



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
Department No.: 057
For Agenda Of: August 20, 2013
Placement: Administrative
Estimated Tme:
Continued Item: No
If Yes, date from:
Vote Required: Majority

TO: Board of Supervisors
FROM: Herman Parker, Community Services Director (805) 568-2467
Simon Kiefer, Grants & Program Manager, (805) 568-3534
SUBJECT: Subordination of County In-Lieu Funds Loan to Montecito Bank
& Trust Refinancing Loan for Transition House Homeless Shelter
Located in District 1

County Counsel Concurrence

As to form: Yes

Auditor-Controller Concurrence

As to form: Yes

Other Concurrence:

Risk Management

As to form: Yes

Recommended Actions:

That the Board of Supervisors:

- A. Approve and Authorize the Chair of the Board of Supervisors to execute the Subordination Agreement that subordinates County's loan of In-lieu Funds to Montecito Bank & Trust refinancing loan (Attachment A) related to the refinancing for the Transition House Homeless Shelter; and
- B. Determine that the approval of the subordination agreement is exempt from the California Environmental Quality Act (CEQA) pursuant to CEQA Guidelines Section 15061(b)(3), finding that the activities are covered by the general rule that CEQA applies only to projects which have the potential for causing a significant effect on the environment, and where it can be seen with certainty that there is no possibility that the activities in question may have a significant effect on the environment, the activities are not subject to CEQA, and direct staff to file a Notice of Exemption (Attachment B).

Summary Text:

Transition House operates a homeless shelter located at 434 E. Ortega Street in the City of Santa Barbara that serves homeless families throughout Santa Barbara County. The County provided a loan of County In-lieu Funds to Transition House for acquisition and renovation of the property in 1992.

Transition House seeks to retire two existing loans on the property. One loan (Hutton Foundation Loan) is now due. The other loan (Seller Carry-back Loan) is not due, but has a high interest rate. Transition House has secured a commitment from Montecito Bank & Trust to provide a new senior loan at a lower interest rate that covers the amounts to retire the two current loans and to cover closing costs (the “new senior loan”). Transition House is not withdrawing any cash as part of this refinancing transaction. Transition House requests that the County subordinate its loan to the new senior loan, as required by Montecito Bank & Trust.

Background:

The Transition House homeless shelter for families was acquired and renovated in 1992, with financial assistance from numerous sources. In addition to grants and cash donations, financing of the project includes the following loans, listed in order of priority on title with original principal balances indicated:

Seller Carry-back Loan (John William Converse):	\$350,000
City of Santa Barbara Redevelopment Agency Loan:	350,000
City of Santa Barbara Loan:	245,000
County Loan (In-lieu Funds):	190,000
Hutton Foundation Loan:	<u>450,000</u>
Total:	1,585,000

Loan repayment is particularly challenging for a homeless shelter. Transition House has kept current with amortizing the Seller Carry-back Loan and the Hutton Foundation Loan. As discussed below, payment terms for the three local government loans changed over the years in order to reduce the financial burden on Transition House.

Originally, the County Loan was a 5%, 30-year loan with a deferral of payments for the first 5 years. The loan agreement included an option for the County to purchase the project in the event of default. In 1997, the County granted a second 5-year deferral period. Transition House conducted a fundraiser in 2003 specifically for the purpose of making a payment on the County Loan, and \$15,472 was paid to the County. In 2004, the County agreed to freeze the County Loan balance at \$232,484, including all accrued interest, and extend the deferral period until January 17, 2023, at which point the County Loan will be forgiven in full.

The City of Santa Barbara and its Redevelopment Agency took similar actions on their loans in 1999. Payments were deferred for the term of the loans. The balance including accrued interest for the City of Santa Barbara Redevelopment Agency Loan was frozen at the amount of \$499,546, and the balance including accrued interest for the City of Santa Barbara Loan was frozen at the amount of \$263,696. The loans will be forgiven at the end of their terms.

Proposed Refinancing:

Transition House has secured a commitment from Montecito Bank & Trust for a new senior loan in the amount of \$370,000. Transition House is not withdrawing any cash from this refinancing transaction. The proceeds from the new senior loan would be used to pay off the current balances on the Seller Carry-back Loan and on the Hutton Foundation Loan and to pay closing costs.

The project would then have the following loan financing as itemized below (including the frozen loan balances described above):

Montecito Bank & Trust Loan:	\$370,000
Santa Barbara Redevelopment Agency Loan:	499,546

City of Santa Barbara Loan:	263,696
County Loan (In-lieu Funds):	<u>232,484</u>
Total:	1,365,726

The County’s loan would then be subordinate to a slightly higher total senior debt (\$1,133,242) than what was originally established at closing in 1992 (\$945,000). This is due to two factors: 1) proceeds from the new senior loan in first position are partially being used to pay off junior debt (Hutton Foundation Loan); and, 2) with accrued interest, the frozen loan balances on two senior loans (City of Santa Barbara Redevelopment Agency Loan and City of Santa Barbara Loan) are higher than their original principal amounts.

Staff supports the proposed refinancing. As a result of this transaction, Transition House will pay off one loan that is now due and end up paying less in interest, which will help increase the project’s net operating income. The new senior loan will have an interest rate of 4.25% (if closing can be achieved soon), whereas the Seller Carry-back Loan has an interest rate of 7%, and the Hutton Foundation Loan has an interest rate of 4.5%. The new senior loan has a 25-year amortization schedule, but is due in 10 years, with a balloon payment due in August 2023 – seven months after the County Loan is scheduled to be forgiven in January 2023.

The property was appraised on May 29, 2013 at a value of \$1,750,000, which translates to a healthy total debt to value ratio of 78%.

The County’s Capital Loan Committee reviewed the proposed Transition House refinancing at its meeting of July 24, 2013 and recommended that the Board approve the subordination request. On July 1, 2013 the Loan Committee for the City of Santa Barbara reviewed the proposed Transition House refinancing in June and approved the subordination of the City of Santa Barbara Redevelopment Agency Loan and the City of Santa Barbara Loan.

Fiscal and Facilities Impacts:

None

Fiscal Analysis:

The subordination agreement would not result in any changes to County funds already committed to the project.

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

Special Instructions:

- Execute two (2) original copies of Attachment A
- Provide a copy of the minute order reflecting Board Action

Attachments:

- A) Subordination Agreement

Subordination of County In-lieu Funds Loan to Montecito Bank & Trust Refinancing Loan for Transition House Homeless Shelter Located in District 1

August 20, 2013

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B) CEQA Notice of Exemption