



BOARD OF SUPERVISORS  
AGENDA LETTER

Agenda Number:

Clerk of the Board of Supervisors  
105 E. Anapamu Street, Suite 407  
Santa Barbara, CA 93101  
(805) 568-2240

**Department Name:** Community Services  
**Department No.:** 057  
**For Agenda Of:** January 10, 2023  
**Placement:** Administrative  
**Estimated Time:**  
**Continued Item:** No  
**If Yes, date from:**  
**Vote Required:** Majority

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**TO:** Board of Supervisors

**FROM:** Department George Chapjian, (805) 568-2467  
Director(s)  
Contact Info: Dinah Lockhart, Deputy Director (805) 568-3523  
Laurie Baker, Housing and Grants Manager, (805) 568-3521

**SUBJECT:** **Ratify the execution of a State of California Housing and Community Development Department (State HCD) Housing for a Healthy California (HHC) Loan Subordination Agreement pursuant to Board action on November 1, 2022, related to approval and execution of Loan Documents for a \$1,377,665 loan in State of California Community Development Block Grant Disaster Recovery Multi-Family Housing Program (“CDBG-DR MHP”) funds for Escalante Meadows (Project) in Guadalupe (Supervisory District 5)**

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**County Counsel Concurrence**

As to form: Yes

Other Concurrence: Risk Management

As to form: Yes

**Auditor-Controller Concurrence**

As to form: Yes

**Recommended Actions:**

That the Board of Supervisors:

- A. Ratify the execution of a Subordination Agreement (Attachment A) with State HCD, subordinating the County’s \$1,377,665 CDBG-DR MHP loan to the State’s HHC loan in the amount of \$5,600,000 provided to the Escalante Meadows affordable housing development in the City of Guadalupe (Project).
- B. Determine that the recommended action is not the approval of a project that is subject to environmental review under the California Environmental Quality Act (CEQA) pursuant to CEQA Guidelines section 15378(b)(5), finding that the subject item is an organizational or administrative activity of government(s) that will not result in direct or indirect physical changes in the environment.

**Summary Text:**

Today’s Board Action ratifies the Subordination Agreement with State HCD, in which the County subordinated its \$1,377,665 CDBG-DR MHP loan (Loan) to the State’s HHC Project loan in the amount of \$5,600,000 (Subordination Agreement). This Subordination Agreement is being brought forward to the Board today for ratification as it was unavailable to County HCD staff at the time of the docketing deadline for the November 1, 2022 Board of Supervisors meeting, when the rest of the Loan documents were presented to the Board based on a strict Project construction loan closing deadline of November 18, 2022..

Subsequent to Board approval of the Loan documents on November, 1, 2022, the Project has since closed escrow on all Project financing as of November 18<sup>th</sup>, 2022. A Notice to Proceed with construction activities was issued on November 28<sup>th</sup>, and the Project is currently under construction, with a projected completion date of August 4, 2024.

**Background:** On November 1, 2022, the Board of Supervisors approved Item A-5 (Board File #22-00963), concerning approval of loan documents and associated security instruments and agreements, for the Project. The November 1, 2022 Board Letter and meeting Minute Order are attached herein as Attachments B and C, respectively.

The Project budget (Table 1 below) shows the sources of funds available to the Project to cover the construction costs of \$60,443,068, and was likewise included in the November, 1, 2022, Board Letter. The Project budget is comprised of nine (9) funding sources, three (3) of which are from State sources: 1) \$11,731,995, in Affordable Housing and Sustainable Communities (AHSC), funds, 2) \$5,600,000 State HCD Housing for a Healthy California (HHC) funds and, 3) \$1,377,665 in State HCD Community Development Block Grant Disaster Recovery Multi-Family Housing Program (CDBG-DR MHP) funds, the latter of which was passed through to the County and City of Santa Barbara<sup>1</sup> to allocate to a housing development project to mitigate the loss of affordable housing during the 2017 Thomas fire and subsequent debris flow.

<b>Table 1: Escalante Meadows, Project Sources Required to Complete Construction</b>	
<i>Source</i>	<i>Amount</i>
Low-Income Housing Tax Credit Equity (LIHTC)	23,375,000
<b>Pacific Western Bank, Private Loan</b>	<b>16,100,000</b>
Affordable Housing and Sustainable Communities (AHSC) loan	11,731,995
<b>Housing for a Healthy California (HHC) loan</b>	<b>5,600,000</b>
CDBG-DR-MHP loan	1,377,665
County Housing Authority - Seller Carry Back Note	1,050,000
Federal Home Loan Bank, Affordable Housing Program (AHP) loan	1,000,000
Enterprise Community Partners, Solar Tax Credits -equity	164,613
Deferred Developer Fee	43,795
<b>Total Project Sources/Cost to Develop</b>	<b>60,443,068</b>

*The loans to which the County’s CDBG-DR MHP loan is subordinate are shown in bold. The County’s loan and regulatory agreements are also subordinate to HUD’s Rental Assistance Demonstration (RAD) Regulatory Agreement.*

<sup>1</sup> The \$1,377,665 CDBG-DR MHP funds are comprised of both County (\$529,654) and City of Santa Barbara (\$848,011) CDBG-DR MHP funds. The City of Santa Barbara made its CDBG-DR MHP available to the County to award to the Project.

Two of these State funding sources, AHSC and HHC, were new to any project in Santa Barbara County and highly competitive to acquire. For HHC funding, this Project was also the first in the state to work its way through State HCD's legal and loan closing process. As subrecipient to State HCD for the CDBG-DR MHP funds, Santa Barbara County managed the loan documents processing subject to State HCD legal review and approval.

Early on in due diligence conference calls among all Project lending partners, it was made clear that the AHSC funds would not require a subordination agreement to be executed. In regard to the HHC funds, it was initially conveyed that a subordination agreement would not be required, and State HCD indicated it would confer internally as to disposition and requirements of these State sources.

Although not listed as a source above, the Housing Authority of the County of Santa Barbara, as General and Administrative Partner of the Escalante Meadows Limited Partnership, also provided Section 8 Project-Based rental assistance to the Project under the U.S Housing and Urban Development's (HUD), Rental Assistance Demonstration Program (RAD). It was conveyed early on in the escrow closing due diligence conference calls that HUD's RAD regulatory agreement would be in senior priority position of recordation, after only the construction and permanent financing loans provided to the Project by commercial lender, Pacific Western Bank, which were required to be in a first lien position on title.

Therefore, HCD staff proceeded in docketing the November 1, 2022, Board Letter with a recommendation that the Board approve execution of two (2) Subordination Agreements for the Project:

1. Subordination Agreement subordinating the County CDBG-DR MHP loan to Pacific Western Bank commercial loan; and
2. Subordination Agreement subordinating the County CDBG-DR MHP to HUD's Rental Assistance Demonstration (RAD) Use Agreement.

Subsequent to docketing, it became known that the State would be requiring a Subordination Agreement subordinating the County CDBG-DR MHP loan to the State HHC loan. The Loan closing date of November 18, 2022, was a critical-path item in the Project financial structure, and there were no viable options available to forward-calendar the Loan documents in order to include the Subordination Agreement. Pacific Western Bank had locked in an interest rate and loan terms and conditions for the Project, and the Housing Authority had to meet a critical deadline to preserve its allocation of Low-Income Housing Tax Credits (LIHTC). Any uptick in the interest rate after the expiration of the rate lock, would have rendered the Project no longer financially feasible, and the Housing Authority would have been at risk of losing its allocation of LIHTC.

To move the Project along, County leadership and Counsel agreed that a prudent path forward would be to continue to allow the loan closing process to proceed, execute an HHC Subordination Agreement, pursuant to Risk, Counsel, and Auditor-Controller concurrence, and return to the Board confirming and ratifying this action for the public record. The risk to the County in doing so was relatively low; however, the risk to the success of the Project entailed in not taking the aforementioned course of action was of potential significance. The HHC Subordination Agreement attached hereto provides such confirmation.

**Performance Measure:**

The Escalante Meadows development will be monitored for CDBG-DR MHP program compliance for the fifty-five year period of affordability, and the CDBG-DR MHP loan and repayments will be monitored for the duration of the fifty-five-year term of the CDBG-DR MHP Loan. CDBG-DR MHP program monitoring will include an annual review of the property’s financial statements and roster of CDBG-DR MHP units indicating the number and location of the CDBG-DR MHP units, and the rents charged. At least every three years, or more frequently if warranted, a site visit will be conducted by HCD staff to inspect a sampling of the CDBG-DR MHP units against certain housing quality standards and a sampling of tenant files will be reviewed for income, lease and rent requirements.

**Fiscal and Facilities Impacts:**Not Applicable

**Fiscal Analysis:**

<b><u>Funding Sources</u></b>	<b><u>Current FY Cost:</u></b>	<b><u>Annualized On-going Cost:</u></b>	<b><u>Total One-Time Project Cost</u></b>
General Fund			
State			
Federal			
Fees			
Other:			
<b>Total</b>	\$ -	\$ -	\$ -

The County has funds available through State HCD CDBG-DR MHP allocation. The County will charge the owner of the Project an annual monitoring fee, currently set at \$2,500, to offset staff costs to monitor the housing units for the 55-year affordability term.

**Key Contract Risks:**

In addition to County HCD review, the senior lenders have fully vetted and underwritten the Project and determined that the Project costs are reasonable and within industry standards and that the Project will generate sufficient revenue to operate successfully.

**Staffing Impacts:** The commitment of the CDBG-DR MHP funds to the Project will necessitate regulatory monitoring by County staff for a minimum of 55 years, and fiscal monitoring for the 55-year term of the loan. The terms of the County’s Loan require the developer to pay an annual Affordable Housing Monitoring fee to the County, currently set at \$2,500, which will help cover the cost of monitoring.

**Special Instructions:**

1. Please accept for entry into the public record Attachment A, the executed and recorded copy of the HHC Subordination Agreement dated November 18, 2022, and retain a copy for County Clerk records.
2. Please return a copy of the Minute Order to Carlos Jimenez. Please email or call when ready for pick up: [cjimenez@countyofsb.org](mailto:cjimenez@countyofsb.org) , Ext. 83529.

**Attachments:**

Ratify execution of State HCD Housing for a Healthy California  
Loan Subordination Agreement  
January 10, 2023  
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Attachment A: Recorded/Executed Copy of HHC Subordination Agreement dated November 18, 2022  
Attachment B: November 1, 2022 Board Letter Regarding Escalante Meadows Loan Documents  
Attachment C: November 1, 2022 Board Meeting Minute Order

**Authored by:**

Carlos Jimenez, Housing Program Specialist, Senior