



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 & Behavioral Wellness  
**Department No.:** 057  
**For Agenda Of:** 12/7/21  
**Placement:** Administrative  
**Estimated Time:** N/A  
**Continued Item:** No  
**If Yes, date from:**  
**Vote Required:** Majority

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**TO:** Board of Supervisors  
**FROM:** Department George Chapjian, Community Services Director (805) 568-2485  
Director  
Contact Info: Dinah Lockhart, Deputy Director (805) 568-3523  
Laurie Baker, Grants and Program Manager (805) 568-3521  
**SUBJECT: Approval of \$450,000 loan in federal HOME Funding to the Harry's House Project in Santa Ynez and FY 2020-21 Action Plan Substantial Amendment (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 Substantial Amendment to the FY 2020-21 Action Plan (Attachment A), which adds the use of Four Hundred Fifty Thousand Dollars (\$450,000) in HOME Funds, for the development of the Harry's House senior affordable housing project at 890 N. Refugio Road in Santa Ynez (Project) and direct staff to submit the Substantial Amendment to HUD;
- B. Approve and authorize the Community Services Department Director, or designee, to execute the following documents in a form substantially similar to those attached hereto and subject to County Counsel, Auditor Controller, and Risk Management concurrence, which relate to a loan of Four Hundred Fifty Thousand Dollars (\$450,000) in HOME Funds, to Harry's House L.P., for development of the Harry's House affordable housing project in Santa Ynez:
  1. County HOME Loan Agreement (Attachment B);
  2. County HOME Loan Promissory Note (Attachment C);
  3. County Deed of Trust, Assignment of Rents, and Security Agreement (Attachment D);

4. County HOME Regulatory Agreement (Attachment E) (together, the County HOME Loan Documents); and
  5. Subordination agreement subordinating the County's HOME Loan Documents to construction and permanent loans being provided to the project by Wells Fargo Bank, in an amount not to exceed \$21,811,106 (Attachment F); and
- C. Authorize the Community Services Department Director, until otherwise ordered by the Board and subject to concurrence from County Counsel, Auditor Controller, Risk Management, to execute a subordination agreement to a refinanced Senior Loan in accordance with Section 5.7 of the Subordination agreement.
- D. Consider the environmental effects of the project as shown in the Mitigated Negative Declaration adopted by the Board of Supervisors for the Project on April 24, 2014 (Attachment G) 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 County of Santa Barbara for the Project on April 24, 2014.

**Summary Text:**

On December 15, 2020, the Board of Supervisors (Board) approved a funding reservation of County administered federal HOME and/or Inclusionary Housing Ordinance (IHO) In-Lieu funds to Harry's House Project in Santa Ynez (Project). The funding reservation stipulated that the Project must secure all other financing for the estimated \$25,661,114 Project before the County would commit the funds by way of loan documents. Leveraging the County's funding reservation, in the spring of 2021 the project applied and was subsequently awarded 9% low income housing tax credits from the California Tax Credit Allocation Committee (CTCAC). Staff is therefore now returning to the Board for authority to execute the County HOME Loan Documents in the amount of \$450,000 and approval of a corresponding substantial amendment to the County's FY 2020-21 Action Plan for submission to HUD.

**Background:**

**HOME**

County HCD administers an affordable housing development program that is funded through federal HUD funds and local In-Lieu Fee funds. The County receives annual allocations of Community Development Block Grant (CDBG) and HOME Investment Partnerships (HOME) program funds, which may be used for housing projects. HOME funds are annually allocated to the County as the lead entity of the Santa Barbara County HOME Consortium, which consists of the County and the cities of Lompoc, Buellton, Solvang, Goleta, Santa Maria, and Carpinteria. Projects that are approved by the Board for funding from federal sources are included in the County's annual Action Plan, or in a substantial amendment to an Annual Action Plan, and submitted to HUD. This Board Letter recommends the Board approve a substantial amendment to the FY 2021 Annual Action Plan (Attachment A) for the Project.

### The Harry's House Project

The proposed Project will be located at 890 N. Refugio Road in Santa Ynez. The Project will consist of 60 studio rental units. Fifty-nine (59) of the units will be restricted to seniors age 62 and over, one unit will be a resident manager's unit with no age or income restrictions. Of the 59 affordable units, 29 will be restricted to seniors at or below 30% AMI, 20 units at 35% AMI and the remaining 10 units will be restricted to seniors at or below 50% AMI. The project consists of one two-story building and 36 off-street parking spaces for visitors and staff. Each studio unit will have a kitchenette, accessible bathroom, and private balcony or patio. It is anticipated that most meals will be served in the communal dining area, and there is a commercial kitchen to provide residents with three meals per day. The Project site is adjacent to a separate existing permanent senior housing facility run by The Rona Barrett Foundation, who is also a partner with the Housing Authority in development of the proposed Project.

Total cost for the proposed Project is expected to be approximately \$25.67 million.

### Proposed County Loan of HOME Funds

The Recommended Actions include authority to execute a HOME loan agreement that sets forth the terms of the County's loan of HOME funds for development of the Project. The loan will be secured by a deed of trust recorded against the property. HOME program regulations require that four units be subject to affordability restrictions for a period of 20 years; the County will also require a regulatory agreement be recorded against the property in order to ensure compliance with these HOME affordability requirements. In order to secure the remaining funding discussed above, the Wells Fargo is providing a construction and permanent loan and is requiring the County also execute and record a subordination agreement that subordinates the County's deed of trust and regulatory agreement to Wells Fargo. The terms of these documents are discussed further below in the Key Contract Risks section.

The County Loan Documents and subordination agreement are in near-final draft form. At this time, staff seeks a delegation of authority to execute these documents in a form substantially similar to the attached documents and subject to concurrence from County Counsel, Risk Management and Auditor-Controller.

### **Performance Measure:**

The Harry's House Project 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 units indicating the number and location of the HOME 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 units against certain housing quality standards and a sampling of tenant files will be reviewed for income, lease and rent requirements.

The State will monitor 100-percent of the units for the tax credit program for the 55-year tax credit affordability period.

### **Fiscal and Facilities Impacts:**

Budgeted: Yes

**Fiscal Analysis:**

General Fund					
State					
Federal				\$	450,000.00
Fees					
Other: In-Lieu					
<b>Total</b>	\$	-	\$	-	\$ <b>450,000.00</b>

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**Key Contract Risks:**

The Project will produce 60 units of rental housing, four (4) of which will be subject to HOME program affordability restrictions 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. The loan will be evidenced by a promissory note and will have a term of 55 years, with three-percent simple interest, payable from residual receipts, after payment of operating expenses and other debt payments. A Regulatory Agreement will be recorded against the property and will provide the County with the means of enforcing the affordability restrictions. In addition, the County's risk is mitigated by the State's ongoing monitoring of all the unite in the project.

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 the loan is refinanced<sup>1</sup>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 Loan. If there are sufficient funds after payment of the senior lien(s), then the County's loan will be paid. The County's Regulatory Agreement and Deed of Trust would be extinguished in a foreclosure of the senior loan. The form of subordination agreement is attached as Attachment F.

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).

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<sup>1</sup> If the property will remain affordable, the County may agree to subordinate its loan to a new loan for the purposes of completing rehabilitation or to improve loan terms and/or net income.

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 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 a copy of the Minute Order to Ted Teyber. Please email or call when ready for pick up: [teyber@co.santa-barbara.ca.us](mailto:teyber@co.santa-barbara.ca.us) Ext. 3513.

**Attachments:**

- A. Substantial Action Plan Amendment
- B. County HOME Loan Agreement
- C. County HOME Loan Promissory Note
- D. County Deed of Trust, Assignment of Rents, and Security Agreement
- E. County HOME Regulatory Agreement
- F. Wells Fargo Subordination Agreement
- G. Mitigated Negative Declaration

**Attachment A**  
Substantial Action Plan Amendment

**Attachment B**  
County HOME Loan Agreement

**Attachment C**  
County HOME Loan Promissory Note



**Attachment D**  
County Deed of Trust, Assignment of Rents, and Security Agreement

**Attachment E**  
County HOME Regulatory Agreement

**Attachment F**  
Wells Fargo Subordination Agreement

**Attachment G**  
Mitigated Negative Declaration