



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.: 057
For Agenda Of: November 1, 2022
Placement: Administrative
Estimated Time:
Continued Item: No
If Yes, date from:
Vote Required: Majority

TO: Board of Supervisors

FROM: Department George Chapjian, (805) 568-2467
Director(s)
Contact Info: Dinah Lockhart, Deputy Director (805) 568-3523
Laurie Baker, Housing and Grants Manager, (805) 568-3521

SUBJECT: **Approval of Execution of Loan Documents for a \$1,377,665 loan in State of California Community Development Block Grant Disaster Recovery Multi-Family Housing Program (“CDBG-DR MHP”) funds to Escalante Meadows, L.P. for Escalante Meadows (Project) in Guadalupe (Supervisory District 5)**

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:

- A. Approve and authorize the Chair of the Board of Supervisors to execute original and duplicate originals of the following documents (together the “Loan Documents”), **in a form substantially similar to the attached documents**, which relate to a CDBG-DR MHP loan of One Million Three Hundred Seventy-Seven Thousand Six Hundred Sixty-Five Dollars (\$1,377,665), to Escalante Meadows, L.P., for development of the Escalante Meadows affordable housing development to be located at 1090 and 1093 Escalante Street in the City of Guadalupe:
1. County CDBG DR MHP Development Agreement (Attachment A);
 2. County CDBG DR MHP Promissory Note (Attachment B);
 3. County CDBG DR MHP Deed of Trust (Attachment C);
 4. County CDBG-DR MHP Senior Regulatory Agreement (Attachment D); and
 5. County CDBG DR MHP Junior Regulatory Agreement (Attachment E)

6. County CDBG DR MHP Rider to Development Agreement (Attachment F) (together, the County CDBG-DR MHP Loan Documents)
- B. Approve and authorize the Chair of the Board of Supervisors to execute two subordination agreements subordinating the County's CDBG DR MHP Loan Documents (except the County CDBG-DR MHP Senior Regulatory Agreement) to construction and permanent loans being provided to the project by Pacific Western Bank, and to the HUD RAD Use Agreement:
1. Subordination Agreement subordinating the County CDBG-DR MHP loan to Pacific Western Bank (Attachment G)
 2. Subordination Agreement subordinating the County CDBG-DR MHP to HUD's Rental Assistance Demonstration (RAD) Use Agreement (Attachment H); and
- C. Consider the environmental effects of the Project as shown in the Mitigated Negative Declaration adopted by the City of Guadalupe, approved on January 16, 2020, and subsequent Notice of Determination regarding the Project on February 26, 2020, approved by State Governors Office of Planning and Research on March 2, 2020, (Attachment L) 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 City of Guadalupe.

Summary Text:

It is recommended that the Board approve Attachments A-H as part of today's Board action and authorize the Chair of the Board to sign the documents at a later date. The final documents that will be provided for signature will be in a form substantially similar to those attached to this Board Letter and will have received prior concurrence by County Counsel, Risk Management, and the Auditor. The final documents will be provided to the Board Chair for signature no later than November 14.

This 52-unit Public Housing apartment development at 1090 and 1093 Escalante Street in the City of Guadalupe (currently named the Guadalupe Ranch Apartments), is owned and managed by the Housing Authority of the County of Santa Barbara (HASBARCO). In its 2020-24 Five-Year Agency Plan, the Housing Authority, under the U.S Department of Housing and Urban Development's (HUD), Rental Assistance Demonstration Program (RAD), included the demolition, disposition, rehabilitation and new construction of this development as a priority project. Under RAD, projects receive Section 8 rental assistance and once complete are no longer considered public housing, but rather affordable housing development financed by multiple funding sources, including Low-Income Housing Tax Credits, and owned under a Limited Partnership. The Housing Authority has worked over the past few years to conduct a RAD conversion of Guadalupe Ranch Apartments and is now ready to proceed with the proposed new 80-unit affordable tax-credit project that will be re-named Escalante Meadows (Project).

Pursuant to this Project, Santa Barbara County HCD has worked with the State of California to realize State Community Development Block Grant Disaster Recovery Multi Family Housing Program ("CDBG-DR MHP") funds in the amount of \$1,377,665 towards development financing of Escalante Meadows. These funds are provided to State HCD and allocated to the County as housing loss-mitigation funding related to the 2017 Thomas Fire.

Background: In response to the 2017 Thomas Fire and subsequent debris flow (Disaster Events), in October and December of 2017, the Federal Emergency Management Agency (FEMA) issued disaster declarations DR-4344 and DR-4353. Declaration DR-4344 covered the northern region of California, while DR-4353 covered Santa Barbara, Ventura, Los Angeles, Orange and San Diego counties. In September 2017, Congress passed the Continuing Appropriations Act of 2018 and the Supplemental Appropriations for Disaster Relief Requirements allocating \$7.4 billion in federal funds to support response and recovery from DR 4344 and DR 4353, among others.

Accordingly, in August 2018, the United States Department of Housing and Urban Development (“HUD”), allocated \$124 million in Community Development Block Grant Disaster Recovery funds (“CDBG-DR”), to the State of California Housing and Community Development Department (“State HCD”), to address unmet state needs related to these declarations. State HCD allocated \$588,504 in CDBG-DR funding to Santa Barbara County to address unmet housing recovery needs resulting from the Disaster Events. This CDBG-DR housing-loss mitigation funding is referred to as the CDBG-DR Multi-Family Housing Program, (“CDBG-DR MHP”).

DR-4353 codified a specific Montecito Zip Code, 93108, as a “Most Impacted and Distressed area, (“MID”) for expenditure of CDBG-DR MHP. In this regard, County HCD staff conferred with State HCD, communicating that the 93108 MID area would normally not qualify as CDBG-eligible, as by statute these funds are regulated for expenditure to benefit “low- to-moderate income households,” earning at or below 80% of the area median income for Santa Barbara County. In April 2020, County HCD sent a letter to the State describing the relocation of many affected low-income families to north County and the need for replacement housing in north County. State HCD exercised authority to expend a percentage of CDBG-DR MHP funds outside the MID area, and authorized the County to expend its CDBG-DR MHP allocation outside the MID. Marketing for the available units at Escalante will include a priority for households dislocated by the Disaster Events.

On September 22, 2020, the Santa Barbara County Board of Supervisors approved Authorizing Resolution #20-183, enabling the director of the Community Services Department to enter into a CDBG-DR MHP Master Standard Agreement (“MSA”) with State HCD for the CDBG-DR MHP funds. The Authorizing Resolution incorporated milestones and activities attendant to CDBR-DR MHP, including: a) Development and implementation of a Project Solicitation Process to receive multi-family housing development project applications from Developers; b) Underwriting, selecting and prioritizing those projects in accordance with State HCD CDBG-DR MHP Policies and Procedures; c) Submitting selected and prioritized projects to State HCD; and d) Overseeing and monitoring the construction and lease- up of State HCD-approved projects during construction and project’s affordability period.

On December, 1, 2020, the director of County CSD executed State MSA 20-DRMHP-00002, realizing the \$588,504 County CDBG-DR MHP allocation. Of this amount, HCD staff retains \$58,504 for staff activity-delivery costs. The remaining balance of \$529,654, pursuant to the MSA is available for eligible Escalante Meadows project costs.

Under DR-4353’s codification of the 93108 Zip Code as the MID area, a contiguous area of the City of Santa Barbara also traversed this. Therefore, in its allocation plan, State HCD also allocated \$848,011 in CDBG-DR MHP to the City of Santa Barbara. The City was unable to identify a project conforming with the timing requirements attendant to CDBG-DR MHP Policies and Procedures, and CDBG-DR MHP Authorizing Resolution. To this end, the County and City staff met and conferred individually with State HCD regarding the City potentially relinquishing its CDBG-DR MHP allocation to the County. State HCD concurred, and on March 29, 2022 the City of Santa Barbara City Council passed Resolution 20-220

(Attachment J), relinquishing its CDBG-DR MHP funds to the County. On May 3, 2022, the County Board of Supervisors passed Resolution #22-90 (Attachment K), agreeing to accept the City's CDBG-DR MHP funds for the Escalante Meadows project.

On August 22, 2022, the Director of County Community Services executed a First Amendment to State MSA 20-DRMHP-00002, combining the County and City of Santa Barbara CDBG-DR MHP. In the aggregate, the Amended MSA is in the amount of \$1,436,515, of which \$1,377,665, is available to Escalante Meadows.

Escalante Meadows Project and Related Activities:

Pursuant to State review and approval of the County's Project Solicitation Plan, County HCD included the CDBG-DR MHP funds in its September 4, 2020 Affordable Housing Funds Notice of Funding Availability (NOFA). In response to the NOFA, HASBARCO applied for CDBG-DR MHP funds for Escalante Meadows. At its November 4, 2020 public meeting, the County Capital Loan Committee recommended Escalante Meadows be provided a CDBG DR MHP funding reservation.

Pursuant to this, the Housing Authority continued to apply for additional financing sources to finalize Escalante Meadows' budget and has since received additional state and federal resources necessary to complete the project. This includes highly-competitive State Affordable Housing and Sustainable Communities (AHSC) funds, State of California Housing for a Healthy California (HHC), funds, and in June 2022, 9% federal Low-Income Housing Tax-Credit (LIHTC) that provides equity through the State Tax Credit Allocation Committee. Having received project entitlements from the City of Guadalupe, the Housing Authority is now ready to proceed with construction of the project.

At completion, the Escalante Meadows will consist of 80 units, of which 77 units will be affordable to tenants with household incomes between 30% - 80% of the area median income (AMI), 2 Market Rate units and 1 manager's unit. All off 77 units will receive Section 8 rental assistance.

The highly-competitive financial resources that the Housing Authority has acquired for Escalante Meadows will provide additional economic and community benefit to the City of Guadalupe and County writ-large. For example, the State AHSC funding not only included \$11,731,995 in loan funds for the development, but also included \$7,643,185 in funding for transportation and infrastructure-related improvements in the City of Guadalupe. These improvements will advance County greenhouse gas emission reduction goals. Moreover, in regard to the development's community center, Escalante Meadows also received an award of New Market Tax Credits through the U.S. Department of Treasury Community Development Financial Institution's New Market Tax Credits program which, "*incentivizes community development and economic growth, through the use of tax-credits that attract private investment in distressed communities.*" Therefore, in addition to providing community space for the residents of Escalante Meadows, the new 19,000 square-foot community center will incorporate child-care and medical facilities that avail use to both residents of Guadalupe and surrounding areas. Congressional Representative, Salud Carbajal, also earmarked \$2.5 million in congressional budget funds (Community Project Funds) for this community center.

Additionally, in regard to health care, Housing for a Healthy California funding provided by the State of California intends to "*reduce the financial burden on local and state resources due to the overutilization of emergency departments, inpatient care, nursing home stays and use of corrections systems and law enforcement resources as the point of health care provision for people who are chronically homeless or*

homeless and a high-cost health user.” Accordingly, this funding serves to advance Countywide goals and objectives addressing both health care homelessness.

Escalante Meadows’ affordable housing development budget and sources are reflected in the Table below. A detailed project description is incorporated into this Board Letter as Attachment I. The numbers are subject to change slightly due to ever-changing construction costs, interest rates, etc.

Table 1: Escalante Meadows, Project Sources Required to Complete Construction	
<i>Source</i>	<i>Amount</i>
Pacific Western Bank, Private Loan	16,100,000
Enterprise Community Partners, Solar Tax Credits	164,613
County Housing Authority -Seller Carry Back Note	1,050,000
Affordable Housing and Sustainable Communities (AHSC)	11,731,995
Housing for a Healthy California (HHC)	5,600,000
CDBG-DR-MHP	1,377,665
Federal Home Loan Bank, Affordable Housing Program (AHP), Funds	1,000,000
Deferred Developer Fee	43,795
Low-Income Housing Tax Credit Equity (LIHTC)	23,375,000
Total Project Sources/Cost to Develop	60,443,068

As Escalante Meadows is ready to proceed, today’s Board Action authorizing execution of its Loan Agreement and related Loan Documents enables commencement of construction. The project is scheduled to commence in November, 2022 and projected for completion in July 2024.

Performance Measure:

The Escalante Meadows development will be monitored for CDBG-DR MHP program compliance for the fifty-five year period of affordability, and the CDBG-DR MHP loan and repayments will be monitored for the duration of the fifty-five-year term of the CDBG-DR MHP loan. CDBG-DR MHP program monitoring will include an annual review of the property’s financial statements and roster of CDBG-DR MHP units indicating the number and location of the CDBG-DR MHP 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 CDBG-DR MHP units against certain housing quality standards and a sampling of tenant files will be reviewed for income, lease and rent requirements.

Fiscal and Facilities Impacts:Not Applicable

Fiscal Analysis:

Funding Sources	Current FY Cost:	Annualized On-going Cost:	Total One-Time Project Cost
General Fund			
State			\$1,377,665
Federal			
Fees			
Other:			
Total	\$ -	\$ -	\$ 1,377,665.00

The County has funds available through State HCD CDBG-DR MHP allocation. 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 the 55-year affordability term.

Key Contract Risks:

The Project will produce 80 units of rental housing, seven (7) of which will be subject to CDBG-DR MHP affordability restrictions for a period of 55 years; HCD staff will monitor the Project for affordability compliance. A Regulatory Agreement that regulates the Project affordability will be recorded against the property and will provide the County with the means of enforcing the affordability restrictions.

The terms of the County Promissory Note will bear simple interest at the rate of three percent (3%) per annum. All unpaid principal and interest 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 ensure that a portion of any excess receipts are used to repay the County loan as articulated in the Loan Documents. The County loan is secured by the property, and all outstanding principal and interest will be due upon the expiration of the loan term. All loan proceeds will be submitted to the State. The County will collect and retain an annual monitoring fee, currently set at \$2,500 annually.

The County's Deed of Trust will be subordinate to senior construction and permanent loans from Western Pacific 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 CDBG-DR MHP Loan. If there are sufficient funds after payment of the senior lien(s), then the CDBG-DR MHP loan will be paid. The Senior Regulatory Agreement regulating the Project affordability runs with the land in superior position on title, and would remain in effect for the 55-year term 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 CDBG-DR MHP funds to the Project will necessitate regulatory monitoring by County staff for a minimum of 55 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, which will help cover the cost of monitoring.

Special Instructions:

1. The Recommended Actions are that the Board approve the execution of the Loan Documents as part of the Board action and authorize the Chair of the Board to sign the documents at a later date. The final documents that will be provided for signature will be in a form substantially similar to those attached to this Board Letter and will have received prior concurrence by County Counsel, Risk Management, and the Auditor. The final documents will be provided to the Board Chair for signature no later than November 14.

Please call Carlos Jimenez with questions or if additional information is needed. Ext. 83529

Attachments:

- Attachment A: Escalante Meadows CDBG-DR MHP Development Agreement
- Attachment B: Escalante Meadows Promissory Note
- Attachment C: Escalante Meadows CDBG-DR MHP Deed of Trust
- Attachment D: Escalante Meadows CDBG-DR MHP Senior Regulatory Agreement
- Attachment E: Escalante Meadows CDBG-DR MHP Junior Regulatory Agreement
- Attachment F: Escalante Meadows CDBG-DR MHP Rider to Development Agreement
- Attachment G: PWB Subordination Agreement
- Attachment H: RAD Subordination Agreement
- Attachment I: Escalante Meadows Project Description
- Attachment J: City of Santa Barbara Resolution: Relinquishment of City CDBG-Dr MHP Funds
- Attachment K: County of Santa Barbara Resolution: Acceptance of City of Santa Barbara CDBG-DR MHP funds
- Attachment L: CEQA, Escalante Meadows, Mitigated Negative Declaration, Notice of Completion

Authored by:

Carlos Jimenez, Housing Program Specialist, Senior