



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: Housing and Community
Development
Department No.: 055
For Agenda Of: 5/21/19
Placement: Administrative
Estimated Tme:
Continued Item: No
If Yes, date from:
Vote Required: Majority

TO: Board of Supervisors
FROM: Department George Chapjian, Director, (805) 568-2485
Director(s)
Contact Info: Dinah Lockhart, Deputy Director, 568-3523
Laurie Baker, Grants and Program Manager, 568-3521
SUBJECT: Loan Subordination Agreements for Los Adobes de Maria III affordable housing
project (Project) in Santa Maria (Supervisorial District 4)

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 a Consent to Permanent Loan and Reaffirmation of Subordination (Attachment A) that subordinates the County's HOME Investment Partnerships (HOME) loan documents, including the HOME Loan Deed of Trust, Assignment of Rents, and Security Agreement and the HOME Loan Regulatory Agreement, to Wells Fargo's permanent loan of \$1,043,800;
- B) Approve and authorize the Chair of the Board of Supervisors to execute a Subordination Agreement (Attachment B) that subordinates the County's HOME Loan Promissory Note and HOME Loan Deed of Trust, Assignment of Rents, and Security Agreement to a United States Department of Agriculture (USDA) loan of \$3,000,000; and
- C) Determine that the recommended actions are not the acceptance and approval of a project that is subject to environmental review under the California Environmental Quality Act (CEQA) pursuant to CEQA Guidelines Section 15378(b)(4), finding that the project is a creation of government funding mechanisms or other government fiscal activities, which do not involve any commitment to any specific project which may result in a potentially significant physical impact on the environment.

Summary:

In 2016, the Board of Supervisors (Board) approved and executed a County HOME Loan Agreement, County HOME Loan Promissory Note, County HOME Loan Deed of Trust, and County HOME Loan Regulatory Agreement (together the “HOME loan documents”), which provided \$963,852 in federal HOME funds to Los Adobes de Maria III Limited Partnership, a California limited partnership, for development of the Los Adobes de Maria III Apartments Project. Included in the 2016 HOME loan documents for the Project was a Subordination Agreement with Wells Fargo, which subordinated the HOME loan documents to Wells Fargo’s construction loan in the amount of \$11,487,741.

Wells Fargo’s construction loan was designed to convert into a permanent loan in the amount of \$1,043,800. The County’s 2016 Subordination Agreement with Wells Fargo included a provision wherein the County agreed to subordinate the County’s HOME loan documents to this permanent loan after conversion. The County agreed to provide a Consent to Permanent Loan and Reaffirmation of Subordination upon Wells Fargo’s request in connection with converting Wells Fargo’s construction loan to a permanent loan, of \$1,043,800. The recommended actions authorize execution of this Consent to Permanent Loan and Reaffirmation of Subordination in accordance with the requirements of the 2016 Wells Fargo Subordination Agreement.

The November 15, 2016 Board Letter recommending execution of the HOME loan documents (Attachment C) indicated that Staff would return to the Board at a later date to subordinate the County’s HOME Loan Deed of Trust to a U.S. Department of Agriculture (USDA) loan of \$3,000,000. The recommended actions would authorize this Subordination Agreement in favor of USDA. This Subordination Agreement will not subordinate the HOME Loan Regulatory Agreement to the USDA loan.

Discussion:

In November 2016, the Board approved and executed County HOME loan documents to provide \$948,852 in HOME funds to the Project located at 525 S. Russell Avenue in the City of Santa Maria. Construction of the Project is now complete and occupied. The Project provides thirty-four (34) two- and three-bedroom units of rental housing for farm workers and their families. Thirty-three (33) of the units are restricted to households with incomes up to 60% of area median income (AMI) for a period of fifty-five (55) years, and one (1) unit is reserved for an onsite property manager not subject to income restrictions. Five of these units are HOME-assisted units, four of which are restricted to households with incomes up to 50% AMI, and one of which will be restricted to households with incomes up to 60% AMI, for a minimum of twenty years.

With construction of the Project complete, Peoples Self Help Housing Corp (PSHHC) is converting the Wells Fargo construction loan to a permanent loan, which will be in 1st lien position, and closing on the USDA permanent loan in 2nd lien position. As described in the November 15, 2016 Board Letter, the County loan will be in third lien position to the Wells Fargo and USDA loans and will be repaid from residual receipts of the Project.- Since FY 2014, the County has received over \$1,404,680 in residual receipt payments from PSHHC from similar loan agreements.

The County's HOME Loan Regulatory Agreement will be subordinate to the permanent loan documents but will remain in superior lien position to the USDA loan.

Performance Measure:

County HOME funds were provided toward the development of the Project in 2016. The property will continue to be monitored through the 20-year affordability term of the HOME loan as specified in the County HOME Loan Regulatory Agreement.

Fiscal and Facilities Impacts:

Budgeted: Yes

Fiscal Analysis:

The County will continue to 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 regulatory compliance.

Key Contract Risks:

The County's Deed of Trust will be subordinate to two senior loans: Wells Fargo Bank permanent loan and a loan from the U.S. Department of Agriculture. In the event of foreclosure by a senior lender and sale of the property, the senior loans will be repaid prior to the County's HOME loan. If there are sufficient funds after payment of the senior liens, then the County's loan will be paid. The County's Regulatory Agreement would be extinguished in a foreclosure of the permanent loan but not the USDA loan. Both banks are requiring subordination as a condition to providing their loans, which are critical to the ongoing operating success of the Project.

HCD has evaluated the risks associated with the subordination of the County loan and determined that such risks are reasonable and within industry standards and that there are safeguards in place to prevent or mitigate risks.

Staffing Impacts:

The terms of the County's HOME loan require the owner to pay an annual Affordable Housing Monitoring fee to the County.

Special Instructions:

Execute three (3) original copies of the USDA Subordination Agreement (Attachment B) and three (3) original copies of the Consent to Permanent Loan and Reaffirmation of Subordination to Wells Fargo (Attachment A).

Please return two (2) of the executed original documents and a copy of the Minute Order to Ted Teyber at teyber@co.santa-barbara.ca.us, ext. 3513.

Attachments:

Los Adobes de Maria III Loan Subordinations

May 21, 2019

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Attachment A: Consent to Permanent Loan and Reaffirmation of Subordination to Wells Fargo Bank

Attachment B: Subordination Agreement to USDA loan

Attachment C: 11/15/16 Board Letter