



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 and Community
Development
Department No.: 055
For Agenda Of: 5/11/21
Placement: Administrative
Estimated Tme:
Continued Item: No
If Yes, date from:
Vote Required: Majority

TO: Board of Supervisors
FROM: Department George Chapjian, Director, (805) 568-2485
Director(s)
Contact Info: Dinah Lockhart, Deputy Director, 568-3523
Laurie Baker, Grants and Program Manager, 568-3521
SUBJECT: Approval and Execution of Loan Documents for Isla Vista Apartments affordable
housing project (Supervisory District 3)

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 an original and duplicate originals of the following documents, which relate to a loan of One Million One Hundred Seventy Thousand Dollars (\$1,170,000) in Low Moderate-Income Housing Asset Funds to Isla Vista Apartments, L.P. for rehabilitation of Isla Vista Apartments in Isla Vista:
 1. County LMIHAF Loan Agreement (Attachment A);
 2. County LMIHAF Loan Promissory Note (Attachment B);
 3. County Deed of Trust, Assignment of Rents, and Security Agreement (Attachment C);
and
 4. County LMIHAF Regulatory Agreement (Attachment D) (together, the County LMIHAF Loan Documents);
- B) Approve and authorize the Chair of the Board of Supervisors to execute an original and duplicate originals of the CitiBank, N.A., Subordination and Intercreditor Agreement (Attachment E) subordinating the County's existing HOME Deed of Trust and Regulatory Agreement, existing RDA Deed of Trust and Regulatory Agreement, as well as the LMIHAF Loan Documents listed

above, to a construction loan being provided to the project by CitiBank, N.A., in a total amount not to exceed, \$13,812,153 which will be reduced to a permanent loan not to exceed \$5,181,000;

- C) Approve and authorize the Chair of the Board of Supervisors to execute an original and duplicate originals of the following assignment agreements:
- a. Assignment, Assumption and Modification Agreement (Attachment G), assigning the County's existing RDA loan from Peoples' Self-Help Housing Corporation to Isla Vista Apartments, L.P. and extends the term of the County's existing RDA loan for the project by fifty-five (55) years; and
 - b. Assignment and Assumption Agreement (Attachment H), assigning the County's existing HOME loan from Peoples' Self-Help Housing Corporation to Isla Vista Apartments, L.P.
- D) Delegate authority to the Director of the Community Services Department, or designee, to execute, on behalf of the County, the following documents related to a Joint Easement and Use Agreement (Easement Agreement) for a shared driveway between Peoples' Self-Help Housing Corporation and [Picasso Investments](#), an adjacent property owner:
- a. A consent to the Easement Agreement, in a form subject to County Counsel concurrence; and
 - b. A subordination agreement that subordinates the County's existing 1999 HOME and RDA Loan Deeds of Trust to the Easement Agreement, in a form subject to County Counsel concurrence; and
- E) Determine that the recommended actions are exempt from the California Environmental Quality Act (CEQA) pursuant to CEQA Guidelines Sections 15301(a), (d) and (f), finding that the project consists of the repair, maintenance, permitting, leasing, licensing, or minor alteration of existing private structures involving negligible or no expansion of existing or former use, and direct staff to file a notice of exemption on that basis (Attachment F).

Summary:

On March 10, 2020 the Board approved a reservation of Low- Moderate- Income Housing Asset Funds, in an amount not to exceed \$1,000,000, for the Isla Vista Apartments Rehab Project (the "Project"), contingent upon an award of low-income housing tax credits (Attachment I). The Project was awarded tax credits and Staff is now returning to the Board to consider approval of a final commitment of funds through the execution of loan and regulatory documents. The additional \$170,000 over the \$1,000,000 March 10, 2020 reservation amount, for a total LMIHAF Loan amount of \$1,170,000, is attributable to the one very low income 30% AMI restricted unit by the County and offsets the reduced bank loan amount due to the reduction in rent income from the 30% AMI unit. Also, this very low-income unit will help the County meet its annual reporting requirements for development of housing units using LMIHAF dollars, but was not included in the initial underwriting of the Project.

In connection with closing on the County's loan, the proposed Subordination Agreement (Attachment E) subordinate the County's loan priority to CitiBank's construction and permanent financing loans for the Project.

The proposed Assignment, Assumption and Modification Agreement and Assignment and Assumption Agreement (Attachments G and H), will amend the existing 1999 County HOME and Redevelopment

Agency loan agreements, regulatory agreements, notes and deeds of trust to reflect the transfer of ownership from Peoples' Self-Help Housing Corporation (PSHHC) to Isla Vista Apartments, L.P. The County Redevelopment Agency loan agreement and promissory note are also being modified to extend the loan term for an additional fifty-five (55) years which aligns with the term of the proposed new LMIHAF Loan Agreement (Attachment A) and Regulatory Agreement. Extending the term of the RDA Loan Agreement will extend date all payments are due, currently approximately \$907,063 principal and \$376,582 interest (simple 3%). The forty (40) year term of the 1999 Redevelopment Agency Regulatory Agreement and 1999 County HOME Regulatory Agreement will remain unchanged, which will end shortly before the new LMIHAF Regulatory Agreement's 55-year affordability restriction.

The consent and subordination to the Joint Easement and Use Agreement, as required by the County's HOME and RDA Loan Agreements and Deeds of Trust, ensures the continued shared use of a drive-way on the Property to enable tenants of an adjacent property to continue to access off-street parking. A substantially similar form of the Joint Easement and Use Agreement is included as Attachment J. The recommended LMIHAF Deed of Trust will be recorded after the Joint Easement and Use Agreement and therefore be in a junior loan position. The consent and/or subordination agreement to the Joint Easement and Use Agreement that this Board Letter recommends the Director of Community Services Department be delegated the authority to execute, will be subject to review and approval by County Counsel.

Background:

The Project is located at 6660 Abrego and 6650 Abrego/6651 Picasso, Isla Vista, County of Santa Barbara, California (the "Property"). On December 14, 1999, the County executed loan documents with Peoples' Self-Help Housing Corporation for acquisition and rehabilitation of affordable rental units on the Property. Since 1999, the Property has provided affordable housing to individuals and families in the County, but after almost 20-years, additional repairs and rehabilitation work is needed. Specifically, the Property's plumbing, sewer, and structural (seismic) systems need replacement. The use of the LMIHAF to help finance the rehab of the Property will ensure the ongoing availability of affordable units for families in the Isla Vista community.

As successor to the Santa Barbara County Redevelopment Agency, the County of Santa Barbara administers the Low- and Moderate-Income Housing Asset Fund (LMIHAF). There is approximately \$1,610,635 available to use for improving, increasing, and preserving the supply of low- and moderate-income housing in the Isla Vista community. Therefore, there are sufficient LMIHAF funds for the recommended actions. The Assignment, Assumption and Modification Agreement recommended for approval by this Board Letter (Attachment G) extends the term of the existing Santa Barbara County Redevelopment Agency (RDA) Loan and Promissory Note (RDA Loan Documents) for an additional fifty-five (55) years. The extended term of the RDA Loan and the 55-year term of the new LMIHAF Loan will therefore run concurrently. The County's LMIHAF Regulatory Agreement will subject the Property to a fifty-five (55) year affordability term from issuance of a Certificate of Occupancy for the rehabilitated project.

Performance Measure:

County HOME and Redevelopment Agency (RDA) funds were provided toward the development of the Project in 1999. The recommended actions would assign the RDA and HOME loan documents from Peoples' Self-Help Housing to the new tax credit limited partnership entity, Isla Vista Apartments, L.P.

and provide additional Low Moderate-Income Housing Asset Funds for rehabilitation of the Project and ensure its ongoing affordability for another fifty-five (55) years.

Fiscal and Facilities Impacts:

Budgeted: N/A

Fiscal Analysis:

<u>Funding Sources</u>	<u>Current FY Cost:</u>	<u>Annualized On-going Cost:</u>	<u>Total One-Time Project Cost</u>
General Fund			
State			
Federal			
Fees			
Other: LMIHAF			\$ 1,170,000.00
Total	\$ -	\$ -	\$ 1,170,000.00

Key Contract Risks:

The Project will rehabilitate 56 units of affordable rental housing inclusive of one manager’s unit. In connection with the County LMIHAF Loan Documents, one unit will be restricted to households at or below 30% AMI, and two units will be restricted to households at or below 60% AMI for a period of 55 years. The property is already subject to County HOME (11 units) and RDA (27 units) affordability restrictions through 2041. HCD staff will continue to monitor the Project for affordability compliance. A Regulatory Agreement will be recorded against the property and will provide the County with the means of enforcing the LMIHAF affordability restrictions.

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. Since FY 2014, the County has received over \$1.4M in residual receipt payments from Peoples’ Self-Help Housing from similar loan agreements.

The County’s Deeds of Trust and Regulatory Agreements will be subordinate to senior construction and permanent loans. CitiBank is providing a construction loan in an amount not to exceed \$13,812,153 which will be reduced to a permanent loan not to exceed \$5,181,000. The California Department of Housing and Community Development has a regulatory agreement on the Property to provide for farmworker housing through September 14, 2021 which will remain in a senior lien position to the

County LMIHAF Loan until it expires. Approval and execution of a CitiBank Subordination Agreement (Attachment E) is included in the Recommended Actions.

In the event of foreclosure by a senior lender and sale of the Property, the senior loan will be repaid prior to the County. If there are sufficient funds after payment of the senior lien(s), then the County's loan will be paid. The County's LMIHAF, the existing HOME, and the existing RDA Regulatory Agreements would be extinguished in a foreclosure by 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 credit program. 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 LMIHAF funds to the Project will necessitate regulatory monitoring by County staff at current staffing levels and fiscal monitoring for the 55-year term of the loan and regulatory agreement. 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:

1. Please have the Board Chair sign TWO (2) originals of each Attachment, except that only one (1) original of Attachment B needs to be signed by the Board Chair.
2. Please return one set of the executed original documents (except that there is only 1 original Promissory Note – Attachment B - and HCD will accept a copy) and a copy of the Minute Order to Ted Teyber Please email or call when ready for pick up: eteyber@co.santa-barbara.ca.us Ext. [3513](tel:3513).
3. Please retain one set of the executed original documents (including the Promissory Note) listed below for COB records.

This is a time-sensitive item with a scheduled closing date with First American Title. Please expedite the execution and delivery of the documents. Please call with questions or if additional information is needed.

Attachments:

Attachment A: County LMIHAF Loan Agreement

Attachment B: County LMIHAF Loan Promissory Note

Attachment C: County Deed of Trust, Assignment of Rents, and Security Agreement

Attachment D: County LMIHAF Regulatory Agreement

Attachment E: CitiBank, N.A., Subordination and Intercreditor Agreement

Attachment F: Notice of Exemption

Attachment G: Assignment, Assumption and Modification Agreement

Attachment H: Assignment and Assumption Agreement

Attachment I: 3/10/2020 Minute Order & Board Letter

Attachment J: Joint Easement and Use Agreement