




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: December 2, 2014
Placement: Administrative
Estimated Tme: N/A
Continued Item: No
If Yes, date from:
Vote Required: Majority

TO: Board of Supervisors 
FROM: Renée E. Bahl, Interim Community Services Director (805) 568-2467
Laurie Baker, Grants and Program Manager (805) 568-3521
SUBJECT: First Amendment to the HOME Loan Agreement for Casas de las Flores Affordable Housing Project Located in District 1 (Project)

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 an original and duplicate originals of the First Amendment to the County HOME Loan Agreement (Attachment B) with Casas de las Flores, LP relating to an affordable housing project at 4096 Via Real, Carpinteria located in District 1; and
- B. Find that pursuant to California Environmental Quality Act (CEQA) Section 15162, no substantial changes are proposed, and no new information of substantial importance has come to light regarding environmental effects of the project or of the sufficiency or feasibility of mitigation measures, and therefore the recommended actions are within the scope of the project covered by Final Mitigated Negative Declaration for the Casas de las Flores (Project No. 10-1543-DP/CDP) approved on December 6, 2010 by the City of Carpinteria Planning Commission (Attachment D), and that therefore no new environmental document is required..

Summary Text:

The County of Santa Barbara executed a HOME Loan Agreement on February 11, 2014, in the amount of \$1,209,957, with Casas de las Flores, L.P. HOME funds were provided for the construction of Casas de las Flores ("CDLF" or "Project"), currently under construction in the City of Carpinteria. Upon

completion, CDLF will provide 42 units of rental housing for low-income households (and one non-low-income manager unit) of which seven units will be HOME-Assisted units, which will have tenant income and rent restrictions for a period of twenty years. The developer and General Partner is Peoples' Self-Help Housing Corporation (PSHHC).

Peoples' Self-Help Housing Corporation requests that the County modify its HOME Loan Agreement to 1) allow an increase in the amount of the permanent loan to pay the remaining developer fee owed, thus eliminating the deferment period and 2) allow a decrease to the amount of required annual deposits into a capital replacement reserve account.

Housing and Community Development (HCD) staff reviewed this request and the potential effect on the County HOME loan and presented the request to the Capital Loan Committee for technical advisory. The Capital Loan Committee met on September 18, 2014 to review the request and make a recommendation. Upon its review, the Capital Loan Committee voted to recommend that the County approve the loan modification request. HCD staff concurs with the recommendation of the Committee.

Background:

At its February 11, 2014 Board meeting, the Board approved a loan from the County's HOME Investment Partnerships program, in the amount of \$1,209,957, to Casas de las Flores, LP to construct 43 units of multi-family housing in the City of Carpinteria for low-income households. The County receives HOME funds from the U.S. Department of Housing and Urban Development (HUD) to be used to expand the supply of affordable housing to low income households. The Project broke ground in March 2014 and the Project is expected to be completed in July 2015.

At the time that the lender for the construction and permanent loans issued its standard term sheet and original commitment to the Project, it included in its underwriting criteria that \$600 per unit, per annum (PUPA) be contributed to capital replacement reserves. Once the lender completed its underwriting, it amended its replacement reserve requirements to \$250 PUPA; however, this revision was not made until after closing on the County loan. The amount of annual contribution to the capital reserve account (\$250 per unit, per year) is the current industry standard for similar projects and is the amount that was required by the County and construction/perm lenders in recent County HOME-funded rental construction projects. The Casas de las Flores project will still build sufficient reserves for future capital needs.

The permanent loan is currently being provided in two allotments, or "tranches":

1. Tranche A loan, in the estimated amount of \$1,132,200, will be repaid over 30 years, and
2. Tranche B loan, in the estimated amount of \$1,479,100, is supported by Project-Based Section 8 rent subsidies and will be fully repaid in 15 years.

The Tranche A loan will be increased by \$181,000 to \$1,313,200. This will enable the project to pay the remaining \$181,000 in deferred developer fees, which will eliminate the repayment period over time, increase cash flow, and enable PSHHC to begin repayments on the Partnership Management fees and the County's loan earlier than originally proposed. The effects of loan modification are summarized as follows:

- Tranche A permanent loan amount increased from \$1,132,200 to \$1,313,200;
- The remaining \$181,000 in deferred Developer Fees will be paid, eliminating the deferment period;
- Repayments on the Partnership Management fees will begin in year one, eliminating the deferment period for these fees;
- The annual contribution to replacement reserves is reduced from \$600 PUPA to \$250 PUPA;
- Repayments on the County's loan will begin in year 2 of operations rather than in year 8.

The proposed amendments to the County's HOME Loan Agreement are as follows:

1. Section 1.32 is amended to allow the Senior Loan to be increased from approximately \$2,600,000 to approximately \$2,800,000 (the total of Tranche A and Tranche B loans); and
2. Section 2.11 is amended to allow a reduction in the amount of annual contributions to the replacement reserve account from \$600 per unit, per year, to \$250 per unit, per year.

Fiscal and Facilities Impacts:

By reducing the amount of funds required to be deposited annually into a capital replacement reserve account, it will effectively reduce the operating expenses of the project and increase the net cash available to repay the County's HOME loan. Although the first mortgage loan will be increased by \$181,000 and the annual repayments will be increased by \$11,000, the net cash flow will be increased by about \$4,000. In addition, by eliminating the deferment period for the remaining developer fee owed, payments on the County's HOME loan will begin in year two rather than in year eight. Attachment C shows the revised proposed re-payment schedule for the County HOME loan. The re-payment schedule is subject to change based on actual net cash available each year. HCD staff will review the property's annual operating budget and financial statements to determine the amount of annual payment due to the County.

Risk Analysis

The recommended action will reduce the County's risk of the owner's non-repayment of the County's loan by increasing the net cash available after payment of operating expenses and superior loans.

Attachments:

- Attachment A: County HOME Loan Agreement
- Attachment B: First Amendment to the County HOME Loan Agreement
- Attachment C: Proforma
- Attachment D: CEQA NOE