

**REDEVELOPMENT AGENCY OF THE
CITY OF SAN BERNARDINO
NEIGHBORHOOD STABILIZATION PROGRAM**

Quarterly Update Report as of 12/31/09

I. INTRODUCTION/BACKGROUND

In August of 2008, the City of San Bernardino ("City" or "San Bernardino") received a funding allocation of approximately \$8.4 million from the United States Department of Housing and Urban Development ("HUD") under the Neighborhood Stabilization Program ("NSP") to address the City's foreclosure problem. On November 17, 2008, the Mayor and Common Council of the City of San Bernardino ("Council") and the Community Development Commission of the City of San Bernardino ("Commission") jointly approved the proposal of its Redevelopment Agency and submission to HUD for its \$8.4 million NSP allocation.

Finally, on March 3, 2009, HUD approved the City's application which was followed by an April 23, 2009, City Council action to formally accept the funds.

The City's approved plan with HUD consists of the following four Program activities plus an administrative line item:

1. Acquisition, Rehabilitation and Resale of single-family residences (\$3,700,000);
2. Acquisition and Demolition for future development (\$920,000);
3. Down Payment Assistance (\$920,000);
4. Housing Opportunities for Households at or below 50% of AMI – HUD Requirement (\$2,100,000); and
5. Administration (\$768,558).

On July 20, 2009, the Council and the Commission authorized the Agency to proceed with all four of the approved NSP program activities. In order to carry out the acquisition, rehabilitation and resale of foreclosed single-family residences under **Activity No. 1** named above (the "Rehabilitation and Resale Program"), within the HUD approved areas eligible for NSP funding (the "NSP Target Zone"), the Agency selected five development firms ("Intermediaries") through a competitive RFP process to implement the Rehabilitation and Resale Program on behalf of the Agency. (Please refer to Attachment 1 for a map of the NSP Target Zone.) The Intermediaries are charged with rehabilitating, managing and reselling the foreclosed homes acquired by the Agency with NSP funds. The Intermediaries, which consist of both for-profit and non-profit housing developers, do not own the properties at any time during the course of the Rehabilitation and

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Resale Program. Instead, the Agency acquires and retains ownership of the properties through an affiliated non-profit organization, Affordable Housing Solutions of San Bernardino, Inc. ("AHS"), which the City authorized to acquire properties on behalf of the Agency. Consequently, the Intermediaries do not earn a profit from the sale of the rehabilitated homes. Instead, they are paid a pre-negotiated fee by the Agency for performance of the rehabilitation, management and selling services that they provide.

AHS is also charged with acquiring the foreclosed properties identified for demolition by the Agency under NSP program **Activity No. 2** named above (the "Demolition Program"). While the properties identified for demolition are acquired and held by AHS, the actual demolition work is performed by demolition contractors selected by the Agency through a competitive RFP process.

Activity No. 4, Housing Opportunities for Households at or below 50% of AMI program activity (the "Rehabilitation and Rental Program") was implemented through the approval of a Master Agreement by and between the Agency and a non-profit housing developer, Mary Erickson Community Housing, Inc. ("MECH"), which was selected through a competitive NOFA issued by the Agency in 2008. Through this Master Agreement, MECH was authorized to utilize NSP funds derived from the Housing Opportunities for Households at or below 50% of AMI program activity for the purpose of acquiring, rehabilitating and renting eligible four-plexes within the identified areas of the City to households whose total income does not exceed 50% of AMI. Per the Agency's Master Agreement with MECH, these funds will be utilized specifically for the rehabilitation and operation of 25 four-plexes in the Sunrise Lane and 19th Street area of the City, which is further discussed below. Unlike the Demolition and the Rehabilitation and Resale Programs, neither the Agency nor any assignee, such as AHS, holds title to these properties at any time. Instead, MECH is responsible for owning and operating the 25 four-plexes identified as a part of their development agreement with the Agency.

Under the Agency's approved original Action Plan, the remainder of its NSP allocation was designated for program administrative costs and homebuyer down payment assistance. The use of administrative funds is ongoing; however, as explained further in Section II, the Agency decided to discontinue its NSP Down Payment Assistance Program and opt to use the one presently being administered by Agency housing staff with the use of Housing Set-Aside Funds.

To better identify where NSP acquired properties are located, please refer to Attachment 2, which maps the location of properties acquired or in escrow as of December 31, 2009 within the NSP Target Zone and their proximity to key Agency housing projects that are in various stages of development. It is the

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intent of the Agency to cluster various NSP and other housing resources around these catalytic projects in order to leverage the significant resources dedicated to their development. It will also serve to show the positive effects of the physical change to the immediate area around these larger Agency investments brought about by single family home rehabilitation efforts.

Separately, there are five catalytic projects that have been identified and thus serve as potential targets for further NSP investment within $\frac{1}{4}$ mile up to 1 mile from each of their respective locations. As additional catalytic housing projects are identified they will be highlighted with the intent to target NSP and other funding sources in close proximity to further leverage Agency resources.

II. PERFORMANCE AS OF 12/31/09

A. Overall

Since the inception of NSP housing programs through the quarter ending December 31, 2009, the Agency obligated a total of \$2,730,471 (\$1,961,913 in program activities and \$768,558 in administration) of its NSP funding allocation. This represents a commitment of 32.5% of the total NSP funds awarded to the City. The fully allocated program activities at the start of the administration component will be drawn down over the next three years.

Thus far, the Agency either acquired or placed in escrow five foreclosed single-family homes to be rehabilitated and eventually sold to low- to moderate-income households by April of 2010. The Agency also acquired three four-plexes and two houses that will be demolished and held for future redevelopment opportunities. Funds were also obligated to MECH for the purpose of financing the acquisition and rehabilitation of two four-plexes in the Sunrise Lane and 19th Street area. In sum, the Agency either acquired or placed in escrow 12 properties since the initiation of its NSP Program, which represent a total of 27 units. The Agency's overall performance through December 31, 2009 is summarized in Table 1, included herein as Attachment 3. For a listing of the properties acquired or placed in escrow as of December 31, 2009 under the Agency's NSP housing programs please see Attachment 4.

B. Homebuyer Down Payment Assistance

On December 21, 2009, the Agency received approval from the Mayor and City Council to re-allocate the NSP funding originally designated for the Homebuyer Down Payment Assistance Program to other NSP related

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housing components. Of the \$920,000 originally allocated for down payment assistance, \$520,000 was transferred to the City's Rental Housing Opportunities for 50% AMI Households Program, and the remaining \$400,000 was redirected to the City's Acquisition/Demolition Program. Given the lack of demand for the Homebuyer Down Payment Assistance Program, due to current depressed housing market conditions in San Bernardino, the Agency determined that the community would benefit more from investing these dollars in other programs that were experiencing greater success, such as the Rental Housing Opportunities Program and the Acquisition/Demolition Program named above. This seemed especially prudent in light of the possibility that these funds would be lost if the Agency were not to invest them by the HUD imposed deadline of September 2010.

C. Rehabilitation and Resale

During the period covered by this report the Agency obligated \$574,851 to the Rehabilitation and Resale Program. This represents 15.5% of the total NSP funding originally allocated for this activity. The total obligated amount includes commitments made by the Agency for properties that are in escrow or in some other stage of acquisition.

The Agency utilized these funds to acquire five foreclosed single-family homes during the quarter. These homes are currently being rehabilitated, and they are expected to be sold to low- to moderate-income households by April of 2010. Please see Attachment 3, Table 1 for a summary of this activity.

D. Rehabilitation and Rental

Two properties have been acquired by the developer selected and approved by the Agency, Mary Erickson Community Housing ("MECH"), in furtherance of the Agency's Rental Housing Opportunities for 50% AMI Households Program. A total of \$888,242 was committed by the Agency to fund the acquisition and rehabilitation costs for these two four-plexes. This commitment level represents approximately 34% of the total funds allocated towards this housing category. This percentage is taken after adjusting the funding allocation for this program by the amount that was transferred over from the Agency's Homebuyer Down Payment Assistance Program, which was \$520,000 (please see Attachment 3, Table 1).

In addition, MECH has also opened escrow on two additional four-plex properties that will be used for this program and will eventually be purchased using Tax Increment Low-Mod Housing Set-Aside Funds. This is part of the

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Agency's strategy of leveraging its NSP funding with other sources to make a significant redevelopment impact in some of the most blighted areas in the City. In the case of the Rental Housing Opportunities for 50% AMI Households Program the Agency is combining its NSP funding with NSP funding for the Acquisition/Demolition Program, Tax Increment Low-Mod Housing Set-Aside Funds and funding from local banks to redevelop a highly blighted section of the City, known as the Sunrise Lane and 19th Street Target Area, that has a high crime rate and absorbs significant City tax revenues and other resources due to the higher level of attention from police and other City departments required for this area. Please refer to Attachment 5 for a map of the Sunrise Lane and 19th Street Target Area showing the location of the properties encumbered by MECH or the Agency/AHS as of December 31, 2009.

E. Acquisition and Demolition

The Agency obligated approximately \$499,000 for its Acquisition/Demolition Program. This represents 38% of the total NSP funding allocated for this activity. This percentage is taken after adjusting the funding allocation for this program by the amount that was transferred over from the Agency's Homebuyer Down Payment Assistance Program, which was \$400,000. The total obligated amount stated in this narrative includes commitments made by the Agency for properties that are in escrow or in some formal stage of acquisition.

With these funds, the Agency acquired three four-plexes and two houses during the quarter that will be demolished and held for future redevelopment opportunities.

The NSP funding used for the Agency's Acquisition/Demolition Program is being used to leverage funding from other sources to make a significant redevelopment impact in some of the most blighted areas in the City. In the case of the Acquisition/Demolition Program the Agency is combining this funding with NSP funding for the Rental Housing Opportunities for 50% AMI Households Program, Tax Increment Low-Mod Housing Set-Aside Funds and funding from local banks to redevelop the Sunrise and 19th Project.

F. Program Administration

The Agency has obligated \$768,558 for Program Administration during the period covered by this report. This represents 100% of the total NSP funding originally allocated for this activity. The Agency utilizes these funds to pay for such costs as program advertising, project management consultants, and

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other miscellaneous administrative tasks. Much of the work performed by Agency Staff and consultants hired to work on NSP housing programs has been classified as program delivery costs for specific housing programs, and thus has resulted in a lower utilization of NSP Program Administration funds than originally anticipated. It is anticipated that as additional staff time is required for various program activities, the administration line item will be expended more rapidly.

III. PROJECTED PROGRAM ACTIVITY

Since January 1, 2010 through February 28, 2010 the Agency has made additional progress acquiring foreclosed properties in furtherance of its various NSP housing programs. As of the end of February 2010, the Agency had committed \$3,405,744 in NSP funding, which represents approximately 41% of its total NSP allocation. This funding commitment was used to either acquire or encumber a total of 27 properties, representing 51 units. For a listing of the properties acquired or placed in escrow as of February 28, 2010 under the Agency's NSP housing programs please see Attachment 6. At this expenditure rate, the Agency is well on track to obligate its entire NSP funding allocation by the HUD imposed deadline of September 2010, thereby preventing the need to return any of this funding to the federal government.

As of February 28, 2010, the Agency had obligated \$1,193,420 for its Acquisition/Rehab/Resale Program. This represents approximately 32% of the total NSP funding originally allocated for this activity. In addition, to encumbering the five foreclosed homes previously mentioned, the Agency used these funds to encumber another twelve homes, which are currently in escrow. These homes will also be rehabilitated and sold to low- to moderate-income households at an affordable housing cost. This activity increases the number of foreclosed, single-family homes acquired by the Agency or placed in some form of acquisition escrow, under this program, to seventeen.

No additional properties have been acquired by MECH, using NSP dollars, in furtherance of the Agency's Rehabilitation and Rental Program since December 31, 2009. While MECH has not acquired any additional properties using NSP funds, MECH has opened escrow on two additional four-plex properties that will be used for the Rehabilitation and Rental Program. However these two properties will be purchased using Tax Increment Low-Mod Housing Set-Aside Funds. Unfortunately, these two four-plexes could not be acquired with NSP funds due to sale terms and conditions that were nonconforming to NSP guidelines. The addition of these two four-plexes would bring the total number of properties acquired by MECH to four. This represents 16% of the 25 properties

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that MECH was contracted to acquire, rehabilitate and manage as part of the Sunrise and 19th Street Project. It is anticipated that under the next NSP Report for the period ending March 31, 2010, MECH will be able to demonstrate an expenditure level of up to 90% of NSP Funds. This is based on current acquisition negotiation with various banks for as many as four additional properties.

Since the end of the last quarter, the Agency has committed an additional \$57,000 in NSP funding to its Acquisition/Demolition Program, bringing the total allocated to this activity to \$555,000. This represents 42% of the total NSP funding allocated for this activity. With the additional funding, the Agency encumbered another single-family home that will also be demolished but is now in escrow. All of these properties will be held for future redevelopment opportunities.

In addition to investing in the housing programs originally identified at the inception of the Neighborhood Stabilization Program, the Agency is investing NSP dollars in other areas. For example, the Agency is currently working with "A Time for Change Foundation", a local non-profit organization that assists women who are homeless and formerly incarcerated or recovering from substance abuse or domestic violence to eventually live a healthy, independent and drug or alcohol-free lifestyle. This non-profit recently approached the Agency with a request for financing to acquire housing that it would use to provide permanent residential opportunities for its clients. After studying this organization's needs further, the Agency realized that it could probably use funding from one of its NSP housing programs to help this organization acquire a suitable, multi-family building that it could use for this purpose, especially given the vast supply of foreclosed residential properties currently on the market. The Agency has now identified one potential property that could be acquired and rehabilitated using NSP funds to permanently house some of these program participants, typically women and their children. The Agency is currently in escrow to acquire this building, and it plans to negotiate a Development Agreement with "A Time for Change Foundation" in April 2010. Agency Staff will report further progress on this project in upcoming activity reports.

Finally, the Agency is contracting with local faith-based non-profit housing developers to rehabilitate and sell some of the properties acquired with NSP funds. The Agency has executed MOU's with two groups, the Inland Empire Concerned African American Churches ("IECAAC") and Ecclesia's Economic and Community Development Collaboration ("EECDC"), from San Bernardino, to explore opportunities to acquire and rehabilitate properties under the Agency's NSP housing programs. The Agency will initially hold title to these properties, leaving the organizations to only act as intermediaries responsible for

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rehabilitating and selling the properties to an income eligible buyer. However, as these local groups work on more units and develop their capacity and skill sets, the Agency intends to expand its program with these developers, to allow them to eventually manage the entire development process, from acquisition to disposition. These programs benefit the community by increasing the capacity of local organizations that are capable of developing affordable housing and by helping the Agency to reach out to a wider client base.

As of the writing of this report, the Agency was negotiating with IECAAC to acquire, rehabilitate and resell one foreclosed home in the City. The Agency plans to report on the progress of these negotiations within the next NSP quarterly report.

IV. CHALLENGES AND OBSTACLES

A. NSP2 APPLICATION DECLINED BY HUD

The Agency's application to the U.S. Department of Housing and Urban Development ("HUD") for funding from the second round of NSP was declined in January of 2010. The Agency had hoped to receive approximately \$9 million in additional NSP funding through this application. It was expected that this funding would help pay for the continuation of housing programs initiated under the first round of NSP funds, such as the Sunrise and 19th Project, and the future implementation of other major housing projects clustered around the five major target areas identified in the map included herein as Attachment 2.

While the absence of NSP2 funding represents a setback to the Agency, plans for the development of the five major target areas still remain in effect. The Agency expects to offset the lack of NSP2 funding with other sources, such as the Agency's tax-increment housing set-aside funds and HOME Investment Partnerships Program ("HOME") funding. In addition, there is a strong possibility that HUD will issue a third round of NSP funding, which will be allocated on an entitlement basis to pre-designated jurisdictions. Since the City is a pre-designated entitlement city under HUD, the City would most likely be guaranteed an additional allocation of NSP funding should the third round of NSP funding be enacted by HUD.

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B. INTERMEDIARY ATTRITION

Since the inception of the Agency's NSP housing programs two of the five developers selected to provide intermediary services under the Rehabilitation and Resale Program ("Intermediaries") have opted out of the NSP program. One of the former Intermediaries, The Nunez Team, decided to resign from the program due to problems with its general contractor. The other Intermediary that has opted out, Mercy Housing California, Inc., determined that it could not compete on a cost basis with other Intermediaries in the program. This in turn would diminish the number of properties assigned to them by the Agency, to a level where it would no longer be profitable for them to participate. Currently, another Intermediary, Jamboree Housing, Inc., is considering whether it will continue to participate in the Agency's Rehabilitation and Resale Program. While they want to participate in the program, their organizational structure poses some legal issues with respect to the NSP requirements that they might not be able to resolve. Agency Staff is monitoring this issue and will apprise the Council of any further changes in intermediary participation.

In spite of the attrition in the Agency's Intermediary pool, enough Intermediaries still participate in the Agency's NSP housing programs to carry out the City's NSP activities through completion. Two of the original Intermediaries selected, ANR Industries, Inc. and GFR Enterprises, Inc., still remain in the program, and they have the experience and capacity to compensate for any loss in production capability incurred from the absence of The Nunez Team and Mercy Housing, Inc. In addition, on January 4, 2010, the Agency added Inland Empire Affordable Housing Organization, LLC ("IEAHO") as an Intermediary under the Rehabilitation and Resale Program. As one of the original developers selected as a finalist for participation in the Rehabilitation and Resale Program, IEAHO had previously demonstrated that it had the experience, resources and capacity to serve as an Intermediary, but had scored lower than the firms that were originally selected. IEAHO, applied under a different name, Omni International, Inc., at the beginning of the Rehabilitation and Resale Program. Both IEAHO and Omni International, Inc. are managed by Jian Torkan.

C. FINDING ACQUISITION OPPORTUNITIES AROUND THE FIVE MAJOR TARGET AREAS

While the Agency receives many listings of foreclosed residential properties within the City of San Bernardino, many, if not most, of these properties do not conform to the acquisition requirements imposed by the NSP Program. Most of the foreclosed properties offered by the banks that the Agency deals

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with are located outside the NSP eligible area, otherwise known as the NSP Target Zone. Therefore, the Agency must pass on these properties. Of the properties offered for sale that are located within the NSP Target Zone, many cannot be acquired by the Agency due to various reasons. Frequently the Agency is not able to get the one percent (1%) discount on price that is required by the NSP Program, or the Agency is outbid by private investors. Also, many times the Agency is not able to submit a bid for a property within the escrow period required by the seller. These are just some of the reasons limiting the Agency's acquisition opportunities under the NSP Program. The impact of these limiting factors is that the Agency has had difficulty acquiring a critical mass of properties around the five major target areas.

The Agency is working to cultivate other sources of eligible properties for purchase, such as establishing a direct relationship with Fannie Mae, and utilizing sources of financing other than NSP that are not as restrictive, in order to accumulate a significant number of properties around the five major target areas.

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ATTACHMENT 1

NSP TARGET ZONE MAP

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ATTACHMENT 2

MAJOR TARGET AREAS MAP

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ATTACHMENT 3

NSP PROGRAM PERFORMANCE MEASURES

AS OF DECEMBER 31, 2009

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ATTACHMENT 4

NSP PROPERTIES ENCUMBERED

AS OF DECEMBER 31, 2009

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ATTACHMENT 5

SUNRISE AND 19TH STREET TARGET AREA MAP

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ATTACHMENT 6

NSP PROPERTIES ENCUMBERED

AS OF FEBRUARY 28, 2010