



Agenda Date: 8/22/2006
Agenda Placement: 9C

NAPA COUNTY BOARD OF SUPERVISORS Board Agenda Letter

TO: Board of Supervisors
FROM: Nancy Watt - County Executive Officer
County Executive Office
REPORT BY: Karen Gratton, Senior Management Analyst , 259-8748
SUBJECT: Purchase of Homeless Shelter

RECOMMENDATION

County Executive Officer requests consideration and possible approval of the following actions in relation to the purchase of the South Napa Homeless Shelter facility:

1. Approval and authorization for the Chair to sign Amendment No. 2 to Agreement No. 6476-1 with the Peter A. and Vernice H. Gasser Foundation modifying the purchase price to reflect the final completed cost of construction of \$4,561,501; and
2. Authorization for publication of notice, in the manner required by Government Code Section 25350, of intent to exercise the option to purchase the South Napa Homeless Shelter facility.

EXECUTIVE SUMMARY

Under the terms of the Homeless Shelter Lease and Option to Purchase agreement, the County would have to decide whether or not to exercise the purchase option by the end of the first year following completion of construction. That date would be May 18, 2007. However, in order to access state Emergency Housing and Assistance Program (EHAP) funding the option needs to be exercised prior to September 3, 2006. Should the County choose to exercise the option to purchase the building the purchase price would be \$4,561,501 minus a \$500k donation by the Gasser Foundation plus any escrow fees. The purchase price reflects the final completed cost of the homeless shelter. Should the County exercise its option to purchase the shelter by September 3, 2006, approximately \$3.15 million in grant funds would be utilized along with donations by the Gasser Foundation of \$750k. The County would need to fund about \$661k of the purchase, of which \$280k has already been set aside.

FISCAL IMPACT

Is there a Fiscal Impact? Yes

Is it currently budgeted?	Yes
Where is it budgeted?	Capital Improvement Program
Is it Mandatory or Discretionary?	Discretionary
Discretionary Justification:	<p>The County, through a contract with Community Action Napa Valley (CANV), currently funds the homeless shelter program along with the City of Napa and CANV. A number of grant agreements have been signed in anticipation of the purchase of the Shelter via a Homeless Shelter Lease and Option to Purchase between the County and the Peter A. and Vernice H. Gasser Foundation (Foundation). The Foundation donated the land on which the shelter was constructed. Additionally, the Foundation designed and constructed the shelter itself, which was completed in May 2006.</p> <p>Should the County exercise its option to purchase the shelter by September 3, 2006, approximately \$3.15 million in grant funds would be utilized along with donations by the Foundation of \$750k. The County would need to fund about \$661k of the purchase, of which \$280k has already been set aside.</p>
Is the general fund affected?	Yes
Future fiscal impact:	If the option to purchase the shelter were exercised, lease payments would end. Based on the purchase price of \$4,561,501 this would equate to about \$550k per year in the second year after completion of construction, increasing annually by 4% for the remaining 23 years.
Consequences if not approved:	Lease payments would continue for a total of 25 years with a present value of \$6 to \$9 million depending on interest rates. Grants from the state (\$1m), County Affordable Housing Trust Fund (\$900k), City of Napa Housing Authority (\$500k) and Auction Napa Valley (\$750k) and the Gasser Foundation (over \$750k) will be lost.
Additional Information:	None

ENVIRONMENTAL IMPACT

ENVIRONMENTAL DETERMINATION: The proposed action is not a project as defined by 14 California Code of Regulations 15378 (State CEQA Guidelines) and therefore CEQA is not applicable.

BACKGROUND AND DISCUSSION

History

On April 8, 2003, the Gasser Foundation and the County of Napa entered into a Ground Lease (Napa County Agreement No. 5064). The Ground Lease resulted in the Gasser Foundation leasing to the County land adjacent to the South Napa Market Place for a proposed homeless shelter for one dollar per year for for 99 years. The land is valued at \$1,350,000.

On June 28, 2005, the Gasser Foundation and the County of Napa entered into a Sublease Agreement (Napa County Agreement No. 6476-2). This resulted in the County subleasing the property back to the Gasser Foundation

to design and construct the South Napa Homeless Shelter Facility.

On June 28, 2005, the Gasser Foundation and the County of Napa also entered into a Homeless Shelter Lease and Option to Purchase Agreement (Napa County Agreement No. 6476-1). This agreement allowed the County to vacate the homeless shelter located in the Sullivan Building before the expected construction of the Parking Garage (which was to be located on that site at the time of the lease signing). The Agreement provided that it was the intention of the parties that the County would lease the building and related improvements comprising the South Napa Homeless Shelter for 25 years, with an option to purchase the facility within 1 year after completion. The term of this Agreement automatically commenced on the date of Completion of Construction of the South Napa Homeless Shelter as determined by Paragraph 6 of the Sublease. That date was May 18, 2006, when the facility commenced operations.

Financing

The County, in the spring of 2003, applied for and received a \$500,000 forgivable loan from the state Emergency Housing and Assistance Program (EHAP) made possible by the Emergency Shelter Trust fund Act of 2002 (Proposition 46) to acquire the homeless shelter on the site made available by the Gasser Foundation. This original \$500,000 forgivable loan was subsequently increased to \$1,000,000 in the spring of 2004. In order to access these funds, the County would need to exercise the option to purchase by September 3, 2006.

The County has secured certain funds for the possible purchase of the building. In addition to the initial contribution of \$500,000 by the Gasser Foundation, other sources include a contribution by the City of Napa Housing Authority (\$500,000) and the County's Affordable Housing Trust Fund (\$900,000). The County would also commit \$280,000 in Tobacco Master Settlement Agreement funds. Additionally, the County has applied for \$750,000 from the Napa Valley Vintner's Association, Auction Napa Valley Program over three years and has received the first year of funding (\$250,000). For the remaining \$631,501, the County is currently working with a grant writer to pursue funding opportunities. If the County is unable to raise the additional \$631,501 the Gasser Foundation has agreed to split any shortfall up to \$500,000 (or \$250,000 each) with the County. The remaining shortfall (\$381,501) would be the responsibility of the County.

Today's Actions

Under the terms of the lease agreement, the County would have to decide whether or not to exercise the purchase option by the end of the first year following completion of construction. That date would be May 18, 2007. Under the terms of the EHAP agreement the option would need to be exercised by Sept 3, 2006. Should the County choose to exercise the option to purchase the building the purchase price would be \$4,561,501 plus any fees, minus a \$500,000 donation by the Gasser Foundation.

After exercising the option the County would have up to two years to complete payment on the purchase. During this period the County would make payments to the Gasser Foundation equal to the interest (7%) on the as-yet unpaid purchase price amortized over 25 years. Funding for the probable close of escrow in October 2006 totals \$3,680,000. If the County were to deposit only that amount into the escrow account, the remaining balance of approximately \$881,501 would result in interest payments totalling about \$122,000 over two years. The interest payments would essentially purchase time to collect the additional year of Auction funding (\$250,000) and time to apply for additional grants. Based on the apportioned pool rate of 3.337% as of June 30, 2006, the interest the county would earn on that same \$881,501 if it were kept in the County Treasury for two years is approximately \$60,000.

The Fiscal Year 06-07 budget includes \$4,056,000 for the possible purchase of the South Napa Homeless Shelter. If the Board chooses to exercise the option to purchase the Shelter, the appropriated amount would need to be increased to cover the actual purchase price plus any related escrow fees. The Accumulated Capital Outlay

Fund would be utilized for the cost of the purchase greater than grant funds on hand.

The monthly rent for the facility for the first year following completion of construction is an adjustable rate based on the Gasser Foundation's expected construction financing costs. The monthly lease rate is currently \$28,284. At the end of the first year following completion of the building and commencement of the facilities lease, the option to purchase the building would expire and the annual rent would increase to 10% of the purchase price plus \$100,000, increasing annually by 4%. Based on the purchase price of \$4,561,501 this would equate to about \$550,000 per year in the second year after completion of construction.

If the County does not exercise the purchase option, the annual lease payment of approximately \$550,000 will be a County obligation. It is possible that some of the funding sources identified for the purchase of the building (such as the County's Affordable Housing Trust Fund) could be used to make lease payments. To the extent these sources cannot be used, the lease obligation will need to be met from the General Fund or other sources that can be identified, such as possibly Tobacco Master Settlement Agreement funds.

SUPPORTING DOCUMENTS

None

CEO Recommendation: Approve

Reviewed By: Karen Gratton