

**SANTA BARBARA COUNTY
BOARD AGENDA LETTER**



Clerk of the Board of Supervisors
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Agenda Number:
Prepared on: 3/23/05
Department Name: HCD
Department No.: 055
Agenda Date: 4/5/05
Placement: Administrative
Estimate Time:
Continued Item: NO
If Yes, date from:

TO: Board of Supervisors

FROM: Ed Moses, Director
Housing and Community Development Department

STAFF CONTACT: Tim Wong
ext. 3523

SUBJECT: Amendment and Subordination of K St. Apartments loan (4th District)

Recommendation(s):

That the Board of Supervisors:

- A. Authorize the Director of Housing and Community Development to execute loan documents to increase the existing loan for the K Street Apartment Project an additional \$155,234 from the City of Lompoc's HOME allocation funds under terms consistent with the attached Loan Amendment (Attachment A). The amended loan agreement will be in the total amount of \$598,599.
- B. Authorize the Director of Housing and Community Development to execute subordination agreements to Los Padres Bank and the City of Lompoc in a form approved by County Counsel.

Alignment with Board Strategic Plan:

The recommendation(s) are primarily aligned with Goal No. 5. Maintain and Enhance the Quality of Life for all Residents.

Executive Summary and Discussion:

In November 3, 2003, your Board approved a loan for the proposed K St. Apartments in the amount of \$245,000 from the County's unincorporated HOME funds allocation. In addition, the City of Lompoc contributed \$198,365 of its HOME Consortium formula share to the project for a total loan amount of \$443,365.

Prior to commencement of construction, the project ran into unforeseen delays. It was during this time that the cost of materials had increased significantly. The request for the City of Lompoc's additional \$155,234 of HOME funds is to pay for the increase in materials cost. As administrators of the County HOME Consortium, county staff executes loans with Board Approval for this jointly funded project. The amended loan agreement will be in the total amount of \$598,599.

The loan terms of the original loan were for a 3%, 30 year, residual receipts loan. The residual receipts were divided on a pro-rata basis with forty-five percent (45%) of received residual receipts payment will be deposited in the City of Lompoc HOME account and fifty-five percent (55%) will be deposited into the County's HOME account. With the additional \$155,234 of City of Lompoc HOME funds, the percentages will now be fifty-seven percent (57%) to the City of Lompoc and forty-three percent (43%) to the County. All other terms of the loan have not changed.

On September 7, 2004, the additional funds request was brought before the Affordable Housing Loan Committee. It was approved with the following conditions:

- That the additional HOME funds be rolled into the existing \$443,365 City/County HOME loan with the same terms and conditions of the original loan,
- That the County loan still be in third position, subordinate only to the private loan and the City of Lompoc's CDBG loan.

It is standard industry practice that private loans be in superior position to public loans. The City of Lompoc's CDBG is also in superior position ahead of the HOME loan because it is an amortizing loan. The Los Padres Loan is expected to close in a few weeks and the City of Lompoc CDBG loan is scheduled to close on April 5, 2005.

Mandates and Service Levels:

No changes to programs or service levels.

Fiscal and Facilities Impacts:

This project will increase the supply of affordable housing for low income households in the Lompoc housing market area and insure its long term affordability. County administrative activities related to project development are eligible for reimbursement by the HOME program under the 10% set aside for administration activities. This proposed action allocates for specific use funding contained in the adopted 05-06 budget.

Part 92, Section 503 (b) of the Federal HOME program regulations state that any funds invested in housing that do not meet affordability requirements for the period specified in the regulations must be repaid by the participating jurisdiction (the County). It is possible that if the project were to fail, the County could be liable to repay the amount of the loan. It is important, however, to note that County staff conducted detailed underwriting including risk analysis for the K Street Apartments.

The potential risk to the County if the project should fail is very low. Because of the low acquisition price and rapidly appreciating value of the property, the County would very likely be able to recapture its funds in

the event that the project fails. Staff has performed the due diligence in reviewing this loan prior recommending approval to the Affordable Loan Committee.

Special Instructions:

None

Concurrence:

Auditor-Controller