



**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:** May 17, 2016  
**Placement:** Departmental  
**Estimated Time:** 15 mins.  
**Continued Item:** No  
**If Yes, date from:**  
**Vote Required:** Majority

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**TO:** Board of Supervisors

**FROM:** From: George Chapjian, Community Services Director (805) 568-2467  
Contact Info: Dinah Lockhart, Deputy Director, Division Housing and  
Community Development (HCD) (805) 568-3523  
Laurie Baker, Grants and Program Manager, HCD (805) 568-3521

**SUBJECT:** Public Hearing to consider public comments and staff recommendations on (1) HOME Loan for Property Acquisition and Rehabilitation, and (2) draft FY 2012-13 and FY 2014-15 Action Plan Substantial Amendments

**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 (Board):

- A. Approve the sale of the Property by Life Steps Foundation;
- B. Consider the County's Right of First Refusal to purchase the Property at fair market value and determine that the County will not exercise its right to purchase the Property;
- C. Approve Good Sam as buyer of the Property;
- D. Receive and consider public comments on the draft FY 2014-15 Action Plan Substantial Amendment received during a 30-day public comment period, which commenced on April 17, 2016 and concludes at the end of the May 17, 2016 public hearing on this item;
- E. Approve FY 2014-15 Action Plan Substantial Amendment to be submitted to HUD that includes the provision of HOME funds to Good Sam to acquire and rehabilitate the Property (Attachment A);
- F. Approve and authorize the Chair of the Board to execute a County HOME Loan Agreement (Attachment B), HOME Promissory Note (Attachment C) and HOME Deed of Trust (Attachment D) with Good Sam and provide \$475,000 in HOME funds, of which \$445,000 will be used to acquire the Property and \$30,000 will be used toward the costs to rehabilitate the Property;

- G. Approve and authorize the Chair of the Board to execute a new County Regulatory Agreement (Attachment E) that will restrict one (1) of the six (6) bedrooms at the Property for low-income persons with annual incomes not to exceed sixty-percent (60%) of area median income (AMI) and restrict five (5) bedrooms for persons with annual incomes not to exceed fifty-percent (50%) AMI for a period of fifteen and one-half (15.5) years;
- H. Approve and authorize the Chair of the Board to execute an Assumption and Assignment Agreement of the Grant Agreement with Good Sam (Attachment F) with the following modifications: 1) the six bedrooms will be income and rent restricted for households with annual incomes that shall not exceed sixty-percent (60%) of the area median income and 2) the restriction that occupancy is limited to persons with developmental disabilities is removed;
- I. Determine that the recommended actions are not the acceptance and approval of a project that is subject to environmental review under the California Environmental Quality Act (CEQA) pursuant to CEQA Guidelines Section 15378(b)(4), finding that the project is a creation of government funding mechanisms or other government fiscal activities, which do not involve any commitment to any specific project which may result in a potentially significant physical impact on the environment, and direct staff to file a Notice of Exemption (Attachment G).

**Summary Text:**

Good Samaritan Shelter (Good Sam) is in escrow to purchase the Property, a 6-bedroom, single family residence located in Orcutt with plans to operate the residence as permanent housing for low-income persons. The Property is currently encumbered by a County Grant Agreement (Attachment I) that establishes a right of first refusal for the County and imposes certain use restrictions that expire in 2024. Good Sam will assume the Grant Agreement, with the modifications as described below, by executing an Assignment, Assumption and Modification Agreement (Attachment F). The seller and current owner of the Property is the Life Steps Foundation (Life Steps), which no longer plans to use the Property for its intended purpose and desires to sell the Property. It is HCD staff's recommendation that the County permit the sale of the Property to Good Sam to preserve the Property for low-income persons and provide a County HOME loan to Good Sam to acquire and rehabilitate the Property.

The County receives an annual allocation of HOME Investment Partnerships funds (HOME) 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. The use of HOME funds must be included in a County annual Action Plan and, if not included, then the Action Plan must be amended to include County HOME-funded projects. A Substantial Amendment to the FY 2014-15 Action Plan (Attachment A) has been prepared to include the acquisition and rehabilitation of the Property by Good Sam.

The County has \$1,030,421 in HOME funds that are subject to recapture by HUD if not committed to eligible use(s) by July 31, 2016. HUD defines "commitment" as having a signed written agreement. \$555,421 of those funds were included in the Board Letter and draft Substantial Action Plan amendments that were presented to the Board of County Supervisors for consideration for approval on April 19, 2016, and presented to the Board of County Supervisors on May 3 for final approval and submittal to HUD. HCD staff recommends that the remaining \$475,000 be committed to the acquisition and rehabilitation of the Property by Good Sam.

**Background:**

In 1994, the County of Santa Barbara provided a \$45,000 grant from non-federal funds to help cover costs to rehabilitate a residential property that was acquired by the Life Steps Foundation (Property).

The Property is a 6-bedroom, 3 bathroom single-family home located at 220 S. First Street in Orcutt and was used by Life Steps to operate a group home for low-income persons with developmental disabilities.

The County's Grant Agreement included the following provisions:

1. The Property must be used for developmentally disabled persons, with household incomes at or below 80% of the area median income (AMI) as published annually by the U.S. Department of Housing and Urban Development (HUD), adjusted for family size, for a period of thirty (30) years. This restriction will expire on August 8, 2024.
2. Life Steps will not sell, convey or alienate the Property without the prior written consent of the County and the County must review the organizational documents of the assignee to ensure that the assignee will assume all the obligations of the Agreement, including maintaining the Property as low-income housing.
3. The County will be granted a first right of refusal for a period of 90 days to purchase the Property at fair market value.

Life Steps Foundation, a 501(c)(3) charitable organization under the Internal Revenue Code, no longer plans to use the Property for its intended purpose and desires to sell the Property. Life Steps reports that it plans to use the proceeds from the sale of the Property toward the costs to construct the Santa Maria Wisdom Center, which will offer adult day health care services to low-income seniors in Santa Barbara and San Luis Obispo Counties. HCD staff recommends, with concurrence from the Capital Loan Committee, that the Board allow the purchase of the Property by Good Sam in order to preserve the Property as housing for low-income persons.

Good Sam operates several programs for homeless individuals and families, including support services such as drug and alcohol treatment and mental health services. According to Good Sam staff, they receive continuous referrals from County's Probation, Social Services, Behavioral Wellness and Sheriff's Departments. All of Good Sam's residential facilities are full with waiting lists and at least 25 individuals in its emergency shelter are homeless veterans. Acquiring the Property will free up needed emergency shelter beds.

The Property is intended to provide housing for formerly homeless individuals and families. Good Sam intends to use the Property to provide permanent housing to homeless veterans. In addition to assuming the current County Grant Agreement, a HOME Regulatory Agreement will be recorded in association with the HOME loan that will further restrict 5 of the 6 bedrooms for individuals with household incomes at or below 50% of the area median income (AMI) as published annually by HUD. One bedroom will be restricted for a household with a household income at or below sixty-percent (60%) AMI and is intended for use by a live-in manager. The current maximum annual income for a one-person household set at 50% AMI is \$28,100. The actual income of clients is projected to be at or below 30% AMI, which for a one-person household is \$16,850.

**Discussion:**

Section 7 of the 1994 Grant Agreement contains a provision which gives the County ninety (90) days to determine whether it wishes to exercise a 'right of first refusal' to purchase the property at fair market

value if during the 30 year affordability period, Life Steps or any subsequent owner of the property wishes to sell the property. Staff is recommending that the Board not exercise its right of first refusal in order for Good Samaritan to acquire the property at fair market value from Life Steps and continue to operate the property as affordable housing.

The Board is asked to approve the execution of an Assumption and Assignment Agreement (Attachment F) of the Grant Agreement with Good Samaritan. Concurrent with the transfer in Property ownership from Life Steps to Good Samaritan, Good Samaritan agrees to accept the conditions contained in the 1994 Grant Agreement between the County and Life Steps Foundations, with certain modifications. The Assumption Agreement ensures that the Property will remain affordable as low income housing for the duration of the thirty (30) year affordability period, which began in 1994, and expires in 2024. The Assumption Agreement makes certain modifications to the 1994 Grant Agreement, including: revisions to the third (3<sup>rd</sup>) recital and to Section 3.1, which removes the reference to persons with developmental disabilities; and revision to Section 3.2 to define low income households as households whose income is at or below sixty-percent (60%) of the area median income (AMI) adjusted for household size, as published annually by HUD. The 1994 Agreement stated household incomes were restricted to 80% of AMI.

In addition to Good Sam's assumption of the Grant Agreement, the Board is asked to approve a HOME Regulatory Agreement, which will further restrict five (5) of the six bedrooms to persons with household incomes at or below fifty-percent (50%) AMI and one bedroom for a household with income at or below 60% AMI (manager's unit).

**Budget**

The acquisition and rehabilitation budget is provided in the table below.

	<u>Total Cost</u>	<u>County HOME</u>	<u>Good Sam</u>
Acquisition	445,000	445,000	
Rehabilitation	54,000	30,000	24,000
TOTAL	499,000	475,000	24,000

An itemized rehabilitation budget is provided in Attachment H. The purchase price is supported by two separate appraisals obtained by Good Sam and Life Steps.

The maximum rent permitted by HOME regulations is seventy-five percent (75%) of the Fair Market Rent (FMR) for an efficiency unit as published annually by HUD for the Santa Barbara-Santa Maria-Goleta Metropolitan Statistical Area (MSA). The most recent published FMR (2015) is \$1,060 for an efficiency unit. However, due to the very low incomes of the population served by Good Sam, the actual projected rent paid by each low-income tenant occupying 5 of the bedrooms is projected at \$475 per month, without subsidy for a total of \$28,500 per year. (The house manager will not pay rent as part of his/her compensation package). However, Good Sam is working with the County Housing Authority to obtain Veterans' Affairs Supportive Housing (VASH) rent subsidies, a type of Section 8 rental assistance, for the tenants, which will provide an estimated annual income of \$48,000 to the property. Rent may increase annually as published by HUD, or as provided by the VASH program, but is projected for underwriting purposes to increase 2% per year. Total operating expenses are projected to be about eighty-percent (80%) of the gross income of the property. After payment of operating expenses, the net operating income is projected in the first year to be about \$7,000 - \$8,000 per year. In

addition to usual and customary property management expenses, Good Sam anticipates other expenses, such as delivery fees, costs of transportation, and other similar expenses. Given the negligible amount of projected annual net income, or residual receipts, and the costs for HCD to service a residual receipt loan, HCD staff recommends a zero-interest loan, forgiven in full at year 15, provided that the Property remains in compliance with the HOME Regulatory Agreement. If the Property is sold after year 15, the uses of the proceeds are governed by the Internal Revenue Code Section 501(c) (3).

HCD staff convened the County’s Capital Loan Committee on April 6, 2016 and the Committee concurred with HCD staff recommendations that \$475,000 in HOME funds be provided to Good Sam to purchase and rehabilitate the Property and that the funds be provided in the form of a loan, with a 0% interest rate, payments deferred, and the loan forgiven in full at year 15. The 15-year compliance period is the minimum period required by HUD.

**Performance Measure:**

The Property will be monitored annually and a site visit conducted at least every three years to assure continued compliance with the HOME Regulatory Agreement, specifically with regard to compliance with tenant income and rent limits, and property standards for the duration of the 15-year affordability period.

**Fiscal and Facilities Impacts:**

The County has sufficient HOME funds to fund this project. The funds earmarked for this project are HOME funds that are subject to recapture by HUD if not committed by signed agreement by July 31, 2016. The estimated cost to monitor this project is \$1,000 per year, which will be charged to Good Sam.

**Fiscal Analysis:**

<b><u>Funding Sources</u></b>	<b><u>Current FY Cost:</u></b>	<b><u>Annualized On-going Cost:</u></b>	<b><u>Total One-Time Project Cost</u></b>
General Fund			
State			
Federal	\$ 475,000.00		\$ 475,000.00
Fees			
Other:			
Total	\$ 475,000.00	\$ -	\$ 475,000.00

**Key Contract Risks:**

In the event of non-compliance with the HOME Regulatory Agreement, the County could be a risk of repayment of HOME funds to HUD from non-federal sources. HCD will conduct on-site monitoring of the Property at least every three years and will annually review the year-end financial statements of the Property and Good Sam, owner, to assure continued financial feasibility to operate the Property. The County’s loan will be secured by a Deed of Trust and the County will have the option to call the loan and/or foreclose if the Property is determined to be out of compliance with the HOME Regulatory

Agreement. HCD staff has evaluated the risks associated with the Property and determined that such risks are within industry standards and that there are safeguards in place to prevent or mitigate risks.

**Staffing Impacts:**

Current HCD staff will monitor the Property for the fifteen-year HOME compliance period until 2031, which exceeds the County's 1994 grant affordability period, which expires in 2024.

**Special Instructions:**

Please provide one original, with wet signatures, of each document listed below to Lucy Graham ext. 3533 or Laurie Baker ext. 3521. Please call for pick up.

1. Assignment and Assumption of Grant Agreement
2. HOME Loan Regulatory Agreement
3. HOME Loan Agreement
4. HOME Loan Promissory Note
5. HOME Loan Deed of Trust

Document numbers 1, 2 and 5 will be recorded in the County's real estate records by the escrow company handling the closing of the sale of the Property. Please mark the copies to be retained in the COB's records that those documents are not to be recorded. Thank you.

**Attachments:**

- ATT A: FY 2014-15 Action Plan Substantial Amendment
- ATT B: HOME Loan Agreement
- ATT C: HOME Loan Promissory Note
- ATT D: HOME Loan Deed of Trust
- ATT E: HOME Loan Regulatory Agreement
- ATT F: Assignment and Assumption of Grant Agreement
- ATT G: CEQA NOE
- ATT H: Rehabilitation Budget
- ATT I: 1994 Grant Agreement