



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: 6/15/21
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 of Subordination Agreement on Central Plaza affordable housing
project (Supervisory District 5)

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 Director of the Community Services Department, or designee, to execute, on behalf of the County, a Subordination Agreement, in a form substantially similar to the attached Subordination Agreement and subject to County Counsel concurrence, that subordinates the County's Permanent Deed of Trust, Assignment of Rents and Security Agreement recorded on March 31, 2005, as Instrument No. 2005-0029589 in Official Records to a Deed of Trust securing PacWest's Construction and Permanent Loan for the Property in an amount up to \$35,000,000; and
- B) Determine that the recommended action is 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.

Summary:

The County of Santa Barbara provided a HOME loan in the amount of \$1,594,607 to Central Plaza Housing Partners, L.P. in 2005 in connection with its acquisition and renovation. The County HOME

loan was recently prepaid in full and the Housing Authority is now rehabilitating the property. The construction lender for the rehab project requires, as a condition of providing the loan, that the County subordinate the County's Performance Deed of Trust. This deed of trust secured the HOME loan as well as the County's remaining 2005 HOME Regulatory Agreement to the Construction and Permanent Deed of Trust. The County's 2005 HOME Regulatory Agreement ensuring ongoing affordability of the units will remain in a senior lien position to the construction and permanent loans. The property will also be subject to other affordability regulatory agreements, including one from the California Tax Credit Allocation Committee, which will extend to fifty-five years.

Background:

The project is located at 200 North McClelland Street in the City of Santa Maria. Central Plaza Apartments is a 112-unit multifamily apartment project for rent to low income families located in Santa Maria, California. It was originally constructed in 1976 and renovated in 2005. It is again in need of substantial renovation and improvement. The County of Santa Barbara provided a HOME loan in the amount of \$1,594,607 to Central Plaza Housing Partners, L.P. in 2005 in connection with the 2005 renovation.

In connection with securing low-income housing tax credits and tax-exempt bonds for the rehab project, the property will be acquired by Central Plaza Resyndication, L.P (Partnership). The Housing Authority and its affiliated nonprofit, Surf Development Company, are the general partners of the Partnership. The Partnership will receive a construction loan from PacWest Bank in the amount of \$34,000,000, which will be reduced to a Permanent Loan from PacWest in the amount of \$22,000,000 upon completion of the renovation and other improvements. The total amount of renovations and improvements to the property will be approximately \$16,000,000.

Performance Measure:

County HOME funds were provided toward rehab of the project in 2005. The recommended action would subordinate the HOME loan Deed of Trust, which secures the County's Regulatory Agreement (Performance Deed of Trust) to the construction and permanent loan for rehab of the project. The County's 2005 Regulatory Agreement would remain in a senior position on title to ensure ongoing affordability of the County units, along with other non-County regulatory agreements recorded against the property such as the State Tax Credit Allocation Committee's affordability restrictions.

Fiscal and Facilities Impacts:

Not Applicable

Fiscal Analysis:

Not Applicable

Key Contract Risks:

By approving the Subordination of the County's 2005 Deed of Trust, the County's Deed of Trust will be in a junior position should it foreclose for non-conformance with the County's affordability restrictions. Foreclosure under these circumstances would mean the County would take title subject to the senior

loan, which might require repayment of the then balance of the senior loan. However, the County's 2005 Regulatory Agreement will remain in its existing lien priority, which runs with the land, to ensure the ongoing affordability of the property. A foreclosure of the senior lien would terminate the County's Deed of Trust but not the Regulatory Agreement.

Staff has evaluated the risks associated with the Subordination Agreement 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 rehab has been fully vetted and underwritten by the tax credit investor(s).

In addition, the construction lender has fully vetted and underwritten the rehab project and determined that the costs are reasonable and within industry standards and that the project will generate sufficient revenue to operate successfully.

The property has permanent rent subsidies from HUD directly and from the County Housing Authority through HUD, which guarantees rent income to the property. Given the layering of affordability restrictions, rent subsidies, and the track record of the County Housing Authority, staff considers the recommended actions as low-risk.

Staffing Impacts:

Not Applicable

Special Instructions:

Please return a copy of the Minute Order to Ted Teyber Please email or call when ready for pick up: teyber@co.santa-barbara.ca.us Ext. 3513.

This is a time-sensitive item. Please call with questions or if additional information is needed.

Attachments:

A. Form of Subordination Agreement