc and assessing the feasibility of these properties serving as a shelter. If these properties are deemed unsuitable for a shelter, then County staff will also examine other properties in Lompoc that may be available to be leased and bring these costs and recommendations to the Board for consideration.

**Fiscal and Facilities Impacts:**

**Fiscal Analysis:**

Narrative: As illustrated in the attached matrix of County funding to LHCDC, the County currently has a potential repayment obligation of \$1.4 million on LHCDC owned affordable housing units.

**Staffing Impacts:**

N/A

**Attachments:**

Matrix of County Funding to LHCDC

**Authored by:**

Sharon Friedrichsen

**cc:**

Bob Geis, Auditor-Controller

Michael Ghizzoni, County Counsel

Mary McMaster, County Counsel

Terri Nisich, Asst. CEO