



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:** 3/10/20  
**Placement:** Administrative  
**Estimated Tme:**  
**Continued Item:** No  
**If Yes, date from:**  
**Vote Required:** Majority

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**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:** Funding Reservation to Isla Vista Apartments affordable housing rehab project  
(Project) in Isla Vista (Supervisory District 3)

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**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 a reservation of County funds for the Isla Vista Apartments Rehab Project that will (a) be in an amount not to exceed \$1,000,000; (b) consist of funds from the Low Moderate-Income Housing Asset Fund (LMIHAF); and (c) be released if People's Self-Help Housing Corporation does not receive notification of an award of low-income housing tax credits (LIHTC) for the Project by March 10, 2021;
- B) Authorize the Director of Community Services Department (CSD) to sign a letter to the Isla Vista Apartments project applicant indicating the approved reservation (Attachment A); and
- C) Determine that the approval of the reservation of funding is not the 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 actions are not a project as they are the 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 impact on the environment, and direct staff to file a Notice of Exemption (Attachment B).

**Summary:**

The recommended actions would reserve funds from the Low Moderate-Income Housing Asset Fund for the Project for 12-months to allow the developer to secure additional funds, including an allocation of Low-Income Housing Tax Credits (LIHTC). The Project owner, Peoples' Self-Help Housing Corp., plans to substantially rehabilitate the Project and the funding will extend the affordability restrictions for fifty-five (55) years. The County funding reservation for the Project will expire on March 10, 2021.

If the Project is awarded LIHTC, staff will return to the Board to consider approval of a final commitment of funds through the execution of loan and regulatory documents. The County funding provided to the projects will likely be in the form of low interest loan, with an annual simple interest rate of three-percent (3%) per annum, and repaid with any remaining cash (residual receipts) after the payment of annual operating expenses, property management and monitoring fees, and any Project loan(s) required to be in a superior position to the County loan. Since FY 2014, the County has received over \$1.4M in residual receipt payments from Peoples' Self-Help Housing from similar loan agreements.

On February 13, 2020, the proposed County reservation of funds for the Project was considered by the County's Capital Loan Committee. During Committee discussion, it was noted that housing projects in general are experiencing exponential increases in construction costs. The Committee concurred that the cost increases are attributable primarily to AUD zoning effecting an increase in land values, an increased demand for contractors resulting from the Thomas Fire and Montecito Debris Flow, and tariffs impacting the costs of building materials such as wood and steel. The Committee noted that costs up to \$400,000 per unit is becoming standard. In fact, research by HCD staff on 26 recently-approved projects by the California Tax Credit Allocation Committee (CTCAC) showed the average per-unit cost of affordable housing across the State as \$431,000. The Capital Loan Committee voted unanimously to recommend \$1,000,000 in LMIHAF to the Project.

### **Background:**

On December 14, 1999, the County executed loan documents with Peoples' Self-Help Housing Corporation for acquisition and rehabilitation of 56 affordable rental units on the property located at 6660 Abrego and 6650 Abrego/6651 Picasso in Isla Vista for affordable rental housing (the "Property"). The 56 units consist of 24 1-bedroom units, 16 2-bedroom units, and 16 3-bedroom units, which are restricted to occupancy by low-income families and farm workers. The County provided \$144,821 in federal HOME funds to Peoples' Self-Help Housing Corporation, a California nonprofit public benefit corporation, for acquisition and limited rehabilitation of the Property. The loan documents included a County Loan Agreement, Promissory Note, Deed of Trust, and HOME Loan Regulatory Agreement, restricting 11 of the units to households with income up to and including sixty-percent (60%) of the Area Median Income (AMI).

The 1999 HOME Regulatory Agreement was recorded in the County real estate records and provided for an affordability period through March 30, 2041. The Property is also subject to (a) a regulatory agreement with the State of California Department of Housing and Community Development that provides for farmworker housing through September 14, 2021; and (b) a regulatory agreement with the Housing Authority of the County of Santa Barbara that provides for very low income housing through March 30, 2031.

After almost 20 years, significant rehabilitation work is needed on the Property. Specifically, the Property’s plumbing, sewer, and structural (seismic) systems need replacement. The use of the LMIHAF to help finance the rehab of the Property will ensure the ongoing availability of affordable units for family and farmworkers in the Isla Vista community.

As successor to the Santa Barbara County Redevelopment Agency, the County of Santa Barbara administers the Low- and Moderate-Income Housing Asset Fund (LMIHAF). There is approximately \$1,610,635 available to use for improving, increasing, and preserving the supply of low- and moderate-income housing in the Isla Vista community. Therefore, there are sufficient LMIHAF funds for the recommended actions. The County’s loan of LMIHAF funds for rehabilitation will subject the Property to an additional fifty-five (55) year affordability term, which will run concurrent with the HOME Regulatory Agreement, during which the Property must be affordable to and occupied by households earning up to and including 60% AMI (HOME) and 80% AMI (LMIHAF).

Table 1 shows the projected total development costs and sources of funds for the rehab Project.

**Table 1**

<b>Total Development Costs</b>	<b>\$23,665,605</b>
<b>Funding Sources</b>	
County LMIHAF	1,000,000
4% LIHTC Equity	8,307,308
Existing Reserves Contribution	235,082
Bank Loan	5,490,000
Subordinate Debt	1,752,952
Seller Notes	5,105,881
Deferred Developer Fee	773,670
General Partner Capital	1,000,712
<b>Total Funding Sources</b>	<b>\$23,665,605</b>

A copy of the Project’s 20-year proforma is included as Attachment C.

The Loan to Value ratio for the Project is estimated to be 74.4%. The owner will order an appraisal of the property prior to the application to the State for tax credits, at which time the actual LTV can be determined. While Loan to Value is a metric used for conventional bank financing, as a tax credit Project utilizing Subordinate Debt, the Debt Coverage Ratio (DCR) is a more helpful metric. It is too early to determine the debt coverage ratio until further underwriting and commitment of all funding sources. However, the California Tax Credit Allocation Committee (CTCAC) requires a Debt Coverage Ratio of 1.15 minimally and will not allocate tax credits if it cannot be shown that the Project can show that this ratio can be achieved and sustained. Likewise, the private lending institution will not provide a loan to the Project if this minimum DCR cannot be achieved. HCD is providing a reservation of funds at this time until all other funding sources are committed and final financial underwriting is completed. HCD’s loan will not be provided if the Project does not receive an allocation of tax credits and commitment of all other funding sources.

**Performance Measure:**

If the County enters into agreements to provide funding to the Project, the County will designate the required income- and rent-restrictions for the units. Such restrictions will be required for at least 55 years, the minimum period required by the LMIHAF program. The County also will execute a County loan agreement, Promissory Note, and Deed of Trust with the owners.

**Fiscal and Facilities Impacts:**

Budgeted: Yes

**Fiscal Analysis:**

<b><u>Funding Sources</u></b>	<b><u>Current FY Cost:</u></b>	<b><u>Annualized</u></b>	<b><u>Total One-Time</u></b>
		<b><u>On-going Cost:</u></b>	<b><u>Project Cost</u></b>
General Fund			
State			
Federal			
Fees			
Other: LMIHF			\$ 1,000,000.00
Total	\$ -	\$ -	\$ 1,000,000.00

**Narrative:**

These amounts are reservations only and Board Action on these items does not approve expenditures. The LMIHAF funds being reserved for the Project are available to the County.

**Key Contract Risks:**

Contracts are not being executed at this time. If the Project receives an allocation of LIHTC and other funds needed to proceed, staff will return to the Board for firm commitments of funds and execution of County loan documents. If the Project does not receive allocations of LIHTC, staff may return to the Board to either extend the funding reservation or to re-allocate the funds to other eligible projects.

**Staffing Impacts:**

The current requested activity falls within currently budgeted staff duties. However, a future commitment of County funds to the Project will necessitate regulatory monitoring for a minimum of 55 years and fiscal monitoring for the term of the loans. Monitoring will be conducted by CSD existing staff.

**Special Instructions:**

Please provide a copy of the Minute Order (email to Ted Teyber, [eteyber@co.santa-barbara.ca.us](mailto:eteyber@co.santa-barbara.ca.us)).

This is a time-sensitive item. Please expedite delivery of the Minute Order. Please call with questions or if additional information is needed.

**Attachments:**

- A. County Letter of Reservation of Funds
- B. CEQA Notice of Exemption
- C. 20-year Project Proforma