



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: November 14, 2017
Placement: Administrative
Estimated Time: N/A
Continued Item: No
If Yes, date from:
Vote Required: Majority

TO: Board of Supervisors
FROM: Department George Chapjian, Community Services Director Ext. 2485
Director(s) Dinah Lockhart, Deputy Director HCD Ext. 3523
Contact Info: Laurie Baker, Grants and Program Manager Ext. 3521
SUBJECT: Subordination of County Regulatory Agreement on a multi-unit residential property at 777 Camino Pescadero, Isla Vista (Supervisory District 3)

County Counsel Concurrence

As to form: Yes

Other Concurrence: Risk Management

As to form: Yes

Auditor-Controller Concurrence

As to form: Yes

Recommended Actions:

That the Board of Supervisors (Board):

- A. Approve and authorize the Chair of the Board to execute a subordination agreement that subordinates a County Regulatory agreement to a \$5,850,000 first mortgage (Attachment A); and
- B. Determine that the recommended actions are not the acceptance and approval of a project that is subject to environmental review under the California Environmental Quality Act (CEQA) pursuant to CEQA Guidelines Section 15378(b)(5), organizational or administrative activities of governments that will not result in direct or indirect physical changes in the environment, and direct staff to file a Notice of Exemption (Attachment B).

Summary Text:

In January 2013, the County approved a \$175,000 grant in federal Community Development Block Grant (CDBG) funds to the Santa Barbara Student Housing Cooperative (Cooperative), a non-profit organization that provides low-rent co-op housing for students, staff and faculty of the University of California at Santa Barbara (UCSB). The funds were used toward the rehabilitation of a commercial building at 777 Camino Pescadero in Isla Vista (known as "Merton House"), which was converted into twelve (12) housing units for low- to moderate-income households. The County recorded a five-year Regulatory Agreement, restricting all twelve units to be occupied by low- to moderate-income households until June 30, 2018.

In June 2017, the Cooperative refinanced the property, along with others in its housing portfolio to enable the organization to reduce its borrowing costs, acquire another property and to complete improvements at certain properties, including Merton House.

First Republic Bank provided the loan, in the amount of \$5,850,000, which is secured by the Cooperative's housing portfolio of six (6) properties, including Merton House. First Republic Bank is requesting that the County subordinate its Regulatory Agreement on Merton Housing to the \$5,850,000 First Republic loan.

Background:

In January 2013, the County approved a \$175,000 grant in federal Community Development Block Grant (CDBG) funds to the Santa Barbara Student Housing Cooperative (Cooperative), a non-profit organization that provides low-rent co-op housing for students, staff and faculty of the University of California at Santa Barbara (UCSB). The funds were used toward the rehabilitation of a commercial building at 777 Camino Pescadero, Isla Vista (known as "Merton House"), which was converted into twelve (12) housing units for low- to moderate-income households.

In conjunction with the Grant Agreement, the County recorded a Regulatory Agreement and Declaration of Restrictive Covenants (Regulatory Agreement) that restricts all 12 units to occupancy by households with incomes at or below eighty-percent (80%) of the area median income, as published annually by HUD for a period of five years, the minimum period required by the CDBG program. The Regulatory Agreement terminates on June 30, 2018.

The total budget for the project at that time was \$2.8 million, including acquisition of the building and rehabilitation. The County's Regulatory Agreement was subordinate to two loans on the property as shown on a recent Preliminary Title Report (PTR): \$3.4 million to First Republic Bank and \$750,000 to University Religious Conference of Santa Barbara.

On June 20, 2017, the County Board of Supervisors conducted a public hearing and adopted a Resolution approving the issuance by the California Enterprise Development Authority of revenue obligations for the benefit of Santa Barbara Student Housing Cooperative in an amount not to exceed \$6,000,000 for the purpose of financing and refinancing the cost of the acquisition, construction, rehabilitation, equipping and furnishing of certain property.

First Republic Bank provided the loan, in the amount of \$5,850,000 to the Cooperative, which will reduce borrowing costs, and enable the Cooperative to acquire another property and complete improvements at certain properties, including Merton House. The loan is secured by the Cooperative's housing portfolio, which consists of the Merton House at 777 Camino Pescadero, and properties at 6612 El Sueno Road, 6719 Sabado Tarde, 732 Embarcadero Del Norte, 6503 Madrid Road, in Isla Vista, and 721 West Victoria Street in the City of Santa Barbara.

First Republic Bank is requesting that the County subordinate its Regulatory Agreement on Merton House to the new \$5,850,000 loan. The new mortgage loan will result in interest saving in excess of \$45,000 in the first year on the entire portfolio of properties (\$17,000 for Merton House alone), with more savings compounding over the term of the loan. These savings will enable the Cooperative to continue providing low-cost housing to students, staff and faculty.

Although the County's Regulatory Agreement expires in June 2018, First Republic Bank desires that the Regulatory Agreement be subordinate to the First Republic loan. While there are no other regulatory agreements or covenants restricting the property to occupancy by low-income households, the mission of the Cooperative is to provide below-market housing; therefore, it is reasonably expected that Merton House will continue to provide low-income housing beyond the term of the County's Regulatory Agreement.

Performance Measure:

While CDBG regulations require that at least fifty-one (51%) of the units be occupied by low- to moderate-income households, the County Regulatory Agreement exceeds federal minimum requirements by restricting all twelve units to occupancy by low- to moderate-income households until June 30, 2018.

The County's Housing and Community Development Division (HCD) monitors the Merton House for compliance with the income and rent limits in accordance with the County Regulatory Agreement. The property was most recently monitored in October 2017. While there were concerns with the method of documentation used (IRS 1040 forms) to determine residents' income eligibility, the documentation showed that the majority of the tenants were low-income and met the federal CDBG requirements. HCD provided information to the property manager on the proper eligibility method to use.

Contract Renewals and Performance Outcomes:

N/A

Fiscal and Facilities Impacts:

None

Fiscal Analysis:

N/A:

Key Contract Risks:

Risks to the County are minimal. The County has met the CDBG regulatory requirements by housing low-income households in at least 51% of the units. The County Regulatory Agreement expires on June 30, 2018.

Staffing Impacts:

Monitoring is conducted by existing staff.

Special Instructions:

1. Provide one original of the County Subordination Agreement (Attachment A) as soon as available to Matt Kropke. This document will be recorded in the County real estate records. Call ext. 3533 for pick up.
2. Retain one original of the County Subordination Agreement (Attachment A) for COB files. Note that this document should not be recorded.
3. Provide copy of minute order when available to Matt Kropke at mkropke@santa-barbara.ca.us (or provide with item 1 above).

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Attachments:

A: County Subordination Agreement

B: CEQA NOE

Authored by:

Laurie Baker, Grants and Program Manager

cc: Matt Kropke, Senior Housing Program Specialist