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**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 No.:** 055  
**For Agenda Of:** 11/15/16  
**Placement:** Administrative  
**Estimated Time:** N/A  
**Continued Item:** No  
**If Yes, date from:**  
**Vote Required:** Majority

**TO:** Board of Supervisors  
**FROM:** Department George Chapjian, Director  
Director(s)  
Contact Info: Dinah Lockhart, Deputy Director, 568-3523  
Laurie Baker, Grants and Program Manager, 568-3521  
**SUBJECT:** **Approval of \$948,852 loan in federal HOME funds to People’s Self Help Housing Corporation (PSHHC) for the Los Adobes de Maria III Apartments (Project) in Santa Maria, and the County’s use of \$15,000 in federal HOME funds for Project-related soft costs(Supervisorial District 4)**

**County Counsel Concurrence**

As to form: Yes

**Auditor-Controller Concurrence**

As to form: Yes

**Risk Management**

As to form: Yes

**Recommended Actions:**

That the Board of Supervisors:

- A. Approve a commitment of County HOME funds toward the development of the Los Adobes de Maria III (Project) in the amount of \$948,852 for Project costs, and approve and authorize the Chair of the Board of Supervisors to execute an original and duplicate originals of the County HOME Loan Agreement (Attachment A); County HOME Loan Promissory Note (Attachment B); County HOME Deed of Trust, Assignment of Rents, and Security Agreement (Attachment C); and County HOME Regulatory Agreement (Attachment D) (together, the County HOME Loan Documents) with Los Adobes de Maria III, L.P. for development of the Los Adobes de Maria III Apartments affordable housing project at 525 South Russell Avenue in the City of Santa Maria;
- B. Approve the use of up to \$15,000 in HOME funds to cover Project-related soft costs incurred by County for staff costs of Project and construction monitoring;
- C. Approve and authorize the Chair of the Board of Supervisors to execute an original and duplicate original Subordination Agreement (Attachment E) that subordinates the County HOME Loan Promissory Note, the County HOME Loan Permanent Deed of Trust, Assignment of Rents, and Security Agreement that secures the County HOME Loan Agreement and the County HOME

Loan Regulatory Agreement to a deed of trust securing a loan from Wells Fargo Bank for development of the Los Adobes de Maria III affordable housing project; and

- D. Determine that the approval of the funding is not 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 G).

**Summary Text:**

The Recommended Actions are to approve and execute County HOME loan documents to provide \$948,852 to Los Adobes de Maria III (Project) in the form of a loan, to be repaid with residual receipts, and up to \$15,000 in Project-related soft costs that will be used to cover costs incurred by the County for Project and construction monitoring. The Los Adobes de Maria III Apartments will provide 34 units of rental housing to low-income farm workers and their families, in Santa Maria. (See Attachment F, Project Summary.)

The Board of Supervisors (Board) approved the County's FY 2016-17 Action Plan on May 3, 2016. An amendment to the Action Plan to include the Project in the FY 2016-17 Action Plan was approved by the Board on November 8, 2017. If the Board does not approve and execute the County HOME loan documents, staff will return to the Board at a later date to remove the Project from the Action Plan.

**Background:**

The County is the lead entity of the Santa Barbara County HOME Consortium, which consists of the County and the cities of Buellton, Solvang, Goleta and Carpinteria.

The United States Congress appropriates funds for the HOME program annually, which is allocated to the HOME Consortium by the U.S. Department of Housing and Urban Development (HUD). The County then distributes the funds to its partner cities via formula, based on population and other factors. If the cities do not have projects ready to utilize the funds, then the County may commit those funds to other projects throughout the County. Projects that receive awards from federal funds (CDBG, HOME, and ESG) are included in the County's annual Action Plan, or in an amendment to the Annual Action Plan, that is submitted to HUD. Annual Action Plans and amendments are approved by the Board prior to submission to HUD.

*Los Adobes de Maria III (Project).* Los Adobes de Maria III is the final phase of a three-phase affordable rental housing complex located at 525 S Russell Avenue in the City of Santa Maria, developed by PSHHC, as the general partner in the Los Adobes de Maria III, L.P. The project will provide thirty-four (34) two- and three-bedroom units of rental housing for farm workers and their families. Thirty-three (33) of the units will be restricted to households with incomes up to 60% of area median income (AMI) for a period of fifty-five (55) years, per the low-income housing tax credit regulatory agreement on the property, and one (1) unit will be reserved for an onsite property manager not subject to income restrictions. A full summary of the Project is provided as Attachment F.

In February 2016, the Board approved a reservation of \$948,852 in HOME funds to the Project. PSHHC included the County funds in its application for Low Income Housing Tax Credits (LIHTC) in the March 2016 application round. In June, the Project was selected by the California Tax Credit Allocation Committee for an award of LIHTC.

Following notification of a LIHTC award, PSHHC submitted updated application information to HCD. To review the proposed project, HCD convened an internal team including HCD staff and the deputy director, fiscal staff, an auditor/controller representative, and the Community Services Department director. In addition to regulatory review required by the HOME Program, the team reviewed developer capacity by analyzing PSHHC’s financial statements, project history, and staff resumes. The team determined that development costs, operating budget projections, capital replacement reserves, and the developer fee are within industry standards for the type of project and agreed that the proposed funding from the County is reasonable and vital to the project. Soft costs of \$15,000 are anticipated to be used to cover County expenses, such as inspections during construction of the Project. The Project will provide five HOME-assisted units, four of which will be restricted to households with incomes up to 50% of area median income (AMI), and one of which will be restricted to households with incomes up to 60% AMI, for a minimum of twenty years.

The Project is in the City of Santa Maria, which is no longer a member of the County HOME Consortium but had been at the time of project application for funding. HOME Program regulations allow a jurisdiction to invest its HOME funds in projects outside its jurisdictional boundaries, provided that the project will serve residents from both jurisdictions and that the project is jointly funded by both jurisdictions. The Project will serve residents of the City of Santa Maria and of the County of Santa Barbara. The City of Santa Maria has invested its Community Development Block Grant (CDBG) funds in the development, as shown in the budget below.

The following chart shows the projected total development costs and sources of funds to the Project.

Development Costs		Funding Sources	
Total Development Costs	\$16,810,329	Wells Fargo First Mortgage	\$1,107,400
		USDA 514 loan	\$3,000,000
		County of SB HOME	\$948,852
		Accrued interest during const.	\$20,355
		City of Santa Maria CDBG	\$801,148
		NeighborWorks America	\$1,075,000
		Deferred Developer Fee	\$263,376
		General Partner	\$342,529
		Limited Partner	\$9,251,669
			<hr/>
			\$16,810,329

HCD staff presented the Project to the County’s Capital Loan Committee on October 11, 2016. The members reviewed the details of the project and, with a majority vote, supported staff’s recommendation that the Board approve a funding commitment to the Project of \$948,852.

*Substantial Action Plan Amendment (Amendment).* The Action Plan amendment to include the Project to the FY 2016-17 Action Plan was approved by the Board at the November 8, 2016 Board hearing. If the Board does not approve and execute the County HOME loan documents, staff will return to the Board at a later date to remove the Project from the Action Plan.

**Performance Measure:**

County HOME funds were provided toward the development of the second phase of the development, Los Adobes de Maria II, in 2002. That property was last monitored in June 2016 and found to be in compliance. HCD has not found any properties developed by PSHHC to be out of compliance with HOME tenant and rent limits, and Housing Quality Standards. If funded, Los Adobes de Maria III 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.

**Fiscal and Facilities Impacts:**

Not Applicable

**Fiscal Analysis:**

The County has available HOME funds in an amount sufficient to fund this project. The County will charge the owner of the Project an annual monitoring fee, currently set at \$2,500, to offset staff costs to monitor the housing units for regulatory compliance.

**Key Contract Risks:**

The Project will produce 33 units of rental housing, five of which will be HOME-assisted and subject to affordability restrictions for a period of no less than 20 years; HCD staff will monitor the Project for affordability compliance. The terms of the County HOME Loan Promissory Note shall 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 (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 assure 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 will be subordinate to two senior loans: Wells Fargo Bank, which is providing a construction loan (of which a portion will be converted to a permanent loan) and a loan from the U.S. Department of Agriculture (USDA). Approval and execution of a subordination agreement to subordinate the County's HOME loan to Wells Fargo is included in the Recommended Actions. Staff will return to the Board at a later date to recommend subordinating the County's HOME loan to USDA, at such time that the Borrower and USDA close on the USDA loan. In the event of foreclosure by a senior lender and sale of the property, the senior loans 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 may be extinguished in a foreclosure.

The two subordination agreements will result in the County's rights under the County HOME Loan to become subordinate to the lien of the Wells Fargo Bank Loan deed of trust and the lien of the USDA deed of trust. Both banks are requiring subordination as a condition to providing their loans, which are critical to the development of the Project.

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).

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 HOME loan require the developer to pay an annual Affordable Housing Monitoring fee to the County, currently set at \$2,500.

**Special Instructions:**

Please return the executed original documents and a copy of the Minute Order to Lucy Graham at [lucygraham@co.santa-barbara.ca.us](mailto:lucygraham@co.santa-barbara.ca.us)

**Attachments:**

- A. County HOME Loan Agreement
- B. County HOME Loan Promissory Note
- C. County Deed of Trust, Assignment of Rents, and Security Agreement
- D. County HOME Regulatory Agreement
- E. Subordination Agreement for Wells Fargo Bank loan
- F. Project Summary
- G. CEQA Notice of Exemption