



Community and Cultural Development Committee Report

Date: July 11, 2022
To: City Council
From: Michelle Albanese, Housing & Community Development Director
Through: Natalie Lewis, Deputy City Manager
Ruth Giese, Community Services Director
Subject: Transfer of CDBG Funded properties to A New Leaf, Inc.

Purpose and Recommendation

The purpose of this report is to seek City Council approval for a resolution authorizing: (a) the transfer of two City-owned properties encumbered by federal funding to A New Leaf, Inc.; and (b) the City Manager to enter into documents necessary for the transfer.

Background

The City owns several properties acquired, constructed, or improved using federal funds awarded by the U.S. Department of Housing & Urban Development (“HUD”) from the following programs - Community Development Block Grant (“CDBG”), HOME Investment Partnership Program (“HOME”), and the Neighborhood Stabilization Program (“NSP”). Many of these properties are leased to nonprofit agencies for the purpose of benefiting households of low- and moderate-income persons.

Historically, City Council has approved the transfer of ownership of many of the HUD funded properties to the nonprofits who lease them when the nonprofits meet certain criteria and agree to continue to provide services benefitting the community for a specified length of time. On August 28, 2017, City Council approved Resolution No. 11018 (*Exhibit A*) amending the City’s property transfer, sale and lease policy for HUD funded properties: “Criteria for the Disposition of City Property Encumbered by CDBG, HOME, or NSP Funding to Nonprofit Agencies” (the “Policy”). The Policy outlines procedures and criteria for the City to utilize when a nonprofit agency, who is currently leasing HUD funding encumbered property from the City, requests the property ownership be sold or transferred to the nonprofit.

Discussion

A New Leaf, Inc. ("A New Leaf") has requested the transfer of two properties acquired and/or improved with CDBG funds known as the "Main Property" and "University Property" (more information on the properties is provided below). On January 27, 2020, Council approved, by Resolution #11450 (*Exhibit B*) pursuant to the requirements in the Policy, the transfer of the property known as the "Hobson Property". At that time, City staff also recommended the transfer of the Main Property and University Property, but Council requested further discussion and analysis be done on those two properties in order to explore other options for the two properties and A New Leaf's operations. Specifically, the City Council requested staff: (1) identify the current value of each of the two properties; (2) research other City-owned properties to serve A New Leaf's purposes of operation of their programs; and (3) identify available funding to acquire and rehabilitate property for A New Leaf to continue providing services and programs.

Below is information on the Main Property and University Property pertinent to the additional information requested by City Council and discussion on the potential transfer or disposition of the two properties:

A. Main Property. Closest major cross streets are Mesa Drive and Main Street.

1. The property is utilized by A New Leaf as transitional housing for single women who are overcoming homelessness, domestic violence and/or learning to live independently.
2. September 2017 appraisal valued the property at \$166,000. The current area comps provided from the City's Real Estate Division indicate an estimated value of the Main Property at \$300,000 to \$325,000. This is an approximate increase in value of \$134,000 - \$159,000.

B. University Property. Closest major cross streets are E. University Drive and Country Club.

1. The property is utilized by A New Leaf as an information technology center for their agency's programs.
2. September 2017 appraisal valued the property at \$350,000. The current area comps provided from the City's Real Estate Division indicate an estimated value of the property at \$500,000 to \$560,000. This is an approximate increase in value of \$150,000 - \$210,000.

At the request of City Council, staff worked with the City's Real Estate division regarding available City properties and determined there are no City-owned properties that are vacant and available for use by A New Leaf that fit its programming needs.

For A New Leaf to acquire new properties with CDBG funds to move its operations from the Main Property and University Property, A New Leaf could submit a funding proposal

request for CDBG funds during the open funding process for FY 2023/2024 for the purposes of acquisition and rehabilitation of an alternate location that would be reviewed as a part of the standard funding review process.

Options for Consideration

Staff presented to the Community and Cultural Development Committee on May 5, 2022. The following are the options for Council consideration:

1. Sell the Main Property & University Property for current fair market value to someone other than A New Leaf and reimburse the CDBG grant per HUD regulations. CDBG funding requirements require that the sale proceeds go back to the CDBG program and be reallocated to other eligible CDBG activities. No funds from a property acquired with CDBG funding can be credited back to the City's General Fund. The sale would also most likely trigger federal relocation requirements, adding additional costs to the City and/or A New Leaf.
2. Sell the Main Property & University Property to A New Leaf for the current fair market value and reimburse the CDBG grant per HUD regulations. Similar to the first option, the sale proceeds would go back to the CDBG program and be reallocated to other eligible CDBG activities. No funds from the sale for CDBG fund acquired property can be credited back to the City's General Fund.
3. Transfer the Main Property & University Property to A New Leaf. Additional consideration for the transfers, beyond the funds and improvements A New Leaf has put into the properties and the services A New Leaf provides for benefit of the community, could be added, such as increasing the continued use period, beyond HUD's required continued use period for each property.
4. Continue to lease the Main Property & University Property to A New Leaf.

The transfer of the properties is recommended by the Community and Cultural Development Committee and the Community Services Department. Approved by resolution, the transfer of the properties to non-profit agencies is permitted for those properties meeting the property transfer criteria Policy discussed above. The transfer meets the City Council approved Criteria for the Disposition of City Property Encumbered by CDBG, HOME, or NSP Funding to Nonprofit Agencies.

A New Leaf has been an active nonprofit agency in Mesa for over 47 years, providing a variety of services to assist homeless persons, domestic violence victims, and disadvantaged youth. A New Leaf has leased the Main Property & University Property each for well over the ten-year requirement in the Policy and has kept the properties in good physical condition. Some of the property improvements paid for and completed by a New Leaf include painting, flooring replacement, HVAC upgrades, landscaping, and general property maintenance. City staff reviewed the programming offered by A New Leaf at the two properties and, although it has changed over the years, the programming and use of the properties by A New Leaf has benefitted the community by serving

households of low- and moderate-income persons, one of the CDBG National Objectives, and has met the requirements of CDBG eligible activities. A New Leaf intends to continue to use the properties to provide programs and services to the community. Based on City staff's review, A New Leaf has demonstrated their ability to properly maintain the properties, including A New Leaf having made various improvements to the properties using its own funds (noted above). A New Leaf has demonstrated that they are a financially stable nonprofit agency, capable of maintaining the properties and providing the services after a transfer of the properties if the transfer is approved by City Council.

The Community Services Department has reviewed A New Leaf's request and recommends Council approve resolutions authorizing: (a) the transfer of the Main Property & University Property to the ownership of A New Leaf; and (b) the City Manager to enter into any agreements related to the transfer of the properties. After the submittal of a waiver to HUD and additional consultation with HUD, the Main Property and University Property may have met the HUD required continued use period. Other than any remaining continued use requirements from HUD, based on the investment A New Leaf has put into the properties, the services provided to the community, no additional consideration is recommended by staff for the transfer.

Staff presented to City Council on July 5, 2022, seeking Council direction on the available options of the sale, transfer, or lease of the Main Property & University Property to A New Leaf. Council provided direction in support of the transfer of the Main Property & University Property. As pointed out and discussed at the meeting, there were errors in Slide 7 of the PowerPoint presentation (copy attached) related to a transfer of the properties. To clarify, the staff recommendation of a transfer of the Main Property and University Property would:

1. Result in the City transferring ownership of each property to A New Leaf.
2. Be subject to each property meeting its continued use period, if any, as required by HUD. As previously discussed, the City asked for a waiver from HUD related to certain continued use period requirements, which, at the time, HUD allowed for a 10-year continued use period requirement; however, recent communications with HUD have shown that HUD may allow for a shorter period or may deem that the continued use period requirements have been met. Staff's recommendation to allow for the transfer of each property is subject to the applicable continued use period requirements determined by HUD, which would be reflected in document(s) applicable to the transfer (by way of example, deed restrictions).

Alternatives

Staff's recommendation is the City transfer the Main Property & University Property as outlined above. In the alternative, the City could:

1. Sell the Main Property & University Property to A New Leaf for the current fair market value and reimburse the CDBG grant per HUD regulations.
2. Continue to lease the Main Property & University Property to A New Leaf.
3. Transfer each property to A New Leaf but require additional consideration for the transfer of the Main Property & University Property, such as increasing the continued use period beyond HUD's required continued use period for each property.

Fiscal Impact

The Main Property & University Property were purchased and/or improved with CDBG funds, making no fiscal impact to the City's General Funds because any funds received as a result of the sale of the properties is required to be returned to the City's CDBG line of credit and could not be used by the City for another purpose.

If the Main Property & University Property are not used or disposed of in accordance with CDBG program use requirements, this can result in a repayment by the City to the U.S. Treasury of the then current fair market value of the properties from the City's General Funds, representing the amount of the CDBG funds invested in the properties.

Coordinated With

Community Services Department has reviewed the proposal and supports the property transfer and consulted with the City Attorney's Office.