



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.: 057
For Agenda Of: October 21, 2014
Placement: Administrative
Estimated Time: N/A
Continued Item: No
If Yes, date from: N/A
Vote Required: Majority

TO: Board of Supervisors
FROM: Department René E. Bahl, Interim Community Services Director (805) 568-2467
Director(s)
Contact Info: Margo Wagner, Sr. Housing Program Specialist (805) 568-3529
SUBJECT: Sandpiper Apartments and L.C. Grossman Homes – Subordination of County Agreement to Grant Mitigation Funds to the Housing Authority and Resolution(s) of Multifamily Housing Revenue Bonds , Second and Fourth Supervisorial Districts.

County Counsel Concurrence

As to form: Yes

Auditor-Controller Concurrence

As to form: Yes

Recommended Actions:

That the Board of Supervisors:

- A. Per federal tax regulations, conduct a public hearing and receive and consider oral and written comments regarding the proposed County approval of the issuance of tax-exempt private activity bonds by the Housing Authority of the County of Santa Barbara. (“Housing Authority”)
- B. Approve and authorize the Chair of the Board of Supervisors to adopt a Resolution approving the issuance of Multifamily Housing Revenue Bonds by the Housing Authority for Sandpiper Apartments (Attachment A);
- C. Approve and authorize the Chair of the Board of Supervisors to adopt a Resolution approving the issuance of Multifamily Housing Revenue Bonds by the Housing Authority for L.C. Grossman Homes (Attachment B);
- D. Approve and authorize the Chair of the Board of Supervisors to adopt a Resolution approving the issuance of Multifamily Housing Revenue Bonds by the Housing Authority for Leland Park Apartments; (Attachment C);
- E. Approve and authorize the Chair of the Board of Supervisors to execute a Subordination Agreement (Attachment D) that subordinates the County’s Agreement to Grant Mitigation Funds to the Housing Authority currently recorded against the L.C. Grossman Homes in Goleta to a Rental Assistance Demonstration (RAD) Use Agreement (Attachment E); and

- F. Find that pursuant to the California Environmental Quality Act (CEQA) Guidelines Section 15162, no substantial changes are proposed and no new information of substantial importance has come to light, and therefore these actions are within the scope under which the Notice of Exemption (NOE) (Attachment F) was filed, and that therefore no new environmental document is required.

Summary Text:

This action by the Board provides the authorization required by the U.S. Department of Housing and Urban Development (HUD) for Housing Authority of the County of Santa Barbara (Housing Authority) to issue \$13 million in private activity bonds for the renovation of the L.C. Grossman Homes, the Sandpiper Apartments and Leland Park Apartments. The IRS/Department of Treasury requires these authorizations in order for the bonds to qualify for tax exempt status. The County is also being asked to execute a subordination agreement which HUD requires for participation in the Rental Assistance Demonstration (RAD) Use Agreement program. On September 16, 2014 the Board approved the Subordination of County Regulatory Agreement and Declaration of Restrictive Covenants to U.S. Bank and the California Reinvestment Corporation. The Resolution of Multifamily Housing Revenue Bonds for Sandpiper Apartments (Attachment A); the Resolution of Multifamily Housing Revenue Bonds for L.C. Grossman Homes (Attachment B); the Resolution of Multifamily Housing Revenue Bonds for Leland Park Apartments (Attachment C); and the Subordination Agreement (Attachment D) that subordinates the County's Agreement to Grant Mitigation Funds to the Housing Authority to a Rental Assistance Demonstration (RAD) Use Agreement (Attachment E) were just recently made available for the County's review and consideration for approval.

Background:

Sandpiper Apartments consists of three properties located at 3709-390 Mathilda Drive and 355-375 Ellwood Beach Drive in Goleta; the L.C.Grossman Homes consists of seven buildings located at 5575-5595 Armitos Avenue in Goleta (Supervisory District 2); and the Leland Park Apartments at 250 and 260 N. Pacific Avenue in Orcutt (Supervisory District 4) (Projects) This request is being made by the Housing Authority of the County of Santa Barbara (Housing Authority). The Projects are presently owned by the Housing Authority, which has formulated a limited partnership with its affiliate Surf Development Company. The name of the limited partnership is Leland Grossman Sandpiper, L.P. a California limited partnership (Limited Partnership). The Housing Authority and Surf Development Company will be the general partners on this Project. Surf Affordable Housing Enterprises, Inc., A California corporation, is the Limited Partner. It is the intent of the Limited Partnership to acquire the property from the current owner and rehabilitate 82 multi-family affordable housing rental units. This transaction will also facilitate the Housing Authority's participation in HUD's Rental Assistance Demonstration Program (RAD).

In May, 2014, the Housing Authority applied to the State of California for 4% Federal tax credits and tax exempt bonds for the property. In July 2014, the tax credits and bonds were approved by the California Tax Credit Allocation Committee.

In order for private activity bonds such as the ones proposed for the Projects to qualify for tax exemption, certain public approval requirements pursuant to Section 147(f) of the Internal Revenue

Code must be satisfied. Specifically, the issuance of the bonds must be approved by 1) at least one of the governmental unit having jurisdiction over the area in which the facility to be financed by the proceeds of the bonds is located (“host approval” requirement; and 2) the governmental unit which issues the bond or on behalf of which the bonds will be issued (“issuer approval” requirement). These approvals must occur following a public hearing that provides a reasonable opportunity for interested individuals to express their view, both orally and in writing, on the proposed facility to be financed. This hearing must be properly noticed pursuant to IRS regulations.

Here, the Housing Authority is seeking to satisfy the host approval and issuer approval requirements so that tax-exempt private activity bonds, in an amount not to exceed \$13,000,000, may be issued by the Housing Authority. The Limited Partnership will use the funds from this bond issuance to finance the acquisition and rehabiliate of three multifamily rental housing facilities consisting of (a) the 68-unit multifamily residential rental housing project located at 370-390 Mathilda Drive and 355-375 Ellwood Beach Drive in the City of Goleta, Santa Barbara County, and generally known as Sandpiper Apartments (\$7,000,000) (Recommended Action B); (b) the 14-unit multifamily residential rental housing project located at 5575-5595 Armitos Avenue, in the City of Goleta, Santa Barbara County, and generally known as L.C. Grossman Homes (\$3,000,000) (Recommended Action C); and (c) the 16-unit multifamily rental housing project located at 250 and 260 North Pacific Street in the Unincorporated area of Orcutt, Santa Barbara County and generally known as Leland Park Apartments (\$3,000,000) (Recommended Action D).

The County’s approval is required to satisfy the issuer approval requirement for the three aforementioned bond issuances. For the purposes of Section 147(f) of the Internal Revenue Code, the issuer requirement is satisfied if the issuance is approved by the “applicable elected representative” of the governmental unit that issues the bond or on behalf of which the bond is issued. The bonds in the case are to be issued by the Housing Authority, which has no applicable elected representative. This being the case, per the statute, the issuer approval requirement may be satisfied by the approval of the next higher governmental unit from which the Housing Authority derives its authority because the County appoints the members of the Housing Authority’s governing body.

The County’s approval as a host agency is also being sought. The County may grant its approval as a host because Sandpiper Apartments and L.C. Grossman Homes are located entirely in the City of Goleta and the Leland Park Apartments located in the Unincorporated County area, in the County of Santa Barbara. The Board has previously considered and approved the issuance of bonds for the Leland Park Apartments; however that approval expires on 11/5/14. The County is now being asked to re-approve the Leland Park Apartments.

The County’s approval of the Housing Authority’s issuance of the aforementioned bonds must be preceded by a properly noticed public hearing. Staff has been provided the required notice by the Housing Authority’s bond counsel. Recommended Action A is for the Board of Supervisors to receive and consider the written comments received as of October 21, 2014 and any oral comments received at the October 21, 2014 Board meeting. After receiving and considering any oral and written comments submitted, the Board may approve the issuance of the aforementioned bonds by the Housing Authority. The County’s role will be limited to that of approving the financing as the applicable elected representative in order to satisfy the requirements of Section 147(f) of the Internal Revenue Code. The

County will not be a party to the issuance of the bonds and the bonds will not constitute a debt, liability or obligation of the County.

The County's current Debt Management Policy does not explicitly include these private activity bonds among the kind of financing the Debt Advisory Committee is required to review. However, the County Treasurer reports that the Debt Advisory Committee has considered the issue of approving such bonds in the past. The Debt Advisory Committee has not considered the issuance of bonds for L.C. Grossman Homes or Sandpiper Apartments, although it did previously consider and support the Board's prior approval of bonds for the Leland Park Apartments. The Debt Advisory Committee's approval is not required by Section 147(f) of the Internal Revenue Code. The Housing Authority requests the approvals of the bond issuances prior to the end of October 2014. Delaying the closing would result in further costs and expenses including loss of revenue due to unoccupied units.

Under the RAD program housing authorities would be able to convert public housing rental subsidies to Section 8 Project based rental subsidies on an individual development basis, which in turn assists public housing authorities borrow funds for renovations, accumulate reserves and otherwise preserve and reinvest in their public housing stock. RAD seeks to give public housing authorities more flexibility to access private and public funding sources, including low income housing tax credits (LIHTCs), for needed improvements to its public housing stock. The program also aims to improve public housing authorities' long-term financial outlook by easing their reliance on less stable appropriations from the Federal government. In early 2012 the U. S. Department of Housing and Urban Development (HUD) invited housing authorities throughout the country to participate in a demonstration program entitled the Rental Assistance Demonstration Program (RAD). The Housing Authority applied to the RAD program and in December 2012 was approved to transition the Sandpiper Apartments, L.C. Grossman Homes and Leland Park Apartments to this program.

In order for The Housing Authority to participate in the RAD program, HUD is requiring the County to sign a Subordination Agreement (Attachment D) for the Agreement to Grant Mitigation Funds to the Housing Authority (Attachment F), which is secured against the L.C. Grossman Homes. The term of this grant was a 30 year term and is expected to expire in August, 2015. The Agreement to Grant Mitigation Funds to the Housing Authority was for the purpose providing these funds was required by the Santa Barbara Business Park to ensure that the conditions concerning affordable housing for the Santa Barbara Business Park were met by implementation of the agreement, The RAD Use Agreement provides the opportunity to test the conversion of public housing and other HUD-assisted properties to long-term, project based Section 8 rental assistance to achieve certain goals, including the preservation and improvement of these properties through access by Owners to private debt and equity to address immediate and long term capital needs.

Risk Analysis:

The subordination agreement will result in the County's rights under the Agreement to Grant Mitigation Funds to the Housing Authority becoming subordinate to the RAD Agreement. In the event of foreclosure and sale of the property, the County's grant agreement may be extinguished; however there will be no requirement of repayment to HUD since mitigation funds are non-federally related.

Staffing Impacts:

HCD's Property Management / Inclusionary staff will charge the HOME administration account for work associated with this action. The existing HOME monitoring staffer, funded through the General Fund, will continue to monitor these units.

Special Instructions:

- Execute three (3) original copies of Attachment(s) A, B, C, and D, and contact Margo Wagner at ext. 3529 to pick up two (2) original signed copies.
- Provide a copy of the minute order reflecting Board Action

Attachments:

Attachment A – A Resolution of Multifamily Housing Revenue Bonds for Sandpiper Apartments

Attachment B – A Resolution of Multifamily Housing Revenue Bonds for L.C. Grossman Homes

Attachment C – A Resolution of Multifamily Housing Revenue Bonds for Leland Park Apartments

Attachment D – Subordination Agreement for the Rental Assistance Demonstration Use Agreement

Attachment E – Rental Assistance Demonstration Use Agreement

Attachment F – CEQA NOE

Attachment G – Board Letter dated September 16, 2014

Authored by: Margo Wagner, Senior Housing Program Specialist

cc:

Scott Greenwood, Deputy County Counsel

Bob Havlicek, Housing Authority of the County of Santa Barbara