



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: October 19, 2021
Placement: Administrative
Estimated Time: N/A
Continued Item: No
If Yes, date from:
Vote Required: Majority

TO: Board of Supervisors
FROM: Department George Chapjian, Community Services Director (805) 568-2467
Director(s)
Contact Info: Dinah Lockhart, Deputy Director (805) 568-3523
Laurie Baker, Manager (805) 568-3521
SUBJECT: Approve and authorize execution of Loan Documents for Inclusionary Housing Ordinance (IHO) In-Lieu funds to Owners of El Zoco Apartments affordable housing project (Project) in Santa Barbara (Supervisory District 2).

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:

- A. Approve and authorize the Community Services Department Director, or designee, to execute substantially similar forms of the following documents, subject to County Counsel review and concurrence, to provide up to six loans totaling an amount up to Two Hundred Thousand Dollars (\$200,000) in County Inclusionary Housing Ordinance (IHO) In-lieu funds for rehabilitation of the El Zoco Apartments affordable housing project at 211 W. Gutierrez St., Santa Barbara, California (the "Property"). Note that the Promissory Note is signed by the Borrower only:
 - a. County Affordable Housing Covenant (Attachment A), ensuring the ongoing affordability of the County-assisted units;
 - b. County Deed of Trust, Assignment of Rents, and Security Agreement (Attachment B), securing the County's loan amount;
 - c. County Loan Promissory Note (Attachment C), securing the County's loan amount; and
- B. Determine that the recommended actions are part of a project that is exempt from the California Environmental Quality Act (CEQA), pursuant to CEQA Guidelines Section 15301 finding that the proposed project consists of the operation, repair, maintenance, permitting, leasing, licensing, or minor alteration of existing public or private structures involving negligible or no expansion of existing or former use (Attachment D).

Summary Text:

The Board is being asked to approve six (6) loans to provide a combined \$200,000 to low-income members of the El Zoco Homeowners Association (HOA) to partially fund immediate rehab needs and restore capital reserves managed by the HOA for future capital needs. The County In-Lieu funds recommended for approval by this Board Letter would come from in-lieu funds in the Unrestricted Housing Market Area. The City of Santa Barbara is also providing a combined \$200,000 to members of the HOA between 80% - 200% Area Median Income (AMI).

Each homeowner at the property (17 total) will be assessed by the HOA to cover the immediate rehab needs and replenish reserves. City and County loans will be provided to the HOA for income-eligible homeowners portion of the special assessment with three percent interest, fully amortized with a 30-year term. Each loan will be secured by a recorded Deed of Trust and Affordable Housing Covenant, ensuring the ongoing affordability of the units. The County and City have collaborated to have common loan terms for the project.

The immediate rehab needs include without limitation, restoring Unit 5 to habitability, sealing exterior walls and parapets to prevent water intrusion, and structural repairs to common areas. El Zoco has sustained extensive water damage and deterioration and the HOA has depleted its reserves paying for partial repairs of the common area and relocation assistance for the owner of Unit 5. Any remaining HOA funds from the Special Assessment will be used to replenish capital reserves for future needs.

Background:

El Zoco is a 17-unit condominium complex developed in 1993 by Homes For People, Inc., which is no longer in existence. All 17 units were developed as affordable condominium units intended for artists and restricted for sale to Moderate-Income households. Originally, all 17 units had 30-year affordability control covenants. The County provided \$10,000 down payment assistance HOME loans for ten of the initial owners. Six of those original owners are still in their unit and two are still making payments on the County loan. At present, 16 units continue to have recorded affordability covenants with varying affordability periods ranging from three to 89 years. Many of the units have transferred ownership over the years, and the City has been successful in recording long-term affordability covenants at resales. One unit was sold under foreclosure years ago, therefore, it has no affordability restrictions.

Of the 16 units with affordability restrictions, four units are able to provide their own financing or do not qualify for the special assessment loans from the County or City. Of the remaining 12 units, the County will provide six loans to borrowers with incomes that are 80% AMI and below, and the City will provide six loans to borrowers with incomes between 80 and 200% AMI.

The El Zoco Homeowners Association (HOA), a California nonprofit mutual benefit corporation, is composed of the owners of all 17 condominium units in the development. El Zoco has sustained extensive water damage and deterioration to the common areas of the development, as well as to the interior and exterior walls of one unit (Unit 5) rendering it inhabitable. The HOA has depleted its reserves paying for partial repairs of the common area and relocation assistance for the owner of Unit 5. As a result, the HOA has insufficient funds to pay for the immediate additional repairs needed in the near term and to replenish its capital reserves for future needs.

The Housing Authority of the City of Santa Barbara assisted in reviewing construction bids for the repair work. A Reserve Study was conducted by J.D. Brooks which informs the HOA of future capital needs, estimated costs, and timelines. The Housing Trust Fund of Santa Barbara County (SB HTF) assisted in the analysis of the Study. Habitat for Humanity of Southern Santa Barbara County has also been reviewing ways its existing Home Repair Program may lend support and resources to low-income homeowners at El Zoco. This team (City, County, City Housing Authority, Habitat, and Housing Trust Fund) collaborated on a solution which lead to the recommended \$200,000 County IHO In-Lieu loan recommended for approval by this Board Letter, in conjunction with a \$200,000 City loan. The County In-Lieu funds recommended for approval by this Board Letter would come from the Unrestricted Housing Market Area.

Performance Measure:

Before the County executes loan documents, the El Zoco HOA will vote to approve a special assessment in the amount of \$520,000 for necessary rehabilitation work, payable by each homeowner within 30 days of the approval of the assessment. County Loans would cover income eligible owners' portions of this assessment. The City Housing Authority will oversee the rehabilitation work and submit invoices to the County for completed work and document that costs are eligible.

Contract Renewals and Performance Outcomes:

The City will monitor the units to ensure that both the City and County assisted units comply with regulatory requirements. The County's Affordable Housing Covenant states that in the event that the City does not enforce the terms of the City's Affordability Covenant, the County can step-in and take over their enforcement and monitoring responsibilities. A new affordability covenant will be recorded on each unit receiving a County loan. The new covenants will only reflect the difference in years needed to total the City's required 90 years. For example, if an owner has already completed 27 years under their existing covenant, a new covenant for 63 more years will be recorded. HCD fiscal staff will collect loan payments from the borrowers. Loans are repayable in full upon sale or transfer of the property, or if the owner fails to occupy their home as their principal place of residence.

Fiscal and Facilities Impacts:

Budgeted: Yes

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: IHO In-Lieu			\$ 200,000.00
Total	\$ -	\$ -	\$ 200,000.00

Narrative:

Key Contract Risks:

The City of Santa Barbara’s covenant will ensure the affordability of all units benefitting from a City or County loan for 90-years. The City will monitor the units to ensure that both the City and County assisted units comply with regulatory requirements. The County’s Affordable Housing Covenant (Attachment A) states that in the event that the City does not enforce the terms of the City Covenant (Attachment D), the County can step-in and take over their enforcement and monitoring responsibilities. Once recorded, the City and County’s Covenants will “run with the land” and bind future owners of the property. Both the deed of trust and affordable housing covenant will be in subordinate recording position to existing senior mortgage debt.

Staffing Impacts:

Legal Positions:

FTEs:

The current requested activity falls within currently HCD budgeted staff duties.

Special Instructions:

- 1) Please email a copy of the Minute Order to Ted Teyber: eteyber@co.santa-barbara.ca.us Ext. 83513.

Attachments:

- A. County ‘Interim’ Affordable Housing Covenant
- B. County Deed of Trust
- C. County Promissory Note
- D. City Restrictive Covenant
- E. CEQA NOE

Authored by: Ted Teyber, Sr., Housing Program Specialist

cc: Laurie Baker, Grants Program Manager