



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 & Community
Development
Department No.: 055
For Agenda Of: 4/03/07
Placement: Administrative
Estimated Tme:
Continued Item: No
If Yes, date from:
Vote Required: Majority

TO: Board of Supervisors

FROM: Department Name & Phone
Director(s) John Torell, Housing and Community Development Director x3520
Contact Info: Name & Phone
Patricia Gabel, Housing Finance Division Manager x3522

SUBJECT: Faulding Hotel Loan Forgiveness Request

County Counsel Concurrence

As to form: Yes

Other Concurrence: N/A

As to form: Select_Concurrence

Recommended Actions:

That the Board of Supervisors:

Approve and Authorize the Chair of the Board of Supervisors to execute a Faulding Hotel Loan Forgiveness and Loan Amendment to forgive principal and interest incurred for a \$100,000, 4.5% simple interest, 30 – year residual receipts loan made to Faulding Hotel Inc, a nonprofit controlled by Santa Barbara Community Housing Corporation (SBCHC) in December 1994 and to extend the current affordability period for an additional sixty (60) years. (Attachment 1)

Summary Text:

On October 19, 2006 County Housing and Community Development staff received a letter from Kathryn J. Byrne, Executive Director of SBCHC requesting that the County forgive the principal and interest incurred for a \$100,000 loan made for the Faulding Hotel in 1994. As described in more detail below, staff is recommending that the existing \$100,000 debt be forgiven so that much needed repairs on the building can be undertaken. In exchange for the forgiveness the affordability restrictions on the Hotel will be extended for an additional 60 years.

In November 2006, the County Counsel's office confirmed that any decision to forgive the debt owing to the County would have to be made by the Board of Supervisors.

If the Board of Supervisors extends the affordability restrictions previously described, the responsibility of monitoring for compliance with the 60 – year affordability restrictions by County Department of Housing and

Community Development would continue for an additional 60 years beyond the current expiration of 2009. Compliance monitoring activities include:

- Review rent limits assigned to restricted units
- Conduct property inspections utilizing HUD Housing Quality Standards or local codes as required
- Review occupancy requirements to confirm appropriate rent charges
- Review project files for correct annual certifications, utility allowances and other eligibility requirements

It is important to note that the SBCHC Board offered to extend the affordability covenants on the Faulding Hotel for an additional 60 years in exchange for loan forgiveness. The County is not obligated to extend the affordability covenants if it does not choose to do so. The City of Santa Barbara has already extended their affordability restrictions 60 years.

Background:

The Faulding Hotel (also referred to as the New Faulding Hotel) is an 81 room, single-room occupancy (SRO) housing facility at 17 E. Haley that has been owned and operated by the SBCHC since 1987. It is occupied by 83 low-income residents, most of whom are formerly homeless individuals with disabilities or special needs. The Faulding Hotel offers homeless individuals an opportunity to move out of emergency shelters and into a safe stable environment. Tenants are also provided special training and social services to assist them live independently.

The Faulding Hotel helps fill a critical niche in the South Coast's affordable housing programs. It is important to note that a large number of SRO rooms that have been lost to development or conversion in the last two decades.

The Faulding Hotel has struggled financially in past years and had a negative cash flow in the 1990's. In 1994 the County loaned \$100,000 and the City of Santa Barbara loaned \$150,000 to SBCHC to repay some institutional financing and improve the Hotel's cash flow. The County also recorded a fifteen – year affordability restriction on the property limiting the rents and occupancy of twenty one (21) units to persons at 80% of area median income or below and another six (6) units to persons at 50% of area median income or below. Even with the improved cash flow available to the project after the new loans were made, no funds have been available since then for upgrading the hotel and making needed repairs.

In the fall of 2004 a community task group was formed to discuss issues faced by the Faulding Hotel and to make recommendations to the Board of SBCHC. The fourteen member Community Visioning Committee included SBCHC staff and board members, former HCD Director Ed Moses, City Housing and Redevelopment Division Manager Dave Gustafson, County public health and social service providers, Rob Pearson of the City Housing Authority and two Santa Barbara City Council members. The committee met eight times and drafted a set of six recommendations to the SBCHC board.

One of the Community Visioning Committee recommendations was that the Faulding's debt has become burdensome due to the accrual of substantial unpaid interest on several loans, and that the SBCHC Board should seek interest and loan forgiveness. In exchange for loan forgiveness, it was recommended that the SBCHC Board agree to extend the expiring affordability covenants on the Faulding Hotel by 60 years.

On June 14, 2005, in response the Community Visioning Committee's recommendations to the SBCHC Board, the Santa Barbara City Council approved the following interest and loan forgiveness, loan restructuring, and rehabilitation grant award actions:

- Forgiveness of principal and accrued interest on 1994 loan of \$150,000 and a 2001 loan of \$1,250,000,

- Forgiveness of accrued interest of approximately \$1.4 million on a 1987 City Agency loan in the amount of \$1,218,500, and amended the loan to bear zero interest,
- Award of \$895,000 in grants for repairs and improvements, and
- Extension of the expiring Faulding Hotel affordability conditions by 60 years.

Performance Measure:

Quality of Life: A High Quality of Life for All Residents

Fiscal and Facilities Impacts:

Budgeted: No

Fiscal Analysis:

If the Board of Supervisors were approve the forgiveness of debt there is limited fiscal impact over the course of the loan since SBCHC does not make annual loan payments. In accordance to the terms of the loan, payments are only required if there is adequate cash flow from the project to provide repayment. In 2024 when the loan becomes due and payable the fiscal impact to the County would be the loss of the repayment of the \$100,000 loan and the \$274,532 interest that would have accrued over 30 years. The ability of the not – for – profit owner to repay the obligation in 2024 would have to be considered at that time.

The intent for the loan was never repayment. The loan was made to insure that the property was used for the intended purpose and that SBCHC did not borrow additional funds without County notice. The loan forgiveness action was considered in coordination with the City of Santa Barbara. An assumption of the County and City analysis was that there would never be revenue to repay any of the numerous loans made on the project.

Staffing Impacts:

Staff time is already allocated to monitoring Faulding Hotel regulatory compliance.

Special Instructions:

None

Attachments:

Attachment 1: Faulding Hotel Loan Amendment

Authored by:

Patricia Gabel, Housing Finance Division Manager x3522

cc: