

**ACTION
MINUTES OF THE
JOINT SPECIAL BOARD MEETING
OF THE
HOUSING AUTHORITY OF THE COUNTY OF MONTEREY
BOARD OF COMMISSIONERS
AND
MONTEREY COUNTY HOUSING DEVELOPMENT CORPORATION
BOARD OF DIRECTORS
HELD JANUARY 15, 2011**

Commissioners met at the Central Office. Chair Elizabeth Williams requested the HDC Chair Alan Styles open the Joint meeting at 9:34 a.m. for the HDC attendees. HACM Chair Williams then called the meeting to order at 9:34 a.m. for the HACM attendees. Present: Chair Elizabeth Williams, Vice Chair Alan Styles, and Commissioners Josh Stewart, Tom Espinoza, Kevin Healy and Andrew Jackson. Also Present: Jean Goebel, Acting Executive Director; Lynn Santos, Director of Finance; Norm McCollough, Housing Management Manager; and Tom Griffin, Legal Counsel. Present for HDC Staff: Starla Warren, CEO/President; Carolina Sahagun, Senior Community Development Planner; Marilyn Rose, Senior Finance Officer. And Kimmy Nguyen, Administrative Assistant. Recorder: Sandy Tebbs

COMMENTS FROM THE PUBLIC: None

NEW BUSINESS

A. Outstanding Issues - HACM/HDC

Ms. Warren presented the historical timeline for Rippling River noting that she wanted to provide all the Commissioners/Directors some history on how projects begin and what the risk makers are on them so they will have a better understanding of the outstanding issues. The process for Rippling River began with figuring out how to reposition this particular asset. After a needs assessment where the Army Corps of Engineers and HUD were involved, along with the fact there was such great opposition to a new development in Carmel Valley, the decision was made to rehab Rippling River on its current site. She explained the project was losing money but after the rehabilitation, it was brought back online as a tax credit project so currently it is cash flowing well and able to handle debt service.

Ms. Warren further explained that the actual disposition on Rippling River reflected the statement that the Housing Authority will not receive any proceeds at close for this value and will be carried as deferred soft loan in the financial proformas because it was being utilized for leverage of other funds, but it has also been determined that if proceeds were generated on this project that their intended use could be declared and approved by HUD if desired. The funds for Rippling River were considered as non-soft proceeds therefore the annual interest on this fund can be drawn down and utilized without restrictions. She stated on new transactions, HUD is very strict about the use of proceeds so it cannot be used to defray overhead but it can be used for Public Housing. In approximately 15 years, the Housing Authority may wish to buy the Rippling River project back at which time they would just forgive their own Note. Ms. Warren and Ms. Santos also reported on the Net Operating Income for Rippling River. Ms. Warren then reported on and compared this project to the Fanoé Vista project located in Gonzales. The construction parameters as well as the financial aspects of new projects were also explained by Staff.

In further discussions, Mr. Griffin asked about the sharing of developer fees for HACM since HACM has played a part financially on the HDC development projects. The Boards stressed that projects need to include reimbursement to HACM when proformas are created. It was also noted that HACM is the official property management company of record for HDC projects. The HACM Board requested that the property management decision be brought to the Board on a property by property basis in the future to determine whether HACM should take on that

function for a particular property. Commissioner Williams reminded the first property to be considered for property management will be Fanoie Vista.

The Joint Board recessed for a break at 10:21 a.m. and returned to regular session at 10:30 a.m.

Ms. Warren further explained the Fanoie Vista history and answered questions regarding this property site. She noted this was a much different project in that the community was very supportive and cooperative during the construction process.

In a short discussion on bringing the property management issue to the February Board, Staff suggested, due to all the issues currently taking place, the property management issue be added as a future agenda item to the HACM Board agenda.

Mr. Griffin noted that as part of negotiations, had someone had the foresight, HACM could have received part of the developer fees if it had been done at the front end of the project process instead of giving away assets and carrying risks on the projects without compensation. He asked, looking at the past issues, who was supposed to be looking out for HACM's interest. Ms. Warren reminded that the previous legal counsel had provided several of the documents. As a partnership, looking out for the best interest for the partner is important and he questioned whether there was some way to compensate HACM now that the organizations are two separate organizations. Ms. Warren responded that the issue is on her list.

Commissioner Williams emphasized that today we are learning from our mistakes in the past and moving forward so when there is some kind of deal that HACM has a part, we need to make sure that those contracts and proformas are set up with HACM as part of it. As Commissioners, we do not deal with these types of issues every day.

Mr. Griffin further stated that one of the ways HACM could benefit is if there is a premium paid for some of the services that HACM provides for HDC and taking into consideration the increased cash flow that HDC has is also a way to support the operational end of HACM with income coming from a loan. Ms. Warren noted that is also known as the Fee For Service agreement and approximately \$180K a year does flow through to HACM; it is another mechanism.

Mr. McCollough asked if the proposal for Laguna Haciendas is set up in the same way that HACM could get a developer fee or any type of benefit from that property. Ms. Warren responded that those agreements have not been developed. To further query, Ms. Warren noted that some portions of Laguna Haciendas project have already come to the Board table, but not the developer fee portion.

Ms. Warren stated that from a project perspective that she believed everyone in the room agrees that the redevelopment of these particular projects has been beneficial.

Ms. Warren moved on to the Outstanding Issues; she reminded this was a joint effort with Ms. Santos' input which is provided on the document in the Joint Board packet. Mr. Griffin stated that he thought this was a good list of significant issues that need to be addressed.

#1

Sub-Note for Tynan Village – HDC

After a very lengthy discussion regarding the \$3.9M Note payable to HACM and the \$3.3M that HDC provided for the Tynan Village project along with the yearly obligations for HACM of \$180K on the land lease and the \$150K on the commercial lease, plus considering the cash needed by both organizations, Ms. Warren stated HDC could commit to covering the land lease going forward for the next year at least and \$120K has already been set aside for help with the commercial lease but HDC will commit to cover the full year on that lease. To query, Ms. Warren noted that these lease payments would be considered a gift to HACM from HDC and not a loan.

Mr. Griffin stated he thought it would be important to take care of the \$600K difference between the \$3.9M and the \$3.3M in order to have a starting point for allocation of future payments. It was decided that HDC would cover the previous mentioned leases which would be half of the \$600K plus another \$300K could be obtained for Plaza House. Ms. Santos reminded that the amount of cash in the bank is one issue, but the issue is really about who owes what to whom between the two organizations. Commissioner Espinoza noted there should be milestones or certain dates specified as a safeguard for when payments would be coming in. Ms. Goebel stated that the issue is to be able to predict when money is coming in but she stated she does understand development depends on the market and other things falling into place.

In further discussions, it was decided that Mr. Griffin would meet with Ms. Goebel and Ms. Warren on setting up the milestones for payment on the \$600K. The Boards decided this item should come to the Boards in February.

The Joint Board recessed for lunch at 11:30 a.m. and reconvened to regular session at 12:30 p.m.

Commissioner Healy commented that he had just shared with Commissioner Williams that he came out of the first part of this meeting feeling there was much more of a team spirit than he has felt up to this point and he was enthused being at the level that he thinks the Boards got to already and he wanted to share that with everybody; he stated he feels reenergized.

#2

Confirmation on Cash Expended by HACM/HDC

During a lengthy discussion, it was noted that cash reports should be provided on a regular basis going forward; Ms. Santos stated the information is in Yardi and she would be able to assist with pulling reports out of Yardi. It was further suggested that HACM assist the HDC staff with the Yardi process.

HACM Staff explained that the Housing Authority has one bank account with many little accounts within for each entity; when bills come due for a certain entity then payment is made from that entity's interfund account. Mr. Griffin pointed out that there has been some confusion on HACM owing HDC but it doesn't mean HACM actually owes HDC, it also could mean that HACM has the money in HDC's inner account and unless it is documented for somewhere else, it belongs to HDC and not to HACM. He further noted that once agreements are completed on where monies actually belong, then adjustments can be made in some of the figures shown today.

#3

Cash Management Agreement – HDC

Ms. Warren requested this item be Tabled since there is an ongoing discussion regarding cash. It will be kept on the list of outstanding items.

#4

“PAID” HELP Loan and “Satisfied” Developer Fee Pledge Agreement - HDC

Ms. Warren noted that this item should be checked off because it has already been completed.

#5

Administrative Clarification on Fee for Service Agreement – Amendment #1 – HDC

During discussions, Ms. Warren reported that capital funds can be used only for Public Housing projects; it is not to be used for routine maintenance and Force Account does only non-routine maintenance. It was noted that there are usually only enough capital funds for Force Account to work seven months out of the year; other funds and related work have to be found elsewhere to pay for them for the other months of the year. HACM Staff noted that with the wording in Bullet

#5 on Amendment #1 where it denotes, property management will not provide direction as it related to capital needs or planned work activities, that that wording implies that HDC controls the capital funds completely; HACM is the responsible party for the capital funds and must be included in the planning process for the use of these funds. Ms. Goebel noted that capital funds should not be viewed as only money for Force Account because the capital funds can be used for other things such as resident services and operations. HACM Staff requested that the wording be changed in Bullet #5 on Amendment #1, Fee for Service Agreement. Ms. Warren suggested including management services and operating deficits for other possible uses for capital funds. She emphasized it is imperative that HDC have control of the work force that does the work under capital funds. Ms. Goebel stated that HACM wants to be an active participant but does not want to control the work that is going on.

Mr. Griffin stated the capital fund issue falls under the HUD regulation and the Public Housing agency has to maintain control of the capital funds and as this amendment moves more and more authority over to the nonprofit, there could be an argument that HACM has lost control of these funds and that could mean trouble for HACM. He suggests the solution is more of word-smithing by just adding in the first line, HDC in coordination with HACM will manage the capital funds, and that should resolve the issue. He further stated that by putting the capital fund issue in the one and five year plans that will make sure it is presented to the Board for approval. To his query regarding management fees, HACM Staff explained that a portion of the management fees are paid to HDC. Mr. Griffin further noted that the determination as to whether a particular activity is going to be a capital funds issue or a maintenance issue affects the ability to utilize the maintenance employees of HACM fully and could be considered as a factor in deciding things to be done under capital funds versus things to be done under routine maintenance.

The Boards decided this issue should be edited by both HACM and HDC and brought back to the Boards as an amendment to the current existing Fee For Service contract.

#6

Fanoe Vista Property Management Checklist – HDC

Ms. Warren requested this item be Tabled and continued at a later time because it is ongoing.

#7

Developer Fee Sharing and Other Developer Related Agreements – HDC

In a lengthy discussion, HACM staff noted that 7% of a million dollars is only \$70K and that does not seem like very much compensation for land or guarantees provided by HACM as well as the risks involved. Ms. Warren stated that the discussion today is that we reach a development fee sharing between HACM and HDC but that the finite percentage is not yet agreed upon and it needs to be looked at on a case by case basis. She reminded this is a one-time payment and each component needs to be looked at when considering the share percentage. Ms. Warren explained that a developer fee goes to pay staff and whatever cash is left over normally goes into the next development to make sure there is enough cash available in order to invest into a bigger return to create a perpetual revenue stream.

Commissioner Williams emphasized that from this day forward we need to make sure when we (the HACM Board) review the proformas that we protect HACM by making sure they receive some compensation wherever we can. Commissioner Espinoza noted also important is HACM's exposure and risk which should be considered for an offsetting benefit. Ms. Warren explained sometimes it is necessary to defer developer fees for years down the line in order to attract equity partners and to obtain loans. It doesn't mean that the payment will actually end up being deferred that long. It was further noted that the Paso Robles project has not been negotiated and HDC will provide a developer fee percentage from that project to HACM.

Commissioner Styles reiterated that the developer fee sharing percentage is going to be negotiated on a case by case basis with HACM on a going forward basis beginning with the Paso Robles and Laguna Haciendas projects.

The Boards directed Ms. Warren to move forward on the developer fee issue and that the Board wants to be informed before anything is signed.

#8

Potential Management Fee Income – HACM

Ms. Warren explained that this item should be Tabled because it goes along with #6 above. She further explained that some of these properties have social and political mixes plus Soledad Housing Authority is still an entity in its own jurisdiction and we would need to be invited to have a project at that location. She stated she and Commissioners Styles and Williams met with the new Mayor of Soledad and we hope to have some movement soon in the solution for the Soledad Housing Authority. To query, Ms. Warren stated that HACM is the property management company of record, but having another housing authority do property management at another housing authority's site might not go as well as an outside property management company. HACM Staff reminded that HACM did do property management for the first four months at Benito FLC.

Commissioner Williams stated she had requested Ms. Warren bring a full report on the issues of the two Soledad projects to the February Board meeting.

Ms. Santos stated that she feels we need to address the management fees on a case-by-case basis but with the knowledge that part of the reason HACM entered into all of these developments was to create a future revenue stream from the management fees. Commissioner Williams reminded that we are doing that starting with Fano Vista.

#9

Repositioned Assets: Rippling River and Fano Vista – HACM

Ms. Warren reported these projects were covered in her initial presentation on the repositioning of those assets.

#10

Single Family Homes – HACM

There was a short discussion on whether these homes should be sold or possibly be provided for potential home buyers for Housing Resource Center clients, but in case of a sale there might be a mechanism to pass revenue back and forth between HACM and HDC. It was noted that it was no longer possible to reverse the HUD disposition decision on these homes. HACM Staff raised concerns that the disposition was approved by HUD based on a homeownership plan for low-income buyers. If the homes are now to be sold to market rate buyers without HUD's approval that would cause problems for HACM with HUD.

This item was Tabled to be brought back to the HDC Board no later than March and then to the HACM Board.

#11

Moss Landing Units - HACM

Ms. Warren reported Moss Landing is already done. Ms. Goebel stated that HACM gave these homes to HDC who sold them and took the cash to fund some of their predevelopment costs. Ms. Goebel reminded that HDC had the right to the money for the sale because HACM gave the property to HDC to do a homeownership program, but that homeownership program didn't happen and the homes were then sold. HACM could have also sold the homes and kept the money; there were no restrictions on this property. Ms. Goebel stated her view at that time was to sell these properties to help the bottom line of HACM and had been budgeted for that sale prior to the homeownership plan. Commissioners Espinoza and Healy questioned whether there might be some way to compensate HACM for the loss of this asset. Staff suggested that possibly HACM could be compensated through future development fees.

Commissioner Williams stated it is one of those things that happened that hopefully will never happen again; that is why we have to be careful with the seven houses discussed earlier and how HACM can benefit also. To query on whether the proposal for Laguna Haciendas has been set up in the same way where HACM would not get any developer fee or any type of benefit from taking that property out of Public Housing, Ms. Warren responded that those agreements have not been developed. She further explained that portions of Haciendas have gone to the Board but not the development component. Ms. Santos noted that any waterfall from this project will go to HDC not HACM.

The Joint Boards recessed to a break at 2:11 p.m. and reconvened to regular session at 2:15 p.m.

#12

Tynan Land Lease- HACM

In a long discussion Ms. Warren stated as previously reported HDC will relieve HACM of its obligation for the land lease and commercial lease (for one year) on this property which will be done incrementally over time due to some negotiations that HDC has to do with the lease holder. To query, Ms. Warren explained that the Section 108 loan is from the City of Salinas' CDBG and is to be used for the improvements for the commercial space.

Commissioner Styles and Williams noted that there needs to be resolutions on these Tynan Village issues brought to the Boards; Commissioner Styles directed HDC to prepare this documentation and bring it to the Board no later than March.

Other Recommendations

Ms. Warren mentioned that the top portion of page 6 should have been removed prior to this report. She stated that she thinks Ms. Santos agrees to most of these other recommendations.

#13

Request a third party review of organizational structure relative to the Dev Corp and HACM.

During a short discussion, the Boards directed Staffs to prepare together an RFP to obtain a third party review of the organizational structures relative to the Development Corporation and HACM with special emphasis on overhead. The Boards recommended it be a firm that has experience with Public Housing agencies as well as nonprofit and development as well as financial background and management experience. The Board Chairs recommended it come to the Boards no later than March. Ms. Goebel reminded there were a lot of things currently taking place for HACM and the next few months might be a little difficult from HACM's perspective. Commissioner Espinoza stated he would like the third party to provide some tangible feedback and advice on how to better structure Board organizations to create greater synergy.

#14

Request a third party review of all existing non-LP developments for potential repositioning.

After a short discussion and at the recommendation of Mr. Griffin, the Joint Boards recommended this item be Tabled for the new Executive Director when he comes on board.

#15

Pension Plan

Ms. Warren stated that this issue will be coming to the HDC Board this month; it is a proposal that all new hires have a pension contribution of 4% instead of 11.9%.

#16

Transfer HACM Assets going forward

Commissioner Williams recommended this item be Tabled until February since there are already so many issues that are being considered.

#17

HACM/HDC have regular joint meetings at management level

Ms. Warren reported that she highly recommends that HACM and HDC have regular joint meetings at the management level; Ms. Goebel responded that she had no objection to this item.

#18

Present Both Boards with a "risk" matrix on all future projects so that all guarantees and obligations are fully disclosed.

Ms. Warren stated that she would suggest presenting both Boards with the risk matrix for all future projects that she presented earlier this morning showing all guarantees and obligations. Ms. Santos stated she would also like to see the construction budgets and operating proformas because sometimes the proformas are tight in order to meet the debt coverage ratios and could reflect the project might not be able to succeed down the line.

Ms. Santos responded to query, that she believed at the present time that HACM has the necessary expertise in-house to analyze proformas and to be able to comment to the Board with respect to potential risks. She stated obviously HACM staff would not be able to verify construction costs. Ms. Santos explained that proformas are constantly changing in the predevelopment stage and that is the normal process; she recommended that once the construction cost documents are finalized those documents should be brought back to the Board.

Mr. Griffin commented that now that HACM has gone through several development projects, the Board and Staff should be more sophisticated in reviewing development issues. Ms. Goebel reminded that when all the developments started everyone was one big happy family and everything was "ours," but after the separation different partnerships had to be created and now it is a different world. Mr. Griffin further stated in this room now we have more experience than we did back in the beginning and that seems to be important in terms of evaluating projects on a going forward basis.

Ms. Goebel thanked everyone for giving their time today.

COMMISSIONER COMMENTS:

Commissioner Jackson commented he is still learning a lot.

Commissioner Healy commented that he would like to reiterate what he stated when the afternoon session began and that is he will leave this meeting feeling like we are collectively in a much better place than when we came in this room this morning and he is excited and enthused by that feeling. He thanked everyone.

Commissioner Espinoza commented that despite the rumors over the past few months and based on the time together today, that he hopes everybody understands and appreciates that the HACM Commissioners and HDC Directors are committed to the success of both organizations and wants both organizations to thrive in the long term and his desire personally is that from this meeting going forward that we create greater synergy than we have in the past capitalizing on what Mr. Griffin has pointed out that we've learned from our past projects and going forward they will be less painful and more lucrative. He thanked everyone for being here today; he realizes that each one gave up their Saturday and he does appreciate that.

Commissioner Williams thanked everyone for being here today; she realizes the meeting was a little long. She hopes, as Commissioner Espinoza has stated, that everyone has a better view of what is going on in the Board room. She stated everyone is always welcome to come to the Board meetings. She stated the Board is here to answer your questions and to provide a place for public comments. She hopes that today's meeting has eased some tensions that things are going on that are really not going on. She stated she will be seeing everyone shortly.

Commissioner Williams further thanked the Commissioners for listening to both sides and for having an open mind and for trying to come to some type of solution for each item. She realizes there are other things that the Board will need to look at in the future and she hopes this is not the last of this type of meeting but maybe it can be shorter next time. She realizes that everyone has other things to do but she appreciates everyone for staying because these meetings are very important and as a Commissioner when you take this position you sign on to the time it takes whether it takes five or six hours or ten meetings a month, we have to make that compensation and this is a crucial time for our organizations, both of them. She further commented that maybe she is an optimist but she really feels that the dialogue between HACM and HDC has improved.

Commissioner Williams further thanked the Clerks to the Boards for the nice lunch and Ms. Warren for the best biscuits and gravy. She further thanked Mr. Griffin for being at the meeting today and taking up his Saturday. She stated again with all sincerity from her heart she truly

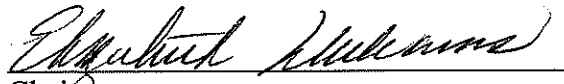
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believes that we're going forward and not backwards and she knows change is hard. Commissioner Williams stated we must remember Mr. Nakashima because he's still in our midst and we always can call him if we need to but we wish him well in his retirement. She thanked Ms. Goebel for doing a really great job as the Acting Executive Director for the Housing Authority.

Commissioner Williams also stated she wants everyone to remember the mission which is to take care of the 5,500 families that HACM services and as long as we don't lose sight of that, we will be able to run the projects in HDC. Thank you all very much!

ADJOURNMENT

There being no further business to come before the Board, the meeting was adjourned at 2:46 p.m.


Chairman

ATTEST:


Secretary


Date