



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  
**Department No.:** 057  
**For Agenda Of:** July 9, 2013  
**Placement:** Administrative  
**Estimated Tme:**  
**Continued Item:** No  
**If Yes, date from:**  
**Vote Required:** Majority

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**TO:** Board of Supervisors  
**FROM:** Herman Parker, Community Services Director (805) 568-2467  
Simon Kiefer, Grants & Program Manager, (805) 568-3534  
**SUBJECT:** \$1,642,234 HOME Loan for Pescadero Lofts Affordable Housing  
Project Located in District 3

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**County Counsel Concurrence**

As to form: Yes

**Auditor-Controller Concurrence**

As to form: Yes

**Other Concurrence:** Risk Management

As to form: Yes

**Recommended Actions:**

That the Board of Supervisors:

- A. Approve and Authorize the Chair of the Board of Supervisors to execute the HOME Loan Agreement, Promissory Note, and HOME Regulatory Agreement (Attachment A) with Pescadero Lofts Isla Vista L.P. for the Pescadero Lofts affordable housing project upon return of Pescadero Lofts Isla Vista L.P.'s execution of the HOME Loan Agreement, Promissory Note, and HOME Regulatory Agreement and the review and concurrence of County Counsel, Auditor-Controller, and Risk Manager or their designees; and
- B. After considering the previously certified EIR for the Isla Vista Master Plan (03-EIR-08), determine pursuant to Public Resources Code sections 21090(b) and 21166 and CEQA Guideline sections 15162 and 15168 that, as reflected in the CEQA findings in Attachment B to the Board Letter, no subsequent EIR or Negative Declaration shall be prepared for this project.

**Summary Text:**

The County's \$1,642,234 loan to Pescadero Lofts Isla Vista L.P. is a loan of federal HOME Investment Partnerships (HOME) Program funds. The Pescadero Lofts project is a 33-unit affordable rental housing project for low income persons located in Isla Vista.

The County HOME Loan for Pescadero Lofts is one of three items included in the FY 2012-2013 Annual Action Plan Substantial Amendment that was approved by the Board on June 18, 2013. The recommended action in this Board Letter administers the approval made by the Board on June 18<sup>th</sup>.

**Background:**

The County receives HOME funds from the U.S. Department of Housing and Urban Development (HUD) to be used to expand the supply of affordable housing to low income households. HOME funds must be committed within two years of when they are awarded to the County, and an executed written agreement is required in order to commit HOME funds. The County faces a July 31, 2013 deadline to commit approximately \$2.1 million in HOME funds, as indicated in the attached correspondence from HUD (Attachment C). Approval and execution of the HOME Loan Agreement would help enable the County to meet the commitment deadline. Discussions with Pescadero Lofts, Isla Vista L.P. are ongoing. Should Pescadero Lofts, Isla Vista L.P. request substantive changes to the agreement, this item will come back to the Board of Supervisors for consideration.

**Pescadero Lofts Project Description**

The Pescadero Lofts project involves new construction of a 33-unit affordable rental housing project. The 21,031 square foot structure will be constructed on a .82 acre site and will consist of twenty six studios, six 1-bedroom units, and one 2-bedroom manager's unit. The project will provide permanent housing targeted to homeless persons.

Of the project's 33 units, thirteen will be designated as HOME-assisted units. Rents for these thirteen units shall not exceed the Low HOME Rent established annually by HUD (currently \$665 for a studio unit). Upon lease-up, tenant income shall not exceed 50% of Area Median Income that is in effect at the time of project completion (currently \$27,900 for a single person household). The County's HOME Regulatory Agreement will require that the thirteen HOME-assisted units meet HOME rent and income standards and other HOME regulatory requirements for fifty five years.

The developer, Pescadero Lofts Isla Vista, L.P., will bear overall responsibility for developing, managing, and operating the project. Surf Development Company is the Managing General Partner and the County Housing Authority is the Administrative General Partner.

Total development cost for the project is approximately \$9.8 Million:

|                         |                |
|-------------------------|----------------|
| Construction Costs:     | \$3,225,720    |
| Land Acquisition Costs: | 2,900,000      |
| Financing Costs:        | 406,929        |
| Soft Costs:             | 1,403,636      |
| Reserves:               | 1,141,699      |
| Developer Fee:          | <u>701,790</u> |
| Total:                  | \$9,779,774    |

Permanent funding sources identified to date are itemized below:

|                                 |                  |
|---------------------------------|------------------|
| Low Income Housing Tax Credits: | \$3,711,327      |
| Union Bank Loan:                | 1,526,213        |
| County HOME Loan:               | <u>1,642,234</u> |
| Total:                          | \$6,879,774      |

The State Tax Credit Allocation Committee announced on June 12, 2013 that the project would receive a tax credit award, which would result in a cash infusion to the project of about \$3.7 million. Union

Bank has committed to providing a permanent loan, which would be in senior position on title. The project site is located on County land that was conveyed to the County from the Successor Agency to the former Santa Barbara County Redevelopment Agency. The Board approved last March an option agreement with the County Housing Authority to acquire the property for \$2.9 Million. Staff expects the County Housing Authority to request that the option agreement be amended to change the beneficiary of the agreement from the County Housing Authority to Pescadero Lofts Isla Vista, L.P. and to change the full-cash purchase to an acquisition loan from the County. Board approval of the option agreement amendment would require a 4/5 vote.

### **County HOME Loan**

On April 8, 2013, the Santa Barbara Capital Loan Committee reviewed the Pescadero Lofts project and recommended that the Board approve an allocation of HOME funding for the project. The Board approved HOME funding for the project on June 18, 2013 as part of the FY 2012-2013 Annual Action Plan Substantial Amendment.

The County HOME Loan will have a term of 55 years, a simple interest rate of 3%, with payments deferred until occupancy and due on a residual receipts basis (i.e., to the extent the project generates positive cash flow after senior debt service and County-approved expenses and reserves are subtracted). The County HOME Loan would be subordinate to the Union Bank loan. If the Board later approves the land acquisition loan from the County, the County HOME Loan would also be subordinate to the County land acquisition loan.

Staff has evaluated the project in accordance with underwriting guidelines to determine that project costs are reasonable and consistent with local norms and that no more HOME funds are invested in the project than that necessary to fund the project. A cost allocation, pro rata share analysis, and subsidy layering review have been completed, which demonstrate that the appropriate amount of HOME funds are invested, pursuant to HOME regulations.

The County HOME Loan funds would be disbursed on a reimbursement basis, through periodic payments based upon construction work completed, as evidenced by documentation supporting the completed work, signed by the project architect and verified by a County inspector.

### **Fiscal and Facilities Impacts:**

The County has already been awarded sufficient HOME funds for the \$1,642,234 County HOME Loan. The County is facing a commitment deadline of July 31, 2013 and could possibly lose HOME funding if not committed in time. Approval and execution of the County HOME Loan would help meet the July commitment deadline.

The HOME Loan Agreement contains the provision that in the event federal HOME funds are not made available to the County for any reason, then the County will not be held liable for providing funds to Pescadero Lofts Isla Vista, L.P.

### **Fiscal Analysis:**

Ten percent (10%) of HOME funds awarded to the County may be used for administrative expenses.

The proposed loan of \$1,642,234 consists only of federal HOME funds and constitutes a one-time project cost.

\$1,642,234 HOME Loan for Pescadero Lofts Affordable Housing Project

July 9, 2013

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| <b><u>Funding Sources</u></b> | <b><u>Current FY Cost:</u></b> | <b><u>Annualized</u></b>     | <b><u>Total One-Time</u></b> |
|-------------------------------|--------------------------------|------------------------------|------------------------------|
|                               |                                | <b><u>On-going Cost:</u></b> | <b><u>Project Cost</u></b>   |
| General Fund                  |                                |                              |                              |
| State                         |                                |                              |                              |
| Federal                       |                                |                              | \$ 1,642,234.00              |
| Fees                          |                                |                              |                              |
| Other:                        |                                |                              |                              |
| Total                         | \$ -                           | \$ -                         | \$ 1,642,234.00              |

**Attachments:**

Attachment A: Loan Agreement including Exhibits

Attachment B: CEQA Findings

Attachment C: Letter from the U.S. Department of Housing and Urban Development