



CITY OF CARSON

Legislation Text

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Report to Mayor and City Council

Tuesday, March 20, 2018

Consent

SUBJECT:

CONSIDER RESOLUTION 18-037 AMENDING THE FISCAL YEAR 2017-18 BUDGET IN THE HOME INVESTMENT PARTNERSHIP FUND IN THE AMOUNT OF \$500,000 RELATED TO HOME PROGRAM AND CONSIDER HOME PROGRAM GUIDELINES TO SET THE FUNDING CAP AMOUNT NOT TO EXCEED \$50,000 PER SINGLE-FAMILY UNIT AND TO REDUCE THE SIMPLE INTEREST RATE TERM FROM A THREE PERCENT INTEREST RATE TO A ZERO PERCENT INTEREST RATE (CITY COUNCIL)

I. SUMMARY

On July 13, 2017 the California Department of Housing and Community Development (HCD) awarded the City of Carson \$500,000 pursuant to its 2016 application for HOME Investment Partnerships (HOME) funding for an Owner-Occupied Rehabilitation (OOR) program.

This program is different from the City's CDBG-funded Neighborhood Pride Program (NPP), which provides grants or loans to low-income homeowners throughout the City. HOME is targeted at low-income homeowners, but the additional requirement is that the home itself must also not exceed a maximum resale value, which limits it to certain neighborhoods in Carson, generally on the south end and east end of the city.

A standard agreement has been executed between the City and HCD for the program. Staff has prepared the documentation to obtain approval from HCD to proceed. In analyzing the effectiveness of prior HOME programs run by the City, and based on the experience of other communities with similar programs, there are several recommended changes from prior HOME programs, for the reasons described below.

II. RECOMMENDATION

1. APPROVE the following HOME program guidelines:
 - a. Set funding cap at a not to exceed amount of \$50,000 per single-family unit; and
 - b. Establish the interest rate for the HOME loans at zero percent.

2. WAIVE FURTHER READING AND ADOPT RESOLUTION NO. 18-037, A RESOLUTION OF THE CITY OF CARSON CITY COUNCIL AMENDING THE FISCAL YEAR 2017-18 BUDGET IN THE HOME INVESTMENT PARTNERSHIP FUND IN THE AMOUNT OF \$500,000

III. ALTERNATIVES

TAKE another action the City Council deems appropriate.

IV. BACKGROUND

In 2016, the City applied to HCD for a HOME grant that would assist seven single-family homeowners at a maximum of \$65,000 per unit, provided that the homeowner meets the income eligibility criteria and certain other criteria, such as the after-rehab value of the home (currently \$405,000, but the City is petitioning to raise that limit to allow more applicants into the program).

The City uses its HOME funds to supplement its CDBG-funded Neighborhood Pride Program (NPP), which provides grants for smaller projects and loans generally up to \$25,000 for more significant work done on a home. The three-year agreement between the City of Carson ends on July 31, 2020. The HOME program can set higher limits for homes in need of greater repair, but is limited to homes under the maximum after-rehab value, so it is not available in all parts of the city where the home values tend to be much higher.

There are no current applications for the HOME Program, nor is there a current waiting list.

The intent behind the HOME single-family program is to begin to transform neighborhoods by sometimes addressing the most deteriorated home on a street and eliminating the blight, helping all those around it. In that case, not just the homeowner benefits but the wider community does as well.

Staff has analyzed what the appropriate funding cap should be and the most effective ways to attract homeowners to apply for the program and is proposing that, though the City's HOME application to HCD allowed for loans up to \$65,000, the HOME program guidelines be set so the maximum amount not exceed \$50,000 so that more homeowners in low income neighborhoods could be assisted. In addition, the \$50,000 cap is higher but not dramatically higher than the NPP limits. Further, staff also recommends reducing the interest rate for the home improvement loans from three percent (3%) to zero percent (0%) based on the following reasons:

1. Even a low interest rate can pose as a hardship to a homeowner who later may need to sell or refinance the property due to a change in the homeowner's financial position, extensive medical bills or illness.
2. The City's experience, like many cities, is that the three percent simple interest loans

can accumulate significant interest costs to the homeowners over the life of the loan. Given that homeowners are required to be low income, being required to pay off \$20,000 (after 13 years) to \$30,000 (after 20 years) in interest on top of the principal has often presented a hardship to the homeowner and reduced the amount of equity in the home. Low equity or no equity in the home could jeopardize the chances of a homeowner receiving approval for a future home improvement loan to undertake additional improvements without City assistance.

All of the HOME loans will require a loan application analysis which could include but not be limited to the following:

- a. The property may not have a second trust deed of record
- b. The amount of assistance cannot exceed the County's maximum HOME subsidy limit per bedroom, and the total value of the completed home cannot exceed the maximum after-rehabilitation value (currently \$405,000 in Los Angeles County)
- c. The first mortgage must be current
- d. A credit score analysis will be conducted
- e. Must have current homeowner's insurance

All loans will have no monthly repayment schedule as they are deferred payment loans (DPLs) secured by a Deed of Trust and note with no payback requirement for thirty years unless the homeowner sells, refinances, changes title, fails to reside at the property, or dies.

These loans can be used to make substantial home improvements such as updating outdated fixtures, countertops, plumbing, exterior and interior painting, and upgrading kitchens and bathrooms to make the property more functional and energy efficient, and in bringing an older home up to code.

The HOME program will help the local economy by helping to fund home improvement projects that will improve the quality of affordable housing in certain neighborhoods that have a larger concentration of low income households, bringing sustainability to the housing stock in these areas, and upgrading the residents' quality of life.

Staff believes that reducing the burden of interest costs on the low-income homeowners for these substantial home improvements will maximize the impact on the successful completion of the City's HOME Owner-Occupied Rehabilitation program.

V. FISCAL IMPACT

The final action is to approve a Budget Resolution appropriating \$500,000 for the program. The appropriation is fully funded by the grant. Rehabilitation work in the amount \$487,500 will be charged to 14-70-790-962 and administrative work in the amount of \$12,500 will be

charged to 14-70-790-003.

VI. EXHIBITS

1. HOME Investment Partnerships 2016-HOME Application (pgs. 5-32)
2. HOME Program Standard Grant Agreement 16-HOME-11385 (pgs. 33-62)
3. HOME Modified Unofficial Guidelines (pgs. 63-134)
4. Resolution No. 18-037 (pgs. 135-136)

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