



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, D.C. 20410-7000

OFFICE OF THE ASSISTANT SECRETARY
FOR COMMUNITY PLANNING AND DEVELOPMENT

NOV - 1 2002

Mr. Henry Taboada
City Manager
City of Long Beach
33 West Ocean Boulevard
Long Beach, CA 90802

SUBJECT: American Market Place/Wrigley Neighborhood
Homeownership Zone
Grant: HZ 97-011

Dear Mr. Taboada:

I am writing in response to your September 30, 2002, letter regarding the city of Long Beach's Homeownership Zone (HOZ).

For some time, it has been evident to HUD that the city of Long Beach has not been actively implementing the homeownership portion of its approved Homeownership Zone proposal. Various meetings and correspondence between HUD and city staff have discussed these concerns and the city's intentions for the redevelopment of its American Market Place/Wrigley neighborhoods. HUD's most recent letter of July 1, 2002, provided the city with the opportunity to submit an amendment that addressed the city's need for a revised Homeownership Zone strategy, while maintaining the purpose and scope of its original HOZ concept to a sufficient degree that would ensure that the city's proposal did not fall outside the competitive range for funding.

You stated in your September 30, 2002, letter that the city has completed a reassessment of its affordable housing strategy in light of the changed circumstances within the city. The city has determined that the amount of subsidy required to produce affordable ownership opportunities is inconsistent with the scale of the housing need of the city's low-income residents. Given scarce funding resources, the city can leverage a significantly larger number of affordable rental units than homeownership units. Therefore, the city has reluctantly come to the conclusion that the best course of action is to close out the Homeownership Home grant agreement on terms that are mutually acceptable to HUD and the City.

The city proposes that if HUD requires, as part of grant closeout, the repayment of any of the \$1,500,000 HOZ grant funds drawn down, that the amount not exceed \$770,370. The city proposes that the repayment be structured as a reduction of future HOME grants made to the city over a ten-year period, including a reasonable interest return. The city calculates the repayment amount based on the number of low- and moderate-income homeownership units produced. The city has expended \$1,600,000 of its \$1,900,000 HOZ grant for a single project, the Renaissance

Walk single-family development within the Wrigley Neighborhood. Twenty-seven of these units were originally earmarked for low- and moderate-income families. Ten units were ultimately deed-restricted to low- and moderate-income families. An additional four Habitat units were sold to low- and moderate-income families. Consequently, the city calculates that of the 27 planned low- and moderate-income homeownership units, 14 units were delivered and 13 units were not delivered. Therefore, 13/27 of the \$1,600,000 grant expenditure, or \$770,370, should be the maximum repayment requirement.

HUD is supportive of the city's need to revise its strategy for the American Market Place and Wrigley neighborhoods, and agrees that it is time to conclude the city's participation in HUD's Homeownership Zone initiative. Since the city was unable to meet the terms of its Homeownership Zone grant agreement, the grant cannot be "closed out". Rather, HUD is terminating the June 30, 1998, Grant Agreement between HUD and the city of Long Beach in accordance with Section XV. As authorized by Section XV, HUD is also requiring that the city repay to the Secretary all HOZ grant funds not expended for eligible expenses, or \$1,380,577.

Section II of the Grant Agreement commits the city to implement its HOZ proposal, as described in the application approved by HUD, as may be amended. Although HUD approved the city's amended HOZ request to utilize its HOZ grant for 135 homeownership units, the city provided a firm commitment that Redevelopment Agency funds would be available to finance and develop the remaining 246 HOZ units. The HOZ initiative never intended nor required that each HOZ unit be directly subsidized by HOZ grant funds. Rather, the \$1,900,000 HOZ grant investment in the American Market Place/Wrigley HOZ was intended to produce 381 homeownership units, regardless of the direct grant subsidy for individual units. Thus, the city's overall commitment to provide 381 homeownership opportunities, 194 or 51% of which were for low- and moderate-income families, remained unchanged.

Homeownership development is the central component of the Homeownership Zone concept. The City's homeownership strategy was the principal reason that the city of Long Beach was one of only six proposals selected for a Homeownership Zone grant, out of a field of 67 applicants. HUD recognizes that the city made progress in the non-housing components of its Homeownership Zone proposal. However, the city took limited actions to achieve the 381 promised homeownership units. Furthermore, of the 44 completed HOZ units, only 14 or 32% were sold to low- and moderate-income families.

Based on the city's approved HOZ strategy, the average per-unit HOZ grant investment to produce 381 units was \$4,987 (\$1,900,000/381). Therefore, HUD will allow the city of Long Beach to retain that portion of the \$1,600,000 grant expenditure that is justified by the total HOZ units produced, or \$219,423 (\$4,987 x 44 units). \$1,380,577 is disallowed.

Within ninety days from the date of this letter, the city of Long Beach must submit a payment plan, not to exceed three years, to reimburse HUD in the amount of \$1,380,577 in non-federal funds. Because the source of the HOZ grant was recaptured Nehemiah funds, and not

HOME funds, HUD cannot structure the repayment as a reduction of future HOME grants.

If you have any questions, please contact me at (202) 708-1506 or the Office of Affordable Housing Programs at (202) 708-2684.

Sincerely,

Nelson R. Bregón
Deputy Assistant Secretary
for Grant Programs