



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: 02/12/19
Placement: Departmental
Estimated Time: 30 minutes
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 Action Plan Substantial Amendments and a \$1,400,000 loan, consisting of \$1,114,988 federal HOME funds and \$285,012 Inclusionary Housing Ordinance (IHO) In-Lieu funds, to Sierra Madre Cottages, L.P. for Sierra Madre Cottages in Santa Maria (Supervisory District 5)

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. Hear and consider public comments relating to Substantial Amendments to the FY 2017-18 and FY 2018-19 Action Plans (Attachment A) that describe the use of federal HOME Investment Partnerships (HOME) funds for Sierra Madre Cottages affordable housing project in the City of Santa Maria (Project) that were submitted during the 30-day public comment period, which began on January 12, 2019 and concludes at the end of today's public hearing for the Project;
- B. Approve the Substantial Amendments to the FY 2017-18 and FY 2018-19 Action Plans (Attachment A), which adds the use of One Million One Hundred Fourteen Thousand Nine Hundred and Eighty-Eight Dollars (\$1,114,988) in HOME Funds, for the Project and direct staff to submit the Substantial Amendments to HUD;
- C. Approve a loan of One Million One Hundred Fourteen Thousand Nine Hundred and Eighty-Eight Dollars (\$1,114,988) in HOME Funds and Two Hundred Eighty Five Thousand and Twelve Dollars (\$285,012) in Inclusionary Housing Ordinance (IHO) In-Lieu Funds for a total of One Million Four Hundred Thousand Four Hundred Dollars (\$1,400,000) to Sierra Madre Cottages, L.P. for development of the Project and direct staff to finalize the Loan Documents and return to the Board for approval and execution of the Loan Documents;

- D. Consider the environmental effects of the project as shown in the Mitigated Negative Declaration adopted by the City of Santa Maria for the Project on March 17, 2015 (Attachment C) 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 Santa Maria for the Project on March 17, 2015.

Summary Text:

The proposed FY 2017-18 and FY 2018-19 Substantial Amendments add the use of up to \$1,114,988 in federal HOME funds and \$285,012 in County In-Lieu fee funds for Project costs toward the development of Sierra Madre Cottages, a 40-unit affordable housing project in the City of Santa Maria. The Project will be developed by the Peoples Self Help Housing Corporation (PSHH) and owned by Sierra Madre Cottages, L.P. Since 2014, the County has provided approximately \$2.1 million in federal and local affordable housing funds to PSHH, which has resulted in the production of 76 new affordable housing units.

County HCD has available HOME funding, which is allocated to the County annually by the U.S. Department of Housing and Urban Development (HUD). County HCD also has available Inclusionary Housing Ordinance (IHO) In-Lieu fee funds in the Santa Maria Housing Market Area (HMA), and unrestricted funds, which will be used for the Project (see project funding chart below). The IHO In-Lieu fee funds are collected from developers who pay the fee in-lieu of including affordable units in their HMA according to the County's Inclusionary Housing Ordinance. The unrestricted funds are proceeds from foreclosure on an affordable unit.

In February 2018, the Board approved a reservation of \$1.4 million in HOME and In-lieu funds for the Project in order that PSHH may apply to the State for an allocation of low-income housing tax credits (LIHTC). In September 2018, the Project was awarded LIHTC and is currently securing its funding sources.

Staff will return to the Board at a future date for approval and execution of the following documents (Loan Documents). The Loan Documents will include both the HOME and In-Lieu funds.

1. County HOME Loan Agreement
2. County HOME Loan Promissory Note
3. County HOME Loan Deed of Trust
4. County HOME Loan Regulatory Agreement
5. Subordination Agreement to subordinate the County's HOME Loan Documents to construction and permanent loans being provide to the Project by Bank of America.

Background:

The County is the lead entity of the Santa Barbara County HOME Consortium, which currently consists of the County and the cities of Buellton, Carpinteria, Goleta, Santa Maria, and Solvang. (the City of Lompoc will be added to the HOME Consortium membership in FY 2019-20).

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 and HOME) 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.

Sierra Madre Cottages (Project). Sierra Madre Cottages will be located directly south of 624 East Camino Collegio, in Santa Maria. The Project will contain a mix of thirty-six 1-bedroom and four 2-bedroom apartments, for a total of forty (40) senior housing units. One (1) of the units will be a manager's unit without income or rent restrictions. All other units will be income and rent restricted for households with incomes at or below 50% and 60% of the area median income (AMI). The Project will also include a resident community center which will include a lounge, kitchen, library/computer room, laundry facilities, restrooms, and office space for the onsite manager and resident supportive services. Other amenities will include walking paths, and community garden space.

The applicant requested \$1.4 million, which includes \$199,107 of City of Santa Maria prior year HOME funding and \$150,000 in reprogrammed funds from the City's Tenant Based Rental Assistance (TBRA) contract, for a total allocation of \$349,107 in City of Santa Maria HOME funds to the Project.

Seven (7) HOME-Assisted Unit(s) and two (2) County In Lieu-Assisted Unit(s) will be subject to the income eligibility terms described in the HOME Regulatory Agreement for 20 years. All units will be restricted by the low-income housing tax credit regulatory agreement on the property for 55 years.

In February 2018, the Board approved a reservation of \$1,400,000 in HOME and In-Lieu funds which was first vetted by the County's Capital Loan Committee. PSHH included the County's funding reservation in its application for 9% in competitive LIHTC. In September, the Project was selected by the California Tax Credit Allocation Committee for an award of 9% (competitive) LIHTC. The Project now has all the necessary funding in place to move forward; therefore, HCD is returning to the Board to consider public comments for inclusion of the Project in the County's Action Plan, as required by HUD, and direct staff to finalize the Loan Documents and return to the Board for approval and execution of the Loan Documents..

The following chart shows the proposed County and City of Santa Maria funds for the Project:

County In-Lieu Santa Maria HMA	271,725
County In-Lieu unrestricted funds (foreclosure)	13,287
County HOME funds	765,881
Santa Maria HOME funds	349,107
Total HOME/In-Lieu	\$1,400,000

The following chart shows the total financing sources for the Project:

Funding Sources	
Construction Loan	9,458,817
Permanent Loan	2,127,400
Sponsor Loan	30,147
County/City HOME/In Lieu	1,400,000
Accrued Interest during construction	35,456
AHP sponsor loan	390,000
City of Santa Maria - CDBG	400,893
Tax Credit Equity (Net)	9,586,384
GP Capital	100
Total Funding Sources	\$23,429,197

Substantial Action Plan Amendments (Amendments). The commitment of HOME funds to this Project necessitates amendments to the County's FY 2017-18 and FY 2018-19 annual Action Plans for submittal to HUD upon approval by the Board. The 2017-18 Action Plan is being amended to award up to \$306,609 in HOME funds to the Project and the 2018-19 Action Plan is being amended to award up to \$808,379 in HOME funds to the Project. A total of \$1,114,988 in HOME funds will be awarded to the Project. Amendments to annual Action Plans require a 30-day public notice and public hearing; the public comment period for this Amendment began on January 12th and ends on February 12th, at the close of the Board hearing for the Project. No public comments were received as of the docket date for this item. Any comments subsequently received during the public comment period will be provided by HCD staff.

Staff will return to the Board at a future date for approval and execution of the Loan Documents.

Performance Measure:

If funded, Sierra Madre Cottages 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 and County units indicating the number and location of the HOME and County 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 and County 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:

The County has available HOME and In Lieu 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 the 20-year affordability term and county loan for the 55 year compliance period.

Key Contract Risks:

The Project will produce 40 units of rental housing, nine (9) of which will be subject to federal and County affordability restrictions for a period of 20 years. 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. A Regulatory Agreement will be recorded against the property and will provide the County with the means of enforcing the affordability restrictions. The Project also is subject to the Low-Income Housing Tax Credit program and the Project will be monitored by the State, as well as by the tax credit investor (which could lose tax credits for non-compliance). Given the annual state and tax credit investor monitoring of the Project, the risk to the County is minimized.

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 (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 Bank of America. 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/In-Lieu Loan. If there are sufficient funds after payment of the senior lien(s), then the County's loan will be paid. The County's Deed of Trust and Regulatory Agreement would be extinguished in a foreclosure of the senior loan.

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 lender has 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/In-Lieu 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 email a copy of the Minute Order to Laurie Baker at lbaker@co.santa-barbara.ca.us

Attachments:

- A. Substantial Amendments to FY 2017-18 and FY 2018-19 Annual Action Plans
- B. Mitigated Negative Declaration