

**CLACKAMAS COUNTY BOARD OF COUNTY COMMISSIONERS**  
**Sitting/Acting as:**  
**Board of Commissioners of the Housing Authority of Clackamas County**

**Study Session Worksheet**

**Presentation Date:** July 28th, 2020 **Approx Start Time:** 2:30 PM **Approx Length:** 30 mins

**Presentation Title:** Arbor Terrace Apartments Transfer of Ownership

**Department:** H3S/Housing Authority of Clackamas County (HACC)

**Presenters:** Rich Malloy, Stephen McMurtrey, Jill Smith

WHAT ACTION ARE YOU REQUESTING FROM THE BOARD?

We are seeking to review and discuss transferring Arbor Terrace Apartments (a farmworker residential property) to Farmworker Housing Development Corporation (FHDC), with a recommendation to formally approve the transfer at the August 6, 2020 business meeting.

**EXECUTIVE SUMMARY:**

**Background:**

In 1992 the Housing Authority of Clackamas County (HACC) developed Arbor Terrace Apartments, a 25-unit affordable farmworker residential community located in Molalla, Oregon. The development was financed with a grant and loan from the U.S. Department of Agriculture (USDA) Rural 514 program. This development includes a variety of two, three and four bedroom apartments with occupancy restricted to families wherein at least one family member works in a USDA qualified farm labor occupation. This is the only farmworker project in HACC's portfolio. The regulatory and compliance requirement costs of owning, operating, and maintaining a one-off USDA project have become financially cumbersome. As a result, it is in the best interest of HACC to transfer the property to a non-profit organization with experience in the management, service, recapitalization and outreach necessary for successful ownership of this property and its farmworker housing population.

The issues surrounding this property are outlined below as follows: 1) Property Management; 2) Budgeting and Financial Management; 3) Capital Needs; and 4) Resident Population and Cultural Sensitivity. The memo concludes with an explanation of the need to transfer the property to a qualified farm work non-profit owner.

**Challenges in Owning and Managing Farm Worker Housing:**

***Property Management:***

HACC has had long term success in operating public housing and specials needs housing but does not have the expertise or staff capacity to successfully manage farm worker housing. As a result, HACC contracts out the management of the property to MLK Properties, a company that specializes in small rental properties including those regulated by the USDA. Historically, contracting out property management has worked to keep the property operating however, outside management properties don't have the capacity to perform rehabilitation activities or provided adequate resident services to farmworker families.

Even if HACC did want to manage the property in-house, with its current staff it is not qualified to do so and would not receive approval from USDA unless it invested in staffing, training and systems necessary to do so. The funding for these investments would have to originate from other

HACC properties and would not be reimbursed by Arbor Terrace. Additionally, HACC does not have the capacity and/or culturally specific experience in rehabilitating Rural Development Farm Worker housing or providing resident services in farmworker properties.

***Budgeting and Financial Management:***

Under program regulations, annual budgets for operations must be approved annually by the local USDA Field Representative. These budgets are designed to cover expenses and breakeven plus a small asset management fee. This fee which is typically paid to HACC does not cover the costs of asset management or financial management. By design farmworker properties do not generate sufficient cash flow for reinvestment into the property. In the short run, this can be problematic for general operations during periods of high vacancy or increased costs not eligible for capital reserve funds. In the long run, it's difficult to accrue a capital reserve at a level to conduct substantial rehabilitation projects (e.g. Reserve is capped at \$175,000 and typical rehab projects are over \$1,000,000). As a result, about every 25 years when the property is in need of a substantial rehabilitation it's necessary to go back to USDA to apply for new grants and loans to recapitalize the project. Obtaining recapitalization funding from USDA is complex and requires a specialized consultant or experienced farmworker housing entity that has a track record in successful procurement of USDA funding. In summary, HACC continues to face financial shortfalls and does not have a source of funding to cross-subsidized operational deficits that could occur with this property.

***Capital Needs:***

As noted above, it is difficult to accrue substantial capital funds for rehabilitation and revenue from operations barely meets maintenance needs to the required minimum standard. The property is in fair condition and meets inspection standards set by USDA but as with all residential properties it is at a point where it needs to be completely rehabilitated. In the fall of 2019 HACC utilized a Community Development Block Grant through Clackamas County Community Development to replace all of the roofs on all seven residential buildings and the small utility buildings on the property. This helped to buy more time before a substantial rehabilitation project can be financed. However, the property needs new siding, interior fixtures, floors, cabinets, painting, plumbing and electrical upgrades within the next two or three years. HACC does not have the capacity to raise this funding and manage this project especially given its rigorous schedule of other development activities. As noted above, it would require a consultant or an experienced farm worker non-profit organization to procure such funding and manage the rehabilitation project.

***Resident Population and Cultural Sensitivity:***

Farmworker properties are not restricted to any one specific group of people other than at least one household member must be employed in qualified farmworker labor. However, a majority of farmworker housing residents are Latino and many residents are monolingual. Therefore, it is critical to have an owner or management company that is bilingual and culturally sensitive to support the population so they can be assured success in their housing. Entities that specialize in farmworker housing have robust resident services programs designed to enhance the opportunities for all members for farmworker families to thrive and improve their quality of life. These programs are especially important for youth to ensure their continued success in school. HACC does not have the capacity to meet the scale of the resident services need. It would be best served by an entity with resident services programs, partnerships and infrastructure necessary to meet the resident's needs.

**Recommended Solution to Meeting the Management and Capital Needs of Arbor Terrace**

***Transfer Arbor Terrace to Farmworker Housing Development Corporation (FHDC):***

To meet the management, financial, capital and resident needs of Arbor Terrace Apartments HACC staff is recommending the transfer of Arbor Terrace to the Farmworker Housing Development Corporation (FHDC) of Woodburn, Oregon. FHDC was selected through an RFP

process during the summer of 2019. Three farmworker housing entities were solicited but only the Farm Worker Housing Development Corporation (FHDC) responded to the RFP. FHDC exceeded the minimum qualifications specified in the RFP and was the unanimous choice by the review committee to acquire the property through the USDA transfer process. These qualifications included: 1) At least three years' experience in owning and managing farmworker housing; 2) ownership of at least 100 units of farmworker housing; 3) experience and success with redevelopment or rehabilitation of farmworker housing; 4) experience with successful resident services programs for farmworker families; and 5) strong fiscal management and clean audits. Also, note that HACC's Executive Director conducted a tour of FHDC's administrative offices, housing units and resident services facility and was impressed with their programs and capacity to adequately meet the service needs of the residents. It is clear that FHDC is an established and professionally managed mission driven housing non-profit that can successfully acquire Arbor Terrace and sustain the property for the long term benefit of farmworker families in the region. Ultimately, FHDC as the successful respondent to the RFP provided strong evidence of their experience with all major aspects of owning, managing, operating and providing resident services in farmworker housing.

**Next Steps for Transfer of Property**

- 1) Work with the Transferee FHDC to complete the application to USDA
- 2) Upon approval by USDA to transfer property, execute the closing documents
- 3) Work with FHDC to ensure a smooth transition of ownership

**FINANCIAL IMPLICATIONS (current year and ongoing):**

Is this item in your current budget?  YES  NO

What is the funding source?

U.S. Department of Agriculture (USDA) Rural 514 program

**STRATEGIC PLAN ALIGNMENT:**

- How does this item align with your Department's Strategic Business Plan goals?
  - Sustainable and Affordable Housing
  - Efficient & effective services
- How does this item align with the County's Performance Clackamas goals?
  - Public trust through good government
  - Ensure safe, healthy and secure communities

**PUBLIC/GOVERNMENTAL PARTICIPATION:**

N/A

**OPTIONS:**

1. Review and approve the transfer of Arbor Terrace and place the approval on the August 6, 2020 Housing Authority Board of Commissioners meeting, as a consent agenda item, authorizing staff to move forward with the transfer process.
2. Review the recommended transfer, direct changes, and place the approval on the August 6, 2020 Housing Authority Board of Commissioners meeting, as a consent agenda item, authorizing staff to move forward with the transfer process.
3. Direct staff to explore other options and bring back for additional discussion, at a future policy session.

**RECOMMENDATION:**

1. Staff recommends that the Housing Authority Board approve the transfer of Arbor Terrace and place the approval on the August 6, 2020 Housing Authority Board of

Commissioners meeting, as a consent agenda item, authorizing staff to move forward with the transfer process.

ATTACHMENTS:

- Exhibit A - Arbor Terrace Location Map
- Exhibit B - Summary of Qualifications for Transfer
- Exhibit C - Excerpt on USDA Transfer Process

SUBMITTED BY:

Division Director/Head Approval \_\_\_\_\_

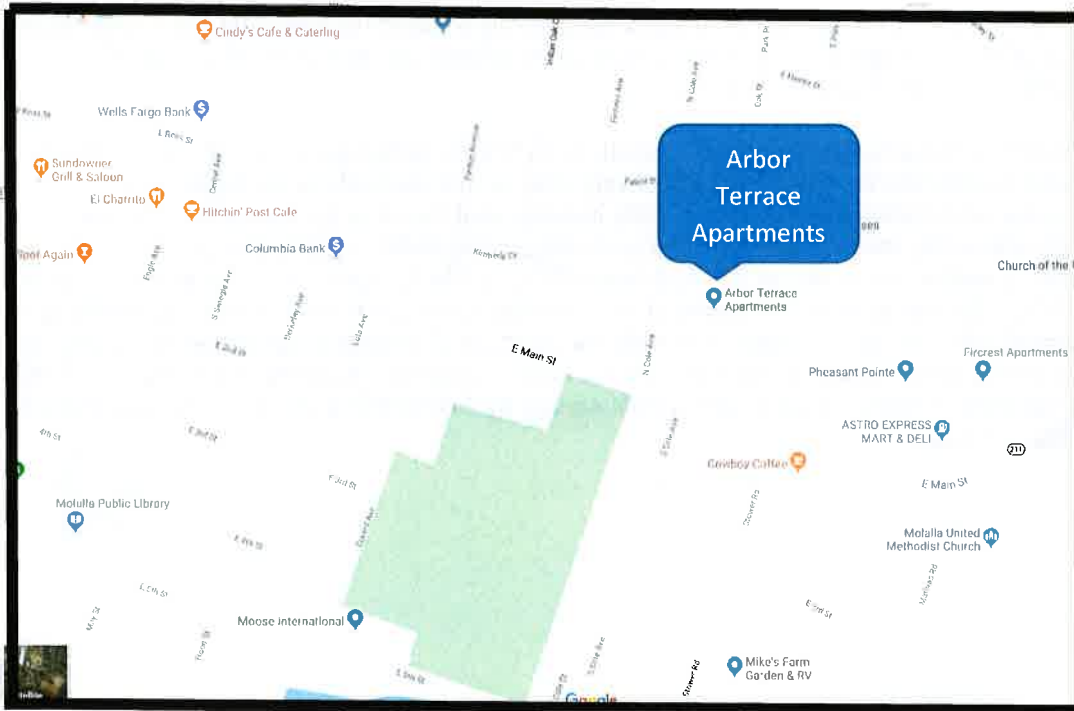
Department Director/Head Approval \_\_\_\_\_

County Administrator Approval \_\_\_\_\_

For information on this issue or copies of attachments, please contact Jill Smith @ 503-742-5336

## EXHIBIT A - Location Map

**Arbor Terrace Apartments**  
**127 N. Cole Street**  
**Molalla, OR 97038**



## EXHIBIT B

### **Summary of Qualifications for Transfer of USDA Farmworker Property**

The administrative rules of the USDA farmworker program are contained in USDA Handbook HB-3-3560, Attachment 7-B-1 (see attached). The first step of the process is to complete the transfer application and submit it to the USDA Field Office for review. There are six "Acceptable Reasons" for a transfer to be considered by USDA and the application must meet at least one of these reasons. This project meets three of these thresholds: 1) the need for physical and financial revitalization; 2) the transfer will do no harm to Rural Development or tenants; 3) Other circumstances exist which make the transfer in the best interest of the Government and the tenants of the project. The remainder of the application is a matter of providing the documentation that the transferee is qualified to and has the capacity to take ownership of the property and operate it according to USDA regulations.

The Farmworker Housing Development Corporation (FHDC) noted earlier in this report clearly meets these qualifications. FHDC will effectively take on the work of the application with supporting documentation from HACC. Finally, please note this is not a typical real estate transaction where the intent is sell a property at reasonable profit or just to break even. Further this transfer of ownership of Arbor Terrace from HACC to FHDC does not result in an economic loss to HACC. Similar to Public Housing, Arbor Terrace is at best a break even real estate asset. The reason to own this type of asset is to fulfill the mission of providing farmworker housing. As explained above, this mission is not a good fit for HACC however, is clearly the mission of FHDC and the residents of Arbor Terrace will be best served by FHDC given the purpose and scale of their business model.

## EXHIBIT C

### Excerpt on USDA Transfer Process

#### Action Step:

- 1) Applicant completes Preliminary Analysis and schedules Initial Consultation with designated RD Loan Servicer
- 2) Initial Consultation with Applicant, Seller, and other key participants having significant roles in the transaction such as other lenders, grantors, etc.
- 3) Application Provided by Applicant preliminary review starts; RD completeness review of application completed within 14 business days. Incomplete applications will be returned to applicant and processing does not begin until the complete application is received.
- 4) Request Underwriter Review - Detailed review by Underwriter commences and processing starts. Status updates provided to applicant within every 30 business days the application is in process at RD. If additional clarification or other materials are needed, the application will be considered incomplete and it will be returned to the applicant for resolution. Unsatisfactory submissions will be returned as incomplete or rejected.
- 5) Submit application to RD HQ for Authorization. Upon completion of the Underwriter's detailed review, the application will be submitted to HQ. Within 10 business days, HQ determines if the transfer may be authorized. If the transfer requires additional information from the applicant, the application is returned to the state office for continued processing.
- 6) Agency Decision - Communicate to Applicant within 45 business days (single property) / 75 days (multiple properties) - Processing for approval is limited to the periods shown and does not include delays beyond the underwriter's immediate control.
- 7) Prepare Approval Conditions for Signature of Applicant - Within 15 business days of Agency Decision written approval conditions sent to applicant for acceptance
- 8) Coordinate Closing Instructions and OGC Loan Document Approval.
- 9) Schedule and Close Transfer.
- 10) Complete post-closing review and verification that approval and closing conditions have been met.