



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: May 1, 2007
Placement: Administrative
Estimated Tme: n/a
Continued Item: No
If Yes, date from:
Vote Required: Majority

TO: Board of Supervisors
FROM: Department John Torell, Director
Director Housing and Community Development Department
Contact Info: Patricia Gabel, ext. 3522

SUBJECT: Subordination of Casa Esperanza Homeless Shelter Loan

County Counsel Concurrence

As to form: Yes

Auditor-Controller Concurrence

As to form: Yes

Other Concurrence: N/A

As to form: Select_Concurrence

Recommended Actions:

- A. Approve the subordination of the County's \$500,000 interest in an existing \$1,000,000 loan made in partnership with the City of Santa Barbara and its Redevelopment Agency for the homeless shelter located at 816 Cacique Street in Santa Barbara (2nd District), to a refinanced loan from Business First National Bank; and
- B. Authorize the Chair of the Board of Supervisors to execute the attached subordination agreement (Attachment A), consistent with the terms and conditions detailed within this Board Letter.

Summary Text:

Casa Esperanza homeless shelter requests that the County subordinate its \$500,000 portion of a loan made in partnership with the City of Santa Barbara and its Redevelopment Agency in order to enable it to refinance a five-year \$1 Million loan from Business First National Bank that is due for repayment. Casa Esperanza has requested that the City of Santa Barbara and its Redevelopment Agency also subordinate their loans. On May 1st the Santa Barbara City Council and City Redevelopment Agency Board of Directors will consider the same request for the City's portion of the loan. The County loan, City loan and Agency loan are all secured by a single deed of trust. As a condition of refinancing their

first position loan, Business First National Bank requires that the City/Redevelopment Agency/County deed of trust be subordinated to the new loan.

The request for subordination comes from Rob Pearson, the immediate past Board Chair of Casa Esperanza and current Officer of the Executive Committee of the Casa Esperanza Board of Directors.

Background:

The County, City of Santa Barbara and its Redevelopment Agency (RDA) all contributed to the acquisition of a former furniture showroom/warehouse located at 816 Cacique Street in order to create a permanent home for Santa Barbara’s emergency winter homeless shelter. The acquisition capped an intense period of searching for an appropriate site following the abrupt and unexpected loss of the previous site due to seismic retrofitting. The new site was acquired in August 1999, and an army of volunteers helped prepare the building for its first winter.

The initial acquisition was financed from the following sources:

Loans from Thomas & Magdalena Thornbury:	\$1,250,000
County / City / RDA Loans:	1,000,000
City Redevelopment Agency Bridge Loan:	1,112,035

Successive phases of construction then followed that converted the cavernous warehouse building into the two-story Casa Esperanza as it appears today – complete with 200-bed shelter, day center and space for an array of social service providers. Rather than require the RDA bridge loan to be repaid, the Agency converted it to a challenge grant – for every dollar raised for the new construction, the Agency would convert a dollar of the bridge loan to a grant. More than \$787,965 was raised from private donations and foundation grants and a private lender, Business First National Bank, loaned \$1,300,000. Accordingly, the RDA bridge loan was converted in its entirety to a grant. The following itemizes the construction financing:

Redevelopment Agency Grant:	1,112,035
Business First National Bank Loans:	1,300,000
Foundation Grants & Private Donations:	<u>787,965</u>
Total:	\$3,200,000

The funds from Business First National Bank came in the form of two loans. One was an interest-only loan of \$1,000,000 at 6.75 percent that has now come due. The other was a \$300,000 loan at 6 percent that has been fully amortized over its 5-year term.

Proposed New Financing

Casa Esperanza now seeks a new fully amortized \$1,000,000 loan from Business First National Bank to pay off the previous interest-only \$1,000,000 loan that is due. Casa Esperanza is not seeking to take any equity out of the property. The new Business First loan would have a term of 25 years and an interest rate not to exceed 7.25 percent. As described above, the loans from the Thornburys were repaid, the RDA bridge loan was converted to a grant, one of the Business First loans was repaid and the second is now due.

The following itemizes how the proposed new refinancing would appear:

New Business First National Bank Loan:	1,000,000
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County / City / Agency Loans:	1,000,000
Redevelopment Agency Grant:	<u>1,112,035</u>
Total:	\$3,112,035

Performance Measure:

No performance measures are affected by the subordination of the County's loan to Casa Esperanza.

Fiscal and Facilities Impacts:

Budgeted: No **Fiscal Analysis:**

Narrative:

Approval of the recommendations included within this letter does not jeopardize the County's financial position. The County of Santa Barbara, along with the City and its RDA, retains second position to the new loan in the same amount without the removal of equity.

Security and Debt Repayment

The site was acquired in 1999 for the price of \$1,975,000 and then subsequently, \$3,200,000 was spent on improvements. While an appraisal is currently being prepared, staff is confident that the value of the property would exceed the total \$3,112,035 in current financing on the property and that the County loan and would be completely secured.

The proposed subordination would not affect debt repayment of public funds. The County, City and RDA loans are subject to automatic forgiveness. No payments are due on the loans, and if no breach occurs during their 15-year term, then the loans are automatically forgiven and reduced to zero.

Guaranteed Operation of Casa Esperanza

A 60-year covenant ensures that Casa Esperanza will continue to operate as a homeless shelter and provide related services. The covenant is recorded against the property in a security position superior to all current and proposed financing. It will not be subordinated. In the event of default under the covenant, the County could apply to a court for specific performance pursuant to the terms of the covenant.

Conclusion

The community has greatly benefited from the valuable services provided by Casa Esperanza and acknowledges its fine record. Staff recommends that Santa Barbara County continue its strong support for Casa Esperanza and subordinate its loan accordingly. This will enable Casa Esperanza to continue operating and accommodate the needs of the homeless in Santa Barbara County.

Staffing Impacts:

<u>Legal Positions:</u>	<u>FTEs:</u>
0	0

Special Instructions:

Call 1090 for pick up when subordination Agreement is executed.

Attachments:

Subordination Agreement (Attachment A)

Authored by:

Mike Sederholm ext 1090

cc: