



*City of Arts & Innovation*

# City Council Memorandum

TO: HONORABLE MAYOR AND CITY COUNCIL DATE: JUNE 27, 2017

FROM: COMMUNITY & ECONOMIC DEVELOPMENT DEPARTMENT WARD: 1

SUBJECT: OPERATING AGREEMENT WITH PATH OF LIFE MINISTRIES TO OWN AND OPERATE THE SHORT-TERM EMERGENCY SHELTER LOCATED AT 2840 HULEN PLACE AND THE OUTSTANDING DEBT DUE FROM PATH OF LIFE

## **ISSUES:**

Resolve all ownership, operating and outstanding debt of \$585,150 issues between the City and Path of Life Ministries for 2840 Hulen Place.

## **RECOMMENDATIONS:**

That the City Council:

1. Approve and authorize the City Manager, or designee, to execute the Termination of Operating Agreement for Access/Homeless Shelter with Path of Life;
2. Reaffirm Path of Life's outstanding debt of \$585,150 through an Amended and Restated Deed of Trust, Assignment of Rents, Security Agreement and Fixture Filing and Amended and Restated Promissory Note Secured by Deed of Trust that will be forgiven in six years; and
3. Approve and authorize the City Manager, or designee, to execute the Declaration of Covenants, Conditions and Restrictions that requires Path of Life Ministries to continue using the property as a homeless shelter, comply with their Conditional Use Permit, dedicate 15 emergency shelter beds for the City, maintain the property, and conduct an audit every two years to ensure compliance.

## **INTRODUCTION:**

The property located at 2840 Hulen Place has hosted the Short -Term Emergency Shelter since 2005 when Path of Life Ministries acquired and improved it with financial assistance and support from the City of Riverside and the State of California. The overarching Operating Agreement, as amended and restated, and the various underlying agreements, including the Grant Deed, Promissory Note and Deed of Trust include several inconsistent and self- contradictory terms regarding property ownership, outstanding debt and structured debt service. Since several of the inconsistencies cannot be fully reconciled, the recommendations above and the discussion below

represent a restructure to move forward with clarity and certainty.

## **BACKGROUND:**

On June 21, 2005, the City Council approved the changes recommended by HCD's legal department and they were incorporated into the First Amended and Restated Operating Agreement. The agreement had a term period of ten years with a "Buy Out of the Property" provision. During the term of the Agreement, the City and POLM were deemed 50/50 equity sharing partners. At the end of the agreement term, the City can purchase the Property from POLM by paying POLM 50% of the fair market value of the Property, less any and all contributions that the City has made to the Property, including the initial contribution. If at the end of the agreement term, the City determines it no longer desires to continue participation in the Short-Term Emergency Shelter, POLM can buy out the City's interest by reimbursing the City for any and all contributions the City has made to the Property.

To-date, the City has made approximately \$1.272 million in contributions to the Property as identified in the table below.

DATE	ACTIVITY	FUNDING AMOUNT	FUNDING SOURCE
5/17/2005	Property acquisition	\$95,021	CDBG (Federal Funds)
7/12/2005	Reorient entrance, ADA path of travel at back of building, and parking lot	\$250,000	CDBG (Federal Funds)
7/26/2005	Initial tenant improvements	\$665,967	CDBG (Federal Funds)
8/9/2005	ADA path of travel in front of the building	\$55,451	CDBG (Federal Funds)
7/17/2008	Purchase of kitchen equipment	\$60,373	Redevelopment Agency
1/27/2009	Interior improvements (repaint interior and remodel entryway and client's restrooms.	\$95,550	CDBG (Federal Funds)
6/11/2009	Install solar panels	\$49,978	General Funds
<b>TOTAL CITY CONTRIBUTION</b>		<b>\$1,272,340</b>	

On July 14, 2015, the City Council approved a First Amendment to the First Amended and Restated Operating Agreement with POLM to extend the agreement for another year to provide staff with sufficient time to identify funding resources for the Riverside Homeless Service Campus Tenant Improvements, which included minor interior and exterior rehabilitation of the Property.

On May 24, 2016, City Council received an update on the Community Livability Task Force Action Plan goals and Homeless Reduction and Prevention Strategy Five-Year Plan. The approved actions included a one year extension to the existing Operating Agreement with POLM. City Council also deferred the disposition of the Property issue to Development Committee.

City staff held several meetings with POLM's Executive Director and board members to discuss options for resolving the Operating Agreement and subsequent agreements, Deed of Trust and Promissory Note that dictates what happens to the Property at the end of the agreement term and the outstanding debt of \$585,150 that is owed from POLM to the City under the Deed of Trust that is recorded against the Property.

On October 3, 2016, City staff presented to the Development Committee the City's and POLM's recommendations to resolving the ownership, operating and outstanding debt of \$585,150 issues between the City and Path of Life Ministries for 2840 Hulen Place. Since the recommendations were not consistent, the Development Committee requested staff to meet again with POLM to further discuss and renegotiate an agreement and return to the Development Committee.

## **DISCUSSION:**

City staff held additional meetings with POLM to resolve the ownership, operating and outstanding debt of \$585,150 issues between the City and Path of Life Ministries for 2840 Hulen Place and have come to an agreement upon the following recommendations:

1. Terminate the operating agreement and mutually waive any provisions identified in the operating agreement;
2. Reaffirm the outstanding debt due from POLM to the City of Riverside evidenced by an Amended Promissory Note and Amended Deed of Trust in the amount of \$585,150 with a six year term. If POLM continues to comply with the Covenants, Conditions and Restrictions during the term of the Deed of Trust and Promissory Note, the loan will be fully forgiven on June 30, 2023; and
3. Execute a Declaration of Covenants, Conditions and Restrictions (CCRs) with POLM to require the following in perpetuity:
  - a. Continue to use the homeless shelter located at 2840 Hulen Place to further homeless services;
  - b. Comply with all the terms and conditions of the Conditional Use Permit (CUP) under Planning Case P04-1083, and as modified;
  - c. Implement a security plan to insure the security of the Shelter's clients as well as the surrounding properties, all as set forth and required under the CUP.
  - d. Ongoing maintenance of the property;
  - e. Reserve 15 shelter beds for the City that will be case managed by the City's Homeless Outreach Team; and
  - f. Conduct an audit every two years to ensure compliance with the CCRs.

Since the Operating Agreement and loan documents expire on June 30, 2017, staff confirmed with the Development Committee chair to bring the City's and POLM's agreed upon recommendations directly to the City Council for consideration.

City staff and POLM are requesting City Council to approve the aforementioned recommendations to ensure the longevity of shelter bed and homeless services offered to our community at 2840 Hulen Place.

**FISCAL IMPACT:**

There is not fiscal impact to the General Fund. The \$585,150 tenant improvements loan was provided from federal Community Development Block Grant funds. These funds will be fully forgiven on June 30, 2023 if POLM continues to comply with the terms of the CCRs.

Prepared by:	Rafael Guzman, Community & Economic Development Director
Certified as to availability of funds:	Scott G. Miller, PhD, Chief Finance Officer/City Treasurer
Approved by:	Al Zelinka, FAICP, Assistant City Manager
Approved as to form:	Gary G. Geuss, City Attorney

**Attachments:**

1. Termination of Operating Agreement for Access/Homeless Shelter
2. Amended and Restated Promissory Note Secured by Deed of Trust
3. Amended and Restated Deed of Trust, Assignments of Rents, Security Agreement and Fixture Filing
4. Declaration of Covenants, Conditions and Restrictions
5. Presentation