



**RED HOUSING FUND
ANNUAL REPORT**

FY 2023

FOR THE PERIOD FROM JANUARY 1 – DECEMBER 31, 2023



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REPORT SUMMARY AND KEY FUND UPDATES

April 30, 2024

To the Stakeholders of the RED Housing Fund:

This Report (the “Report”) on the operations of the RED Housing Fund (the “Fund”) has been prepared to satisfy the reporting requirements set forth in the Fund’s various agreements with its stakeholders. The Reporting Period for this Report is the Fund’s third fiscal year (January 1, 2023, through December 31, 2023).

The creation of the RED Housing Fund was driven by the Renewal Enterprise District (“RED”), a joint powers authority with the County of Sonoma and City of Santa Rosa as Founding Members, to give developers in Sonoma County a new tool and source of financing to help advance urban, infill projects. The need for additional housing across the income spectrum in Sonoma County is acute and has only been exacerbated by the nearly annual fires that have devastated the region’s housing stock. Historically, developers have been unable to obtain sufficient financing from traditional sources to move dense, multifamily projects forward. The RED Housing Fund was created to further the goals of the RED and provide an additional source of funding for housing projects that align with the RED’s priorities – broadly, projects of higher density in transit rich, infill areas outside of wildfire hazard zones to support equity, climate resilience, and economic development in appropriately planned areas within Sonoma County.

Over the course of the fiscal year, the Fund proceeded with underwriting and celebrated the closing of two loans for projects located in Santa Rosa – one for a market rate project, 420 Mendocino, for the development of 168 rental units in downtown Santa Rosa, and one for an affordable project, South Park Commons, providing 62 units of affordable housing in Santa Rosa for low-income residents and those in need of permanent supportive housing. In addition, the Fund continued to identify new programmatic and fundraising opportunities in the hopes of providing additional loans to support meritorious housing projects in Sonoma County. During the Reporting Period, the Fund was pleased to receive notification from the California Department of Housing and Community Development (HCD) that its application for a \$1 million grant under the Local Housing Trust Program to be used for additional lending capital had been accepted.

The Fund looks forward to expanding its impact further to support additional projects in the years to come.

RED Housing Fund: Board of Directors Membership as of December 31, 2023

Board of Directors:

- 1) Veronica Ferguson – President
- 2) Todd Sheffield – Vice President
- 3) Amanda Ruch – Treasurer; Representative of the County of Sonoma
- 4) Michelle Whitman – Secretary; Representative of the Renewal Enterprise District
- 5) David Gouin – Representative of the City of Santa Rosa



- 6) Betzy Chavez
- 7) Jen Klose

Advisors to the Board of Directors:

- 1) Chris Coursey –Third District Supervisor, County of Sonoma
- 2) Victoria Fleming – Councilperson, City of Santa Rosa



PIPELINE AND PORTFOLIO UPDATE

The RED Housing Fund will support projects that are located within the RED's jurisdiction and adhere to the RED Project Criteria. These criteria outline four threshold criteria that all projects applying for funding from the Fund must meet. Additionally, projects must meet a minimum of one of the Evaluation Criteria as well, designed to help differentiate projects and outline additional RED priorities.

The four Threshold Criteria are:

- The project must be located on an infill site;
- The project must provide mid- to high-density housing development;
- The project must be located entirely within a Transit Priority Area, Priority Development Area, Rural Community Investment Area, Specific Plan Area, High-Quality Transit Corridor or Qualified Opportunity Zone; and
- The project must be residential or mixed-use residential.

The Evaluation Criteria include the project's incorporation of:

- On-site affordable units;
- On-site workforce housing;
- On-site "Affordable by Design" units (units that are typically smaller than market-rate units, more efficient, or have fewer amenities);
- Proximity to transit;
- Energy-efficient features;
- Water-efficient features;
- Excellent and innovative design;
- On-site childcare;
- Prevailing wage;
- Public outdoor space;
- Bicycle or pedestrian connectivity and/or pedestrian access;
- Location within a disadvantaged community;
- Off-site construction of affordable housing, workforce housing, or units that are "affordable by design"; and
- Mixed-door housing.

When funding is available, projects that meet the four Threshold Criteria and at least one of the Evaluation Criteria may qualify for two types of financing, depending on whether the project is classified as "affordable" (for projects with units primarily restricted to up to 80% of area median income) or "middle income/market" (for projects with units restricted to 80-120% of area median income, market rate units, or projects with a mix of income levels).

For **affordable projects**, the Fund offers long term financing that may be used as a subordinate or senior loan, from construction through permanent phase. For **middle income/market projects**, the Fund offers



financing that may be used for construction financing that is subordinate to a conventional construction loan. When necessary, this loan may also convert to permanent financing, sized to a project's available cash flow after payment of required, first-position debt.

PORTFOLIO UPDATE

Risk Rating Overview: Quarterly, the Fund evaluates the loans in its portfolio to reassess the loans' risk rating. At closing, a risk rating is assigned to the loan that determines its loan loss reserve amount – this amount may be adjusted depending on various factors, such as whether the project is progressing according to its milestones, improvements in operating performance, interest coverage or debt paydown, and, likewise, any deterioration in the credit, non-compliance with covenants, or any material adverse change.

The risk rating categories and their corresponding loan loss reserve amount are:

- 1 – High Pass (loss provision of 3%): The borrower and loan are performing above projections and project milestones with no sign of deterioration in performance;
- 2 – Pass (loss provision of 5%): The borrower and loan are performing fully to projections and project milestones;
- 3 – Loss Pass (loss provision of at least 7%): There may be some sign of variance or degradation in one or more major performance criteria, but the overall quality of the investment is still acceptable;
- 4 – Watch/Attention (loss provision of 10-15%): Borrower and/or loan performance is below expectations; and
- 5 – Doubtful/Substandard (loss provision of up to 50%): The borrower or loan show significant deterioration and requires restructuring or Fund intervention.

Portfolio Status and Review: At the close of the fiscal year, the Fund had five outstanding loans in its portfolio:

For its three affordable housing projects:

- \$2,400,000 has been committed to Aviaara;
- \$800,000 has been committed to Acme; and
- \$4,000,000 has been committed to South Park Commons.

For its two market rate projects:

- \$1,300,000 has been committed to Pullman Lofts; and
- \$7,000,000 has been committed to 420 Mendocino.

Collectively, these five projects represent over 550 new units of housing added to Santa Rosa's housing stock, 275 of which are at affordable rent levels to households earning at or below 60% of area median income. Additional portfolio updates are further described in Appendix 1.



LENDING AND PORTFOLIO OVERVIEW:

Affordable Loans: Loans for projects in which units are restricted to incomes up to 80% AMI. Fund proceeds may be used to fund all phases of a project's development process, from construction through permanent phase.

Loan	Address	Borrower	Total Units	Affordability Level(s)	Total Committed	Total Outstanding ¹	Loan Agreement Date	Anticipated Maturity	Risk Rating
1	Aviara 1385 West College Ave. Santa Rosa, CA 95401	MM Aviara, LP	136	30-60% AMI	\$2,400,000	\$2,400,000	6/1/22	6/1/40 <i>18-year term</i>	2 – Pass
2	Acme 1885 Sebastopol Road Santa Rosa, CA 95407	Acme Family Apartments, LP	77	30-60% AMI	\$800,000	\$800,000	10/1/22	10/1/40 <i>18-year term</i>	2 – Pass
3	South Park Commons 702 Bennett Valley Road, Santa Rosa, CA 95404	Bennett Valley Housing Partners, L.P.	62	15-50% AMI	\$4,000,000	\$4,000,000	4/18/23	4/18/41 <i>18-year term</i>	2 – Pass
Total:			275		\$7,200,000	\$7,200,000			

¹ Amounts outstanding include \$13,929; \$9,382; and \$43,520 as remaining interest reserves for Aviara, Acme and South Park Commons respectively.



Middle Income/Market Loans: Loans for projects in which units are restricted to incomes up to 80-120% AMI or are market rate (or a mix of income levels). Fund proceeds may be used for construction financing that is subordinate to a conventional construction loan, and if necessary, may convert to permanent financing.

Loan	Address	Borrower	Total Units	Affordability Level(s)	Total Committed	Total Outstanding ²	Loan Agreement Date	Anticipated Maturity	Risk Rating
1	Pullman Lofts 701 Wilson Street Santa Rosa, CA 95401	Pullman Lofts First Phase LLC	114	Market / Workforce	\$1,300,000	\$1,300,000	11/1/22	12/1/2024 <i>25-month term</i>	2 – Pass
2	420 Mendocino 420 Mendocino Avenue Santa Rosa, CA, 95401	5 th and Mendocino Partners Owner, LLC	168	Market/ Workforce	\$7,000,000	\$3,958,409	3/1/23	3/20/27 <i>48-month term</i>	2 - Pass
Total:			282		\$8,300,000	\$5,258,409			

For additional details related to the Fund's Project Loan portfolio, please see Appendix 1.

² Amounts outstanding include \$28,862 and \$1,040,240 as remaining interest reserves for Pullman Lofts and 420 Mendocino respectively.



FINANCIAL SUMMARY AND COVENANT COMPLIANCE

FINANCIAL SUMMARY

The Fund's Statement of Activities reflects earnings from its project loans (through interest income and origination fees), investment income from reserves held in interim investment accounts, and any grant income received to support the Fund's operations. Grant revenue for the Reporting Period was from two of the Fund's mission-motivated supporters – Kaiser Permanente, a local healthcare provider, and Summit State Bank. In addition, the value of discounted debt (see below, referring to the Fund's loans from the City of Santa Rosa and Sonoma County) is represented as contribution income on the Fund's Statement of Activities, in accordance with the required accounting treatment. Related to the discounting treatment for the Fund's capital, per the required accounting treatment, the Fund is also required to discount the affordable loans that it offers to borrowers that are provided at low interest rates. As a result, the Fund incurs a non-cash expense – contribution expense on below market rate program-related loans (part of its "Program Expenses") – to reflect this treatment. Consequently, the Fund saw a decrease in net income during the Reporting Period, primarily driven by this non-cash expense.

The Fund's lending capital is comprised of a \$10 million loan from the City of Santa Rosa, a \$10 million forgivable loan from the County of Sonoma, and a \$1 million loan from Enterprise Community Loan Fund to further support additional projects in the pipeline. In accordance with the required accounting treatment, the capital from the County of Sonoma is represented as a loan payable on the Fund's balance sheet, as the Fund is required to adhere to specific financial covenants as a condition for forgiveness. This loan will be forgiven in equal, annual installments over the loan's twenty-year term if the Fund abides by the covenants set forth in its loan agreement. During the Reporting Period, the second annual installment of \$500,000 from the County's loan was forgiven, resulting in a new balance of \$9.0 million. In addition, due to the features of both the City and County loans, the required accounting treatment dictates that they be treated as "below market interest rate loans" and therefore be discounted from face value based on the Fund's imputed interest rate, as shown on the Fund's balance sheet. This results in the Fund incurring an interest expense as the debt discount amortizes over time.

Lastly, during the fiscal year, the Fund was awarded a \$1 million grant under the Local Housing Trust Fund Program to be used for additional lending capital. While these funds have been committed, this will only be reflected on the Fund's balance sheet once the project loan for which this capital has been allocated is ready to close and is therefore not reflected in the Fund's audited financial statements.



FY 2023 Financial Highlights:

Financial Statements Summary (YTD)	Revenue	\$1,585,032	Assets	\$17,285,023
	Expenses	\$5,511,503	Liabilities	\$14,570,083
	Net Income	(\$3,926,471)	Net Assets	\$2,714,940

Gross Capital Commitments from Investors	
Total Capital Committed ³	\$22,000,000
Undrawn	\$0
Total Capital Drawn	\$21,000,000

Audited financial statements are included as Appendix 2 of this Report.

³ This includes the \$1 million LHTF grant which has been committed, but not yet received by the Fund as of 12/31/23.



COVENANT COMPLIANCE

The Fund is required to adhere to certain covenants as detailed in its respective loan agreements. These covenants, as well as the Fund's compliance with each, are further detailed below based on the specific lender agreement.

County of Sonoma – Loan Agreement Covenants:

- Geographic Location: Projects financed or otherwise assisted with Loan Proceeds must be consistent with RED Project Criteria.
- Affordability Criteria: On an aggregate basis over the term of the Loan, at least 25% of residential units in projects financed or otherwise assisted with Loan Proceeds must be affordable to households of low- or moderate-income.
- Limitation on Short-Term Rental: In the documentation for loans, credit enhancements, loan guarantees, and other financial assistance the Fund provides to projects supported with Loan Proceeds, the Fund shall include a requirement that for a period of 5 years following initial occupancy, the project may not provide short-term rentals. For the purpose of this requirement "short-term rental" means a stay of 30 days or less that is not subject to transient occupancy tax, or a substantially similar definition as set forth in the County's regulations.
- Limitation on Soft Cost Financing: On an aggregate basis over the term of the Loan, no more than 15% of Loan Proceeds may be used to pay for soft costs for any project that does not include Affordable Units.

Covenant details shown on following page.



Loan	Address	Geographic Location	Affordability Criteria ⁴		Limitation on Short-Term Rental	Limitation on Soft Cost Financing	
		Does address fall within RED Project Criteria boundaries?	Total Units as of the close of the Reporting Period:	557	Does the Loan Agreement include a short-term rental requirement limiting the provision of short-term rentals within the Project for a period of 5 years following initial occupancy?	Loan Proceeds:	\$10,000,000
1	Aviara 1385 West College Ave. Santa Rosa, CA 95401	Yes	Number of Affordable Units:	135	Yes	Eligible Soft Costs Financed by Loan Proceeds:	N/A
2	Acme 1885 Sebastopol Road Santa Rosa, CA 95407	Yes	Number of Affordable Units:	76	Yes	Eligible Soft Costs Financed by Loan Proceeds:	N/A
3	Pullman Lofts 701 Wilson Street Santa Rosa, CA 95401	Yes	Number of Affordable Units:	0	Yes	Eligible Soft Costs Financed by Loan Proceeds:	\$194,549
4	420 Mendocino 420 Mendocino Ave Santa Rosa, CA, 95401	Yes	Number of Affordable Units:	0	Yes	Eligible Soft Costs Financed by Loan Proceeds:	\$0
5	South Park Commons 702 Bennett Valley Road, Santa Rosa, CA 95404	Yes	Number of Affordable Units:	61	Yes	Eligible Soft Costs Financed by Loan Proceeds:	N/A
				Total Affordable Units:	272	Total Soft Costs Financed by Loan Proceeds:	\$194,549
				Percentage of Affordable Units:	49%	Percentage Supporting Soft Costs:	2%

⁴ Affordable Units are restricted units and do not include manager's units.



City of Santa Rosa – Loan Agreement Covenants:

- **Geographic Location:** Projects financed or otherwise assisted with Loan Proceeds must be consistent with RED Project Criteria. Loan Proceeds are initially only eligible to fund projects located within the City’s geographic borders. Once a project has repaid its loan and capital is returned to the Fund, the Fund will be able to recycle the proceeds and support projects throughout Sonoma County, provided that the Fund must continue to provide financing to projects in Santa Rosa in proportion to the share of the Fund’s total available investable capital that is attributable to the City of Santa Rosa’s loan to the Fund.
- **Limitation on Soft Cost Financing:** For projects containing no Affordable Units (units affordable to households of low- or moderate-income as defined in the California Health & Safety Code or applicable law or federal regulation), no more than 15% of the Loan Proceeds used to fund that project may be used to fund soft costs for that project. For projects restricting at least 10% of the project as Affordable Units, no more than 25% of Loan Proceeds used to fund that project may be used to fund soft costs for that project.
- **Limitation on Short-term Rentals:** Any project funded by the Lender’s Loan Proceeds must include clear and express language in the project loan documents prohibiting short term rentals for the term of the project loan. Short Term Rentals shall mean a rental stay of 30 days or less.

Covenant details shown on following page.



Loan	Address	Geographic Location			Limitation on Short-Term Rental	Limitation on Soft Cost Financing			
		Does address fall within RED Project Criteria boundaries?	Share of Loan Proceeds/Total Investable Capital	45%	Does the Loan Agreement include clear and express language in the project loan documents prohibiting short term rentals for the term of the project loan?	Loan Proceeds:	\$10,000,000		
1	Aviara 1385 West College Ave. Santa Rosa, CA 95401	Yes	Share of Loan Proceeds Used to Fund Projects in Santa Rosa:	100%	Yes	Percentage of Affordable Units:	99%	Eligible Soft Costs Financed by Loan Proceeds:	25%
2	Acme 1885 Sebastopol Road Santa Rosa, CA 95407	Yes	Share of Loan Proceeds Used to Fund Projects in Santa Rosa:	100%	Yes	Percentage of Affordable Units:	99%	Eligible Soft Costs Financed by Loan Proceeds:	7%
3	Pullman Lofts 701 Wilson Street Santa Rosa, CA 95401	Yes	Share of Loan Proceeds Used to Fund Projects in Santa Rosa:	100%	Yes	Percentage of Affordable Units:	0%	Eligible Soft Costs Financed by Loan Proceeds:	15%
4	420 Mendocino 420 Mendocino Ave Santa Rosa, CA, 95401	Yes	Share of Loan Proceeds Used to Fund Projects in Santa Rosa:	100%	Yes	Percentage of Affordable Units:	0%	Eligible Soft Costs Financed by Loan Proceeds:	0%
5	South Park Commons 702 Bennett Valley Road, Santa Rosa, CA 95404	Yes	Share of Loan Proceeds Used to Fund Projects in Santa Rosa:	100%	Yes	Percentage of Affordable Units:	98%	Eligible Soft Costs Financed by Loan Proceeds:	22%

Projects Currently in Santa Rosa: 100%



APPENDIX 1: SUMMARY OF PORTFOLIO

LOAN 1: Aviara



Project Description:	Aviara is an affordable housing project located in Santa Rosa. The Project will consist of a mix of two and three-bedroom units and will also incorporate approximately 1,900 square feet of interior community space for a computer lab, laundry facilities, and space for other residential programming (including after school support for children, and adult education and skill building classes).
Project Type:	Affordable
Location	1385 West College Avenue, Santa Rosa, CA 95401
Sponsor / Borrower	Borrower: MM Aviara, LP Borrower is a partnership entity between Pacific Southwest Development Corporation, the project's nonprofit partner, and McKellar McGowan Holdings, LLC, the project's developer.
Total RHF Loan Amount	\$2,400,000
Outstanding Balance / Status	\$2,400,000 (includes \$13,929 as interest reserve) / current
Closing Date	June 1, 2022
Maturity Date	June 1, 2040 (RHF's loan has an 18-year term)
Units	136 total units, incorporating 84 two-bedroom units, 52 three-bedroom units, and 1 manager's unit
Households Serving	Project will provide affordable housing for families in Santa Rosa. The Project will include 14 units affordable to households at 30% AMI, 14 units affordable to households at 50% AMI, and 107 units affordable to households at 60% AMI.
Other Financing	Primarily includes construction and permanent financing provided by the developer's local bank and tax credit equity
Risk Rating	2 – PASS (loss provision of 5%)



Interest Rate	1.0%
Project Update	As of December 2023, the project was approximately 74% complete with an overall expected construction completion for all 6 buildings by Q3 2024. Leasing on the buildings is estimated to begin in Q2 and Q3 2024.

LOAN 2: Acme



Project Description:	Acme Family Apartments is an affordable housing project located in Santa Rosa. The Project will consist of 77 one to three-bedroom units, maximizing options for families and larger unit sizes. The Project will also incorporate amenities such as a community space used for after-school programming and adult education classes, outdoor community spaces and a sports court.
Project Type:	Affordable
Location	1885 Sebastopol Road, Santa Rosa, CA 95407
Sponsor / Borrower	Borrower: Acme Family Apartments, LP Borrower is a partnership entity between an affiliate of Pacific Housing, Inc, the project's nonprofit partner, the Project's LIHTC investor, and an affiliate of the Project's developer, Milestone Housing Group, LLC.
Total RHF Loan Amount	\$800,000
Outstanding Balance / Status	\$800,000 (includes \$9,382 as interest reserve) / current
Closing Date	October 1, 2022
Maturity Date	October 1, 2040 (RHF's loan has an 18-year term)
Units	77 total units, incorporating 24 one-bedroom units, 25 two-bedroom units, 27 three-bedroom units, and 1 manager's unit
Households	Project will provide affordable housing for families in Santa Rosa. 12% of units will be rented to households at 30% AMI, 17% will be rented to households at 40% AMI, 41% will be rented to



Serving	households at 50%, and 30% of units will be rented to households at 60% AMI.
Other Financing	Primarily includes construction and permanent financing provided by two banks and tax credit equity
Risk Rating	2 – PASS (loss provision of 5%)
Interest Rate	1.0%
Project Update	As of December 2023, the project was approximately 82% complete with an overall expected construction completion in Q1 2024. Preleasing activities began in the late 2023, with leasing anticipated to begin in Q2 2024.

LOAN 3: Pullman Lofts



Project Description:	Pullman Lofts consists of three buildings being built in two phases located at 701 Wilson Street in the historic Railroad Square neighborhood of Santa Rosa. The first two buildings consist of 70 units and were initially expected to complete construction in September 2022. The third building will consist of 44 units and was initially expected to complete construction in December 2023. The project will also incorporate amenities such as a dog park, pool area with fire pits and grills, a gym, and is located along the SMART rail line.
Project Type:	Market
Location	701 Wilson Street, Santa Rosa, CA 95401
Sponsor / Borrower	Borrower: Pullman Lofts First Phase LLC The Borrower is owned by various investors. Phoenix Development Company of Minneapolis, LLC is the Project's developer.
Total RHF Loan Amount	\$1,300,000
Outstanding Balance / Status	\$1,300,000 (includes \$28,862 as interest reserve) / current
Closing Date	November 1, 2022



Maturity Date	December 1, 2024 (RHF's loan has a 25-month term)
Units	114 total units, incorporating 77 one-bedroom units and 37 two-bedroom units
Households Serving	Market rate income levels, although a majority of the project's one-bedroom units will be "affordable by design," meaning they are smaller units at lower rent levels, ranging between 470-620 square feet. Two of these units will be deed restricted to households at or below 80% AMI.
Other Financing	Primarily includes construction and permanent financing from a bank and equity investments from a variety of investors, including the Project Sponsor
Risk Rating	2 – PASS (loss provision of 5%)
Interest Rate	8.75%
Project Update	Phase 1 (Building A & B): Buildings A and B were completed in 2023. Leasing is in process. Phase 2 (Building C): As of December 2023, the project was approximately 60% complete with an overall expected construction completion by Q4 2024.

LOAN 4: 420 Mendocino



Project Description:	The 420 Mendocino Avenue Project is located in downtown Santa Rosa on three parcels totaling approximately 0.64 acres with frontage along Mendocino Avenue, 5th Street, and Riley Street. The Project will be eight stories and contains 168 residential units and 2,285 net square feet of retail space, along with accessory amenities for the Project's residents including a ground floor coworking space and outdoor paseo, a fitness center, and an 8th floor sky lounge with both indoor and outdoor access, and 100 parking spaces.
Project Type:	Market
Location	420 Mendocino Ave, Santa Rosa, CA 95401
Sponsor / Borrower	Borrower: 5th and Mendocino Partners, LLC, a Delaware limited liability company with various members and managers as parties to the Sole Member. Related California is the Project's developer.



Total RHF Loan Amount	\$7,000,000
Outstanding Balance / Status	\$3,958,409 (includes \$1,040,240 as interest reserve) / N/A
Closing Date	March 1, 2023
Maturity Date	March 20, 2027 (RHF's loan has a 48-month term)
Units	168 total units, incorporating 25 studios, 88 1-bedrooms, 55 2-bedrooms
Households Serving	The Project's 168 residential units will be 100% market rate; 17 of the Project's 88 1-bedrooms are projected to be furnished rentals.
Other Financing	Primarily funded by issuance of Multifamily Housing Revenue Bonds with the potential for extension to permanent loan financing. Additionally, the project will receive significant equity from the Developer.
Risk Rating	2 – PASS (loss provision of 5%)
Interest Rate	Variable; and will be determined monthly. Interest rate will be the greater of 4.0%, or 3.25% above the floating rate of the bonds. For the month ended, December 31, 2023, the loan interest rate was 8.71%.
Project Update	As of December 2023, the project was approximately 21% complete and progressing on schedule. Contingent upon no construction delays, the project has an overall expected construction completion by Q3 2025.

LOAN 5: South Park Commons



Project Description:	The South Park Commons Project is located on an approximately 1.93-acre parcel at the corner of Bennett Valley Road and Rutledge Avenue in a neighborhood of mixed industrial, commercial, and residential properties. The Project will be a 64,000 square-foot building containing 62 residential units, including a mix of studios, one-bedroom, two-bedroom, and three-bedroom units. 31 units will be reserved for permanent supportive housing for households experiencing chronic homelessness, with the remaining units restricted for households up to 50% AMI. The project will also include on-site amenities such as a community room, laundry room, property management office, social services office and approximately 24,000 feet of open space. There will also be two parking lots with 52 parking spaces. Abode Services will provide case management for formerly homeless residents as well as supportive services.
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Project Type:	Affordable
Location	702 Bennett Valley Road, Santa Rosa, CA 95404
Sponsor / Borrower	Borrower: Bennett Valley Housing Partners, L.P., a California Limited Partnership. Freebird Development Company, LLC is the Project's developer.
Total RHF Loan Amount	\$4,000,000
Outstanding Balance / Status	\$4,000,000 (includes \$43,520 as interest reserve) / current
Closing Date	April 18, 2023
Maturity Date	April 18, 2041 (RHF's loan has an 18-year term)
Units	62 total units, incorporating 19 studios, 19 1-bedroom, 12 2-bedroom, and 12 three-bedroom units
Households Serving	The Project's 62 residential units will be restricted for households between 15-50% AMI; 31 units will be reserved for permanent supportive housing for households experiencing chronic homelessness
Other Financing	30 of the PSH units are supported by Project-Based Section 8 rental assistance vouchers, provided by the City of Santa Rosa Housing Authority. During construction, the project will be funded primarily with a Chase Bank construction loan, alongside tax credit equity and a construction-to-permanent loan from the City of Santa Rosa Housing Authority. At conversion, the project will also receive several state-awarded funds.
Risk Rating	2 – PASS (loss provision of 5%)
Interest Rate	1%
Project Update	As of December 2023, the project was 45% complete, with an overall expected construction completion by Q4 2024.



APPENDIX 2: FUND FINANCIAL DETAILS

Fund financial details shown on following page.



Red Housing Fund

Financial Statements

Year Ended December 31, 2023



PISENTI & BRINKER LLP
Certified Public Accountants & Advisors

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Independent Auditor's Report

To the Board of Directors
RED Housing Fund

Opinion

We have audited the financial statements of RED Housing Fund (the "Organization"), which comprise the statement of financial position as of December 31, 2023, the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Organization as of December 31, 2023, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America ("GAAS"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America. This responsibility includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern within one year after the date that the financial statements are issued or available to be issued.

Independent Auditor's Report (continued)

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

A handwritten signature in dark ink, reading "Presente & Brink LLP". The signature is written in a cursive, flowing style.

Santa Rosa, California
April 29, 2024

RED Housing Fund
Statement of Financial Position

December 31, 2023

Assets

Current assets

Cash and cash equivalents	\$ 3,122,030
Accounts receivable	4,850
Certificates of deposit	7,875,818

Total current assets	11,002,698
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Program-related loan receivable, net	6,282,325
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Total assets	\$ 17,285,023
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Liabilities and net assets

Current liabilities

Accounts payable	\$ 21,402
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Long-term loans, net	14,548,681
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Total liabilities	14,570,083
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Net assets (deficit)

Without donor restrictions	(2,711,988)
With donor restrictions	5,426,928

Total net assets	2,714,940
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Total liabilities and net assets	\$ 17,285,023
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See accompanying notes.

RED Housing Fund
Statement of Activities

Year Ended December 31, 2023

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues and other support			
Interest income	\$ 725,702	\$ -	\$ 725,702
Program-related loan interest income	324,934	-	324,934
Contribution income	-	359,466	359,466
Grant income	142,660	-	142,660
Other income	32,270	-	32,270
 Total revenues and other support	 1,225,566	 359,466	 1,585,032
 Net assets released from time restrictions	 754,918	 (754,918)	 -
Expenses			
Program	5,440,984	-	5,440,984
Management and general	70,519	-	70,519
 Total expenses	 5,511,503	 -	 5,511,503
 Change in net assets	 (3,531,019)	 (395,452)	 (3,926,471)
 Net assets at beginning of year	 819,031	 5,822,380	 6,641,411
 Net assets (deficit) at end of year	 \$ (2,711,988)	 \$ 5,426,928	 \$ 2,714,940

See accompanying notes.

RED Housing Fund
Statement of Functional Expenses

Year Ended December 31, 2023

	Program	Management and General	Total
Contribution expense on below market rate program-related loans	\$ 4,302,385	\$ -	\$ 4,302,385
Loan loss reserve	550,000	-	550,000
Interest	264,641	12,778	277,419
Outside services	228,500	3,500	232,000
Management fees	75,000	-	75,000
Accounting fees	-	50,514	50,514
Insurance	3,620	2,252	5,872
Legal	5,354	-	5,354
Awards and grants to others	5,000	-	5,000
Program expenses	2,734	-	2,734
Amortization	2,750	-	2,750
Advertising and marketing	1,000	-	1,000
Office supplies	-	865	865
Bank fees and service charges	-	410	410
Licenses and permits	-	200	200
	\$ 5,440,984	\$ 70,519	\$ 5,511,503

See accompanying notes.

RED Housing Fund
Statement of Cash Flows

Year Ended December 31, 2023

Increase (decrease) in cash and cash equivalents

Cash flows from operating activities

Change in net assets	\$ (3,926,471)
Adjustments to reconcile change in net assets to net cash provided provided by operating activities:	
Discount on program-related loan receivable	4,302,384
Increase to loan loss reserve	550,000
Amortization of debt issuance costs	2,750
Amortization of debt discount on below market rate loans	254,918
Amortization of discount on program-related loan receivable	(168,282)
Amortization of origination fees on program-related loan receivable	(156,651)
Partial debt forgiveness of long-term loan	(359,466)
Increase in operating assets:	
Account receivable	(4,850)
Decrease in operating liabilities:	
Accounts payable	(42,608)
Net cash provided by operating activities	451,724

Cash flows from investing activities

Redemption of certificates of deposit	3,704,934
Disbursements on programmatic loan receivable	(8,334,840)
Net cash used in investing activities	(4,629,906)

Net decrease in cash and cash equivalents (4,178,182)

Cash and cash equivalents at beginning of year 7,300,212

Cash and cash equivalents at end of year \$ 3,122,030

Supplemental cash flow information:

Cash paid during the year for interest	\$ 25,347
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See accompanying notes.

Year Ended December 31, 2023

Note A. Nature of the Organization

RED Housing Fund (the “Organization”) is a not-for-profit organization that proposes building not just homes, but communities to support sustainable living in a rapidly changing world. The Organization offers flexible financing to support the development of housing across income levels by offering subordinate loans to developers in Sonoma County, California that have projects meeting the Organization’s criteria: located on an infill site, mid- to high-density development, residential or mixed-use residential, and situated within a transit-rich or planned area. The Organization has a shared vision with the City of Santa Rosa, California and the County of Sonoma to harness regional action to meet our community’s diverse housing needs and to protect the environment, support economic vitality, and improve the quality of life for all the region’s residents.

Note B. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (“GAAP”).

Net Assets

Net assets, revenues and other support and expenses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

Without Donor Restrictions – Net assets that are not subject to donor-imposed restrictions. These also may be designated for specific purposes by action of the Board of Directors.

With Donor Restrictions – Net assets subject to donor-imposed stipulations that may or will be met by actions of the Organization to meet the stipulations or that become unrestricted at the date specified by the donor or net assets subject to donor-imposed stipulations that are maintained permanently by the Organization.

Net Assets Released from Restriction – Net assets with donor restrictions are released to net assets without donor restrictions when the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed.

Cash and Cash Equivalents

Cash and cash equivalents include cash with financial institutions and highly liquid investments. The Organization considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

Year Ended December 31, 2023

Note B. Summary of Significant Accounting Policies (continued)

Certificates of Deposit

The Organization invests in various certificates of deposit which are carried at amortized cost, which approximates fair value. These certificates are classified as either current or noncurrent on the statement of financial position based on the contractual maturity date, with those in excess of 12 months classified as noncurrent.

Program-Related Loans Receivable

The Organization has construction and term loan financing receivable agreements with borrowers for the purpose of funding the development of affordable and market-rate housing, secured by deeds of trust on land. Loans are carried at an amount equal to the assets transferred if the loans are issued at the market interest rate applicable to the borrower. If the contractual interest rate is lower than the market rate, the difference between the cash transferred to the borrower and the present value of the contractual payments for the loan at the effective interest rate is recognized as contribution expense. Contractual interest rates on three of the Organization's program-related loan receivables were lower than the market rates charged to comparable affordable housing projects, and therefore, \$4,302,384 of contribution expense was recorded. There is an inherent contribution element in providing loans with interest rates below the market interest rate of what the borrowers would have obtained from typical market sources. The contribution expense component of the loan receivable is a non-cash adjustment to the carrying value of the loan and is included in the reconciliation of change in net assets to net cash provided by operating activities in the statement of cash flows.

Each loan is analyzed for significant risk factors and appropriate interest rates are charged (currently ranging from 1.00% to 8.75%). The Organization estimates an allowance for loan losses based on an internal risk rating of each loan at origination with the reserve ranging from 3.00% to 7.00%. The Organization may reserve an additional amount if repayment of loans becomes doubtful. Repayment terms differ for each loan.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions based on management's knowledge and experience. Those estimates affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported amounts of revenue, support, and expenses. Actual results could differ from those estimates.

Interest Income

Interest income on program-related loans receivable is recognized as earned in accordance with the loan terms. Net loan origination fees are deferred and amortized to program-related loan interest income using the effective interest method over the contractual life of the loans.

Imputed Interest Expense

The Organization uses the long-term Applicable Federal Rates to determine the imputed interest on below market interest rate loans.

Year Ended December 31, 2023

Note B. Summary of Significant Accounting Policies (continued)

Grants and Contributions

Grants and contributions received and unconditional promises to give are measured at fair values and are reported as increases in net assets without donor restrictions unless use of the contributed assets is specifically restricted by the donor. The Organization reports gifts and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restriction. Donor restricted contributions whose restrictions are fulfilled or expire within the same reporting period are reported as contributions without donor restrictions.

Unconditional promises with payments due in future years have an implied restriction to be used in the year the payment is due, and therefore are reported as net assets with donor restrictions until the payment is due unless the contribution is clearly intended to support activities of the current year or is received with permanent donor restrictions. Conditional promises are not recognized until all conditions on which they depend are substantially met.

Income Taxes

The Organization is a not-for-profit organization and is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and California Revenue and Taxation Code Section 23701(d). However, the Organization is subject to income taxes on any net income that is derived from a trade or business, regularly carried on, and not in furtherance of the purposes for which it was granted exemption, commonly referred to as unrelated business income. No income tax provision has been recorded for the year ended December 31, 2023, as management determined that the Organization had no unrelated business income.

The Organization is subject to "Accounting for Uncertainty in Income Taxes" under Accounting Standards Codification ("ASC") 740, Income Taxes. ASC 740 requires the evaluation of tax positions taken or expected to be taken in the Organization's tax returns and does not allow recognition of tax positions that do not meet a "more-likely-than-not" threshold of being sustained by the applicable tax authority. The Organization does not believe it has taken any tax positions that would not meet this threshold. The Organization's policy is to reflect interest and penalties related to uncertain tax positions as part of income tax expense, when and if they become applicable. The Organization's federal and state income tax returns are subject to possible examination by the taxing authorities until the expiration of the related statutes of limitations on those tax returns. In general, federal income tax returns have a three-year statute of limitations, and state income tax returns have a four-year statute of limitations.

Functional Allocation of Expenses

The costs of providing the program and other activities have been summarized on a functional basis in the statement of functional expenses. Accordingly, certain costs have been allocated among the program and supporting services benefitted. These expenses are allocated on the basis of estimates of time and effort.

Year Ended December 31, 2023

Note C. Program-Related Loan Receivable

The program-related loan receivable consisted of the following as of December 31, 2023:

Program-related loan receivable from a borrower to build affordable housing, with prepaid interest included in the loan origination fees of \$13,929 as of December 31, 2023, bearing interest at 1.00% per annum, with outstanding principal and interest due June 1, 2025. The note may be converted from a construction loan to a term loan with the due date June 1, 2040, at the same interest rate, based on meeting the conversion conditions as described in the borrower's loan agreement.	\$ 2,400,000
Program-related loan receivable from a borrower to build affordable by design market rate housing, with prepaid interest included in the loan origination fees of \$28,862 as of December 31, 2023, bearing interest at 8.75% per annum, with outstanding principal and interest due December 1, 2024.	1,300,000
Program-related loan receivable from a borrower to build affordable housing, with prepaid interest included in the loan origination fees of \$9,382 as of December 31, 2023, bearing interest at 1.00% per annum, with outstanding principal and interest due February 16, 2024. The note may be converted from a construction loan to a term loan with an October 1, 2040 due date, at the same interest rate, based on meeting the conversion conditions as described in the borrower's loan agreement.	800,000
Program-related loan receivable from a borrower to build affordable housing, with prepaid interest included in the loan origination fees of \$43,520 as of December 31, 2023, bearing interest at 1.00% per annum, with outstanding principal and interest due October 18, 2025. The note may be converted from a construction loan to a term loan with an April 18, 2041 due date, at the same interest rate, based on meeting the conversion conditions as described in the borrower's loan agreement.	4,000,000
Program-related loan from a borrower to build market rate housing, with prepaid interest included in the loan origination fees of \$1,040,240 as of December 31, 2023, variable monthly interest rate at the greater of 4.00%, or 3.25% above the senior lender's construction loan interest rate per annum (8.71% as of December 31, 2023), all outstanding principal and interest due March 20, 2027.	3,958,409
	12,458,409
Less discount on below-market rate program-related loans receivable	(4,134,102)
Less loan loss reserve	(775,000)
Less origination fees, net	(1,266,982)
	<u>\$ 6,282,325</u>

Year Ended December 31, 2023

Note C. Program-Related Loan Receivable (continued)

During the year ended December 31, 2023, \$156,651 and \$168,282 of the origination fees and discount were amortized to interest income, respectively. Contractual interest rates on program-related loans made during the year ended December 31, 2023, were lower than the market rates and therefore \$4,302,384 of contribution expense was recorded.

Note D. Long-Term Loans Payable

Long-term loans payable consisted of the following as of December 31, 2023:

Loan payable to a municipal corporation to provide financing to support development housing projects that are consistent with project criteria adopted by Renewal Enterprise District ("RED"). The loan is noninterest-bearing and is payable in one lump-sum on October 29, 2041.	\$ 10,000,000
Loan payable to a municipal corporation to provide financing to support development housing projects that are consistent with project criteria adopted by RED. The loan is noninterest-bearing and is payable in one lump-sum on November 4, 2041. All or a portion of the loan may be forgiven in accordance with the loan requirements. The portion of the loan forgiven for the year ended December 31, 2023 amounted to \$500,000. Cumulatively \$1,000,000 has been forgiven over the life of the loan.	9,000,000
Loan payable to a financial institution to originate construction and term loans for projects, with an interest rate of 2.50% per annum, accrued interest payable quarterly beginning January 1, 2023, until November 17, 2026, where principal and interest payable quarterly, and all outstanding principal and interest due on November 30, 2032.	1,000,000
	20,000,000
Debt discount on below market rate loans	(5,426,928)
Debt issuance costs	(24,391)
	<u>\$ 14,548,681</u>

During the year ended December 31, 2023, \$254,918 and \$2,750 of the debt discount and debt issuance costs were amortized to interest expense, respectively.

Note E. Liquidity

Financial assets are considered unavailable due to donor-imposed restrictions or the governing board has set aside funds for internal designations. Amounts available include donor-restricted amounts that will meet purpose restrictions within the next twelve months from the statement of financial position date. The Organization operates with a balanced budget and anticipates covering its general expenditures with existing working capital and by maintaining and expanding existing program and relationships with funders who have provided donations without restrictions and are willing to provide multi-year grants. The Organization does not have any donor-imposed restrictions that affect liquidity as of December 31, 2023.

Year Ended December 31, 2023

Note F. Net Assets

Net assets with donor restrictions represent amounts received or committed with donor restrictions, which have not yet been expended for their designated purpose (purpose-restricted) or amounts for general use in future periods (time restricted). Net assets consisted of the following as of December 31, 2023:

With donor restrictions:	
Implicit time restriction	\$ 5,426,928
Total net assets with donor restrictions	5,426,928
Without donor restrictions:	
Undesignated	(2,711,988)
Total net deficit without donor restrictions	(2,711,988)
Net assets	\$ 2,714,940

Net assets were released from donor restrictions by incurring expenses that satisfy the restricted purpose or by occurrence of the passage of time or other events specified by the donor. During the year ended December 31, 2023, \$754,918 was released from restrictions as the passage of time restrictions were met.

Note G. Subsequent Events

The Organization has evaluated subsequent events through April 29, 2024, the date on which the financial statements were available to be issued.