



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.: 055
For Agenda Of: 08/14/18
Placement: Departmental
Estimated Time: 30 minutes
Continued Item: No
If Yes, date from:
Vote Required: Majority

TO: Board of Supervisors
FROM: Department George Chapjian, Director
Director(s)
Contact Info: Dinah Lockhart, Deputy Director, 568-3523
Laurie Baker, Grants and Program Manager, 568-3521
SUBJECT: Approval of \$3,173,437 loan in federal HOME and Inclusionary Housing Ordinance (IHO) In-Lieu funds to The Residences at Depot Street, L.P. for The Residences at Depot Street (Project) in Santa Maria and FY 2017-18 Action Plan Substantial Amendment (Supervisory District 5)

County Counsel Concurrence

As to form: Yes

Risk Management

As to form: Yes

Auditor-Controller Concurrence

As to form: Yes

Recommended Actions:

That the Board of Supervisors:

- A. Hear and consider public comments relating to the use of federal HOME Investment Partnerships (HOME) funds for the Residences at Depot Street affordable housing project at 201 and 205 N. Depot Street in the City of Santa Maria (Project) and to the Substantial Amendment to the FY 2017-18 Action Plan (Attachment A) that were submitted during the 30-day public comment period, which began on July 13th, 2018 and concludes at the end of today's public hearing for the Project;
- B. Approve a Substantial Amendment to the FY 2017-18 Action Plan (Attachment A), which adds the use of One Million Nine Hundred Ninety-Four Thousand Four Hundred Fifty-Nine Dollars (\$1,994,459) in HOME Funds, for the Project and direct staff to submit the Substantial Amendment to HUD;
- C. Approve a loan of One Million Nine Hundred Ninety-Four Thousand Four Hundred Fifty-Nine Dollars (\$1,994,459) in HOME Funds and One Million One Hundred Seventy-Eight Thousand Nine Hundred Seventy-Eight Dollars (\$1,178,978) in Inclusionary Housing Ordinance (IHO) In-Lieu Funds for a total of Three Million One Hundred Seventy-Three Thousand Four Hundred Thirty-Seven Dollars (\$3,173,437) to The Residences at Depot Street, L.P. for development of the Project and direct staff to finalize the Loan Documents and return to the Board for approval and execution of the Loan Documents;

- D. Consider the environmental effects of the project as shown in the Mitigated Negative Declaration adopted by the City of Santa Maria for the Project on December 19, 2016 (Attachment D) and find that pursuant to California Environmental Quality Act (CEQA) Guidelines Section 15162, no substantial changes are proposed, and there are no substantial changes in circumstances or new information of substantial importance regarding significant impacts or feasibility of mitigation measures and alternatives, and therefore approval of the Recommended Actions are within the scope of the Mitigated Negative Declaration adopted by the City of Santa Maria for the Project on December 19, 2016.

Summary Text:

The Board of Supervisors (Board) approved the FY 2017-18 Action Plan in July 2017. The proposed FY 2017-18 Substantial Amendment adds the use of up to \$1,994,459 in federal HOME funds for Project costs toward the development of Residences at Depot Street Apartments, an 80-unit affordable housing project in the city of Santa Maria. The project will be developed by the Housing Authority of the County of Santa Barbara (HASBARCO) and owned by The Residences at Depot Street, L.P., of which HASBARCO will be the general partner. (See Attachment B, Project Summary.)

County HCD has available HOME and Inclusionary Housing Ordinance (IHO) In-Lieu fee funds in the Santa Maria Housing Market Area (HMA), and unrestricted funds from a foreclosure, of which a portion of each will be used for the Project (see project funding chart below). The IHO In-Lieu fee funds are collected from developers who pay the fee in-lieu of including affordable units in their housing developments in accordance with the County's Inclusionary Housing Ordinance. In-Lieu funds are collected by Housing Market Area (HMA). HOME funds are allocated to the County annually by the U.S. Department of Housing and Urban Development (HUD).

County In-Lieu Santa Maria HMA	1,123,432
County In-Lieu unrestricted funds (foreclosure)	55,546
County HOME funds	1,808,117
Santa Maria HOME funds*	186,342
Total HOME/In-Lieu	<u>\$3,173,437</u>

**The HOME funds from the City of Santa Maria will come from the City's 2018 sub-allocation of HOME funds, which will be provided to the County by HUD about September. The loan agreement contains language that the provision of HOME funds to the project are subject to the County's receipt of the funds from HUD.*

Staff will return to the Board on August 28, 2018 for approval and execution of the following documents (Loan Documents). The Loan Documents will include both the HOME and In-Lieu funds.

1. County HOME Loan Agreement
2. County HOME Loan Promissory Note
3. County HOME Loan Deed of Trust
4. County HOME Loan Regulatory Agreement
5. Subordination Agreement to subordinate the County's HOME Loan Documents to construction and permanent loans being provide to the project by Wells Fargo Bank, in an amount not to exceed \$22,500,000.

Background:

The County is the lead entity of the Santa Barbara County HOME Consortium, which consists of the County and the cities of Buellton, Carpinteria, Goleta, Santa Maria, and Solvang.

The United States Congress appropriates funds for the HOME program annually, which is allocated to the HOME Consortium by the U.S. Department of Housing and Urban Development (HUD). The County then distributes the funds to its partner cities via formula, based on population and other factors. If the cities do not have projects ready to utilize the funds, then the County may commit those funds to other projects throughout the County. Projects that receive awards from federal funds (CDBG and HOME) are included in the County's annual Action Plan, or in an amendment to the Annual Action Plan, that is submitted to HUD. Annual Action Plans and amendments are approved by the Board prior to submission to HUD.

Residences at Depot Street (Project). Residences at Depot Street is a rental housing complex located at 201 and 205 N. Depot Street in the City of Santa Maria, to be developed by HASBARCO, as the general partner in The Residences at Depot Street, L.P. The project will provide eighty (80) rental units divided between two separate buildings and will contain 6 studios, 32 1-bedroom units, 36 2-bedroom units and 6 3-bedroom units. Two of the 2-bedroom units will be managers' units without income or rent restrictions. Eleven (11) HOME-Assisted Unit(s) and seven (7) County-Assisted Unit(s) will be subject to the income eligibility terms described in the HOME Regulatory Agreement. The number of HOME-Assisted Units and County-Assisted Units was calculated using the HOME Maximum Per-Unit Subsidy Limits. All other units will be restricted by the low-income housing tax credit regulatory agreement on the property. A full summary of the Project is provided as Attachment B.

In February 2018, the Board approved a reservation of \$2,287,095 in HOME and (IHO) In-Lieu funds for the Project. HASBARCO included the County funds in its application for 9% (competitive) Low Income Housing Tax Credits (LIHTC). The Project was not awarded LIHTC in the initial round of affordable housing tax credit allocation; therefore, HASBARCO followed up with an application for 4% in non-competitive LIHTC. In May, the Project was selected by the California Tax Credit Allocation Committee for an award of 4% (non-competitive) LIHTC. However, 4% LIHTC resulted in less equity for the Project and created a financing gap.

On June 7, 2018, County CSD/HCD staff convened the County's Capital Loan Committee (Committee) to consider HASBARCO's request for additional local funding. The Committee reviewed the funding details of the project and, with a unanimous vote, supported a recommendation that the Board of Supervisors approve a total funding commitment to the Project of \$3,173,437, which includes \$186,342 from the City of Santa Maria's 2018 sub-allocation of HOME funds. A resolution from the City of Santa Maria is attached as Attachment C. Recommendation C includes both County and City of Santa Maria funding recommendations for a total of \$3,173,437.

The following chart shows the proposed County and City of Santa Maria funds for the Project.

County In-Lieu Santa Maria HMA	1,123,432
County In-Lieu unrestricted funds (foreclosure)	55,546
County HOME funds	1,808,117
Santa Maria HOME funds*	186,342
Total HOME/In-Lieu	<u>\$3,173,437</u>

**The HOME funds from the City of Santa Maria will come from the City's 2018 sub-allocation of HOME funds, which will be provided to the County by HUD about September. The loan agreement contains language that the provision of HOME funds to the project are subject to the County's receipt of the funds from HUD.*

The following chart shows the financing sources for the Project:

<u>Construction Funding Sources</u>		<u>Permanent Funding Sources</u>	
Construction Loan	21,617,678	Permanent Loan	11,900,000
Deferred Developer Fee	4,478,807	Deferred Developer Fee	2,456,088
MHSA loan	2,405,000	MHSA loan	2,405,000
HOME/In-Lieu loan	3,173,437	HOME/In-Lieu loan	3,173,437
Seller Carryback Note	1,000,000	Seller Carryback Note	1,000,000
General Partner loan	1,150,000	General Partner loan	1,150,000
Tax Credit Equity - LIHTC	2,169,172	Tax Credit Equity - LIHTC	14,461,147
Tax Credit Equity – Solar	18,479	Tax Credit Equity – Solar	123,195
GP Equity	49,421	GP Equity	49,421
Deferred costs	656,293	Accrued interest on soft loans	346,167
Accrued interest on soft loans	346,167		
Total Funding Sources	<u>\$37,064,455</u>	Total Funding Sources	<u>\$37,064,455</u>

Substantial Action Plan Amendment (Amendment). The commitment of HOME funds to this project necessitates an amendment to the County's annual Action Plan for submittal to HUD upon approval by the Board. Amendments to annual Action Plans require a 30-day public notice and public hearing; the public comment period for this Amendment began on July 13th and ends on August 14th, at the close of the Board hearing for the Project. No public comments were received by HCD during the public comment period.

Staff will return to the Board on August 28 for approval and execution of the loan documents.

Performance Measure:

If funded, Residences at Depot Street will be monitored for HOME program compliance for the twenty-year period of affordability, and the HOME loan and required repayments will be monitored for the duration of the fifty-five year term of the HOME loan. HOME program monitoring will include an annual review of the property's financial statements and roster of HOME and County units indicating the number and location of the HOME and County 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 HOME and County 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:

The County has available HOME and In Lieu funds in an amount sufficient to fund this project. 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 20-year affordability term.

Key Contract Risks:

The Project will produce 80 units of rental housing, eighteen (18) of which will be subject to federal and County affordability restrictions (eleven (11) HOME units and seven (7) County units) for a period of 20 years; HCD staff will monitor the Project for affordability compliance. HUD could require the County to repay the amount of the HOME loan if the Project is not operated in accordance with the affordability restrictions during the 20-year term. A Regulatory Agreement will be recorded against the property and will provide the County with the means of enforcing the affordability restrictions. The Project also is subject to the Low-Income Housing Tax Credit program and the Project will be monitored by the State, as well as by the tax credit investor (which could lose tax credits for non-compliance). Therefore, the risk to the County is relatively minimal.

The terms of the County Promissory Note will bear simple interest at the rate of three percent (3%) per annum from the date of the first disbursement. The loan will be due and payable on the earlier of: (a) fifty-five (55) years from the date of the recordation of a notice of completion issued for the Project, or (b) the date the Property is sold or otherwise transferred.

The County's loan is being provided in the form of a residual receipts loan, whereby the County will receive annual loan repayments from residual project income after debt payments and approved operating expenses are paid. The County will annually review the Project's financial statements to ensure that a portion of any excess receipts are used to repay the County loan. The County loan is secured by the property, and all outstanding principal and interest will be due upon the expiration of the loan term.

The County's Deed of Trust and Regulatory Agreement will be subordinate to senior construction and permanent loans from Wells Fargo Bank. In the event of foreclosure by a senior lender and sale of the property, the senior loan will be repaid prior to the County's HOME/In-Lieu Loan. If there are sufficient funds after payment of the senior lien(s), then the County's loan will be paid. The County's Deed of Trust and Regulatory Agreement would be extinguished in a foreclosure of the senior loan.

HCD has evaluated the risks associated with the Project and determined that such risks are reasonable and within industry standards and that there are safeguards in place to prevent or mitigate risks. Projects that receive low-income housing tax credits are subject to ongoing financial and property compliance monitoring to meet the requirements of the federal Internal Revenue Service (IRS) tax codes. Investors risk losing tax credits for non-compliance; therefore, the Project has been fully vetted and underwritten by the tax credit investor(s).

In addition, 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 HOME/In-Lieu funds to the Project will necessitate regulatory monitoring by County staff at current staffing levels for a minimum of 20 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.

Special Instructions:

Please return email a copy of the Minute Order to Laurie Baker at lbaker@co.santa-barbara.ca.us

Attachments:

- A. Substantial Amendment to FY 2017-18 Annual Action Plan
- B. Project Summary
- C. City of Santa Maria resolution
- D. Mitigated Negative Declaration