



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 23, 2024
Placement: Administrative
Estimated Time: N/A
Continued Item: No
If Yes, date from:
Vote Required: Majority

TO: Board of Supervisors
FROM: Department George Chapjian, Community Services, (805) 568-2467
Director
Contact Info: Joe Dzvonic, Deputy Director, Housing and Community
Development Division, (805) 568-3523
Laurie Baker, Housing and Programs Manager, (805) 568-3521
Kimberlee Albers, Homeless Programs Manager (805) 560-1090
SUBJECT: Approval and Execution of Loan Subordination Agreements Concerning
Sanctuary Centers of Santa Barbara, Inc.'s Hollister II Affordable Housing
Development (Project) located at 115 West Anapamu Street (Property), City of
Santa Barbara, 1st Supervisorial District

County Counsel Concurrence

As to form: Yes

Other Concurrence:

As to form: Yes

Auditor-Controller Concurrence

As to form: Yes

Recommended Actions:

It is recommended that the Board of Supervisors:

- a) Approve and direct the Chair of the Board to execute a Subordination Agreement (Attachment C) subordinating the County's rights with respect to its one-million-four—hundred-thousand-dollar (\$1,400,000) County Permanent Local Housing Allocation loan (PLHA Loan) to Sanctuary Centers of Santa Barbara, Inc. (Owner) to a seven-million-dollar (\$7,000,000) State of California Department of Social Services Community Care Expansion Project loan to Owner (State CCE Loan); and
- b) Approve and direct the Chair of the Board to execute a Subordination Agreement (Attachment D) subordinating the PLHA Loan to a two-million- nine- hundred- fourteen thousand, two-hundred twenty-four- dollar (\$2,914,224) State of California Department of Behavioral Health Care Services Capital Infrastructure Program Project loan to Owner (State BHCIP Loan); and,

- c) Approve Board Chair execution of a Subordination Agreement (Attachment E) subordinating a one-million-five-hundred-thousand-dollar (\$1,500,000) County Community Corrections Partnership loan to Owner (CCP Loan) to the State CCE Loan; and
- d) Approve Board Chair execution of a Subordination Agreement (Attachment F) subordinating the CCP Loan to the State BHCIP Loan; and
- e) Approve Board Chair execution of a Subordination Agreement (Attachment G), whereby the City of Santa Barbara agrees to subordinate a City Affordability Covenant Imposed on Real Property (City Covenant) to the County PLHA Loan; and
- f) Approve Board Chair execution of a Subordination Agreement (Attachment H) whereby the City of Santa Barbara agrees to subordinate the City Covenant to the County CCP Loan; and
- g) Find that the Project is exempt from California Environmental Quality Act (CEQA) requirements pursuant to CEQA Section 15332, consistent with the Notice of Exemption filed by the City of Santa Barbara on December 4, 2020 (Attachment I).

Summary Text:

On December 13, 2022 and August 22, 2023, respectively, the Board approved and executed County loan documents evidencing the County CCP and PLHA Loans for the Project (County Loans). Today's Board Action authorizes approval for the Board Chair to execute County PLHA and CCP Loan Subordination Agreements subordinating the County's loans to State BHCIP and State CCE Loans. Subordination Agreements are recorded on Property Title and reflect each parties' respective standing and interest in future loan repayment terms and conditions. The City of Santa Barbara will also be recording the City Covenant on Property title and has agreed to subordinate the City Covenant to the County Loans. The executed Subordination Agreements will be provided to Owner's title agent, Chicago Title, for recordation in accordance with the provisions of the Subordination Agreements, confirming the relative priority of said parties' interests.

Background:

As background, Attachments A and B to this Board Letter are copies of the Board Letters and Minute Orders for the December 13, 2022 CCP Loan, and the August 22, 2023, PLHA Loan, respectively. The August 22, 2023 PLHA Loan Board Letter indicated that HCD would return to the Board at a future date to record certain Project subordination agreements predicated on Owner acquiring additional State funding sources under the State's BHCIP and CCE programs. Today's item addresses this follow-up action, and includes the City Covenant as well.

Owner has obtained a Project Construction Loan in the amount of \$8,900,000.00 from First Republic Bank, which will convert to a permanent financing loan in the amount of \$1,488,578.00 upon completion of construction and subsequent occupancy of the Project (Senior Loan). First Republic Bank has presently recorded a Deed of Trust securing the Senior Loan in first priority position on title to the Property, and is not requesting subordination agreements from the County or other Project lenders.

Staff also confirms that a loan in the amount of \$4,350,700 in No Place Like Home (NPLH) funds allocated to the County by the State via Santa Barbara County's Behavioral Wellness Department will be provided to the Project at completion of construction to pay down the Senior Loan (NPLH Loan). It is anticipated that a deed of trust securing NPLH Loan, along with subordination agreements subordinating

the County Loans to the NPLH Loan (NPLH Subordination Agreements) will be executed at a future date, likely around November 2025, the Project’s projected construction completion date. County staff will return to the Board prior to that time for Board approval of execution and recordation of the NPLH Subordination Agreements.

The Project budget is in the aggregate amount of \$25,996,473, as set forth in the table below. One funding source subject to realization is \$2,000,000 in congressionally-directed Community Project Funds (CPF) through congressional representative Salud Carbajal’s office; which is in process and subject to review and final approval at a future date.* In the event that such CPF funding is not realized, the Owner has indicated it will address this by providing additional Owner equity for Project funding in like amount.

<u>Project Funding Source</u>	<u>Amount</u>
First Republic Bank	\$ 1,488,578
State No Place Like Home (NPLH)	\$ 4,350,700
State Social Services CCE	\$ 7,000,000
CCE Cash Match	\$ 700,000
State Behavioral Health BHCIP	\$ 2,914,224
BHCIP Cash Match	\$ 291,425
County CCP	\$ 1,500,000
County PLHA	\$ 1,400,000
Developer Equity (Cash Donations)	\$ 4,351,546
<u>Community Project Funds (CPF)*</u>	<u>\$ 2,000,000</u>
Total Project Funding	\$25,996,473

Performance Measure:

The Project will be monitored by HCD staff for compliance with the terms and conditions of the County Loans Documents, including but not limited to the provision of three (3) County PLHA-restricted units, and sixteen (16) CCP-restricted units, for the required 55-year period of affordability. HCD monitoring will include an annual review of the Project financial statements, the roster of County-Assisted Units indicating the number and location of the County-Assisted Units, occupancy by Qualified Households, and maximum rents, as defined in the Regulatory Agreement. At least once every three years, a Project site visit will be conducted by HCD staff to physically inspect for consistency with HUD’s Housing Quality Standards and any other standard(s) that may be adopted by HUD in the future; including review of Project tenant files to insure compliance with occupancy and rent requirements.

Fiscal and Facilities Impacts:

N/A

Fiscal Analysis:

The Recommended Actions are to approve execution of subordination agreements and no funding is being considered at this time. On December 13, 2022 and August 22, 2023, respectively, the Board approved and executed County loan documents evidencing the County CCP and PLHA Loans for the Project.

Key Contract Risks:

HCD has evaluated the risks associated with the Project, the County Loans, and the recommended subordination of the County Loans pursuant to the Subordination Agreements, and has determined that such risks are reasonable and within industry standards, and that adequate safeguards are in place to mitigate associated risks. The Project has also been fully vetted and underwritten by First Republic Bank, the Project construction and permanent loan lender.

Staff has reviewed the Project financial pro-forma and projected revenue and expense assumptions and determined that the Project costs are reasonable and within acceptable underwriting standards, and that the Project will generate sufficient cash flow to ensure ongoing financial feasibility.

Staffing Impacts: The County Loans will necessitate regulatory monitoring by County staff for a minimum of 55 years. The terms of the County PLHA Loan require Sanctuary Centers to pay an annual Affordable Housing Monitoring fee to the County, currently \$2,500, which escalates 3% annually.

Special Instructions:

1. Please have the Board Chair execute one original County PLHA Loan BHCIP Subordination Agreement (Attachment D), including COB Acknowledgement Form, retain a copy in COB files, and return the original executed BHCIP Subordination Agreement to Carlos Jimenez. After recordation, a conformed copy of the recorded BHCIP Subordination Agreement will be returned to the COB for the public record. Please *email a copy along with the meeting Minute Order* to cjimenez@countyofsb.org.
2. Please have the Board Chair execute one original County PLHA Loan CCE Loan Subordination Agreement (Attachment C), including COB Acknowledgement Form, retain a copy in COB files, and return the original executed CCE Subordination Agreement to Carlos Jimenez. After recordation, a conformed copy of the recorded CCE Subordination Agreement will be returned to the COB for the public record. Please *email a copy* to cjimenez@countyofsb.org.
3. Please have the Board Chair execute one original County CCP Loan BHCIP Subordination Agreement (Attachment F), including COB Acknowledgement Form, retain a copy in COB files, and return the original executed BHCIP Subordination Agreement to Carlos Jimenez. After recordation, a conformed copy of the recorded BHCIP Subordination Agreement will be returned to the COB for the public record. Please *email a copy along with the meeting Minute Order* to cjimenez@countyofsb.org.

4. Please have the Board Chair execute one original County CCP Loan CCE Subordination Agreement (Attachment E), including COB Acknowledgement Form, retain a copy in COB files, and return the original executed CCE Subordination Agreement to Carlos Jimenez. After recordation, a conformed copy of the recorded CCE Subordination Agreement will be returned to the COB for the public record. Please *email a copy* to cjimenez@countyofsb.org.
5. Please have the Board Chair execute one original County PLHA Loan City Covenant Subordination Agreement (Attachment G), including COB Acknowledgement Form, retain a copy in COB files, and return the original executed City Covenant Subordination Agreement to Carlos Jimenez. After recordation, a conformed copy of the recorded Subordination Agreement will be returned to the COB for the public record. Please *email a copy* to cjimenez@countyofsb.org.
6. Please have the Board Chair execute one original County CCP Loan City Covenant Subordination Agreement (Attachment H), including COB Acknowledgement Form, retain a copy in COB files, and return the original executed City Covenant Subordination Agreement to Carlos Jimenez. After recordation, a conformed copy of the recorded Subordination Agreement will be returned to the COB for the public record. Please *email a copy* to cjimenez@countyofsb.org.

Attachments:

Attachment A: December 13, 2022 Board Agenda Letter and Minute Order, Project CCP Loan

Attachment B: August 22, 2023 Board Agenda Letter and Minute Order, Project PLHA Loan

Attachment C: County PLHA Loan State CCE Subordination Agreement

Attachment D: County PLHA Loan State BHCIP Subordaintion Agreement

Attachment E: County CCP Loan State CCE Subordaintion Agreement

Attachment F: County CCP Loan BHCIP Subordination Agreement

Attachment G: County PLHA Loan City Covenant Subordination Agreement

Attachment H: County CCP Loan City Covenant Subordination Agreement

Attachment I: City of Santa Barbara CEQA Notice of Exemption

Authored by: Carlos Jimenez, Senior Housing Program Specialist