



CITY OF SANTA BARBARA

FINANCE COMMITTEE AGENDA REPORT

AGENDA DATE: February 11, 2014

TO: Finance Committee

FROM: Administration, Housing and Human Services Division, Community Development Department

SUBJECT: Loan Restatement Request On Property Located At 424-430 Rancheria Street ("Rancheria Village Apartments")

RECOMMENDATIONS: That Finance Committee recommend that Council:

- A. Approve a Restatement and Subordination of the 1994 Loan Agreement Funded with Redevelopment Agency Housing Set-aside Funds;
- B. Approve a Restatement and Subordination of the Deed of Trust to secure the Restated Loan;
- C. Approve a New Affordability Housing Covenant with an Extended Term of an Additional 45 Years; and
- D. Authorize the Community Development Director to execute, subject to approval as to form by the City Attorney, such agreements and related City documents as necessary.

DISCUSSION:

Background:

In 1994, the former Redevelopment Agency of the City of Santa Barbara (RDA) provided Rancheria Village Apartments, a California limited partnership, a residual receipts loan in the amount of \$560,000 ("City Loan"). These funds were combined with Low Income Housing Tax Credits ("LIHTC") to acquire the real property and construct housing units located at 424, 428, and 430 Rancheria Street (Project). In conjunction with this Loan Agreement, a 30 year Covenant was executed that restricted the rents and incomes of all of the tenants. The Project consists of three buildings with a total of fourteen low and very low income family rental units. The Project has 8 two-bedroom units, 5 three-bedroom units and 1 four-bedroom unit.

Current Restatement Request:

The Project's general partners, Frank Thompson, Bob Pershadsingh, Peter Koelsch and Community Housing Assistance Program, Inc. have approached the City with a proposal to acquire the Property from the Project's limited partner 1995 WNC California Housing Tax Credits IV, L.P. Series 4 ("Seller") for \$1,585,000. The new owner would be Mariana Ranch Associates, LP, comprised of Frank Thompson, Bob Pershadsingh, Peter Koelsch and Riverside Charitable Corporation as non-profit managing general partner who is affiliated with Community Housing Assistance program, Inc. ("Buyer").

This proposal requests that the City allow the City Loan to be assumed by the Buyer and subordinated to new purchase money financing from Montecito Bank and Trust (MB&T). In addition, the Buyer is requesting a 20-year extension of the City Loan term from 2024 to 2044. In exchange, the Buyer has agreed to modify the payment terms of the City Loan to provide for amortized payments over 30 years which results in a monthly payment to the City of \$4,363.58.

Financing Details:

The appraised value of the Property is \$1,585,000, which is also the acquisition price. The total amount borrowed under this proposal slightly exceeds the acquisition due to transaction costs. Initially there will be no equity; however, because both loans require fully amortized payments, the combined loan-to-value will quickly decrease. For example, after five years the total outstanding debt on the Property is reduced by \$184,000 to a combined loan-to-value of 90%.

Before:

Pacific Life First Mortgage:	\$ 315,000 (4.3%, 12yrs remaining) (\$2,594/month)
City Loan:	<u>\$1,014,818</u> (3%, 9 yrs remaining) (\$1,862.42/month)
Total:	\$1,329,818

After:

MB&T First Mortgage:	\$ 623,000 (5.5%/25yr) (\$3,685/month)
City Loan	<u>\$1,014,818</u> (3%/30yr) (\$4,363.58/month)
Total:	\$1,637,818

The restated loan will be fully amortized to include both principal and interest; therefore, the City will receive a \$4,363.58 monthly payment for the next 30 years. Currently, the City is receiving \$1,862.42 per month due to positive "residual receipts" from 2012. However, this payment is variable each year and not guaranteed. In addition, the existing loan terms utilize simple interest in calculating the rate of return. This means the City is receiving no interest income on the interest portion of the loan, currently \$454,818. The restated loan will provide the City with \$1,540,265 of total payments over 30 years; this includes \$525,447 of interest income.

Under this proposal, both the MB&T First Mortgage and the City Loan will have larger payments. The Project is currently generating approximately \$100,000 of net operating income per year, which provides sufficient positive cash flow to meet these obligations. Title reports covering the property show no defects to title. At the close of this transaction, First American Title Company will issue its lender's policy insuring the City in the amount of the restated City Loan (approximately \$1.014 million).

Long-term Affordability

The City's Affordability Covenant will be extended 45 years to expire in 2069 which is 25 years after the City loan is paid-off in 2044. The Tax Regulatory Agreement due to the issuance of LIHTCs on this Property expires in 2051. Therefore, the City's Affordability Covenant extends the Project's affordability an additional 18 years to 2069. The Rancheria Village project is extremely well maintained and has always been in full compliance with the City's affordability and reporting requirements.

BUDGET/FINANCIAL INFORMATION:

If the City declines to approve this request, the Property will be sold to another entity and the City Loan totaling approximately \$1.1 million will be paid-off. The City's Affordability Covenant will expire in 2024 and there could be a change in current property management team due to new ownership.

Alternatively, if the City approves the loan restatement as requested, the City will receive fixed monthly payments secured by a deed of trust on the property in the approximate amount of \$4,363. The City will earn additional interest income in the amount of \$525,447 and the Affordability Covenant will be extended to expire in 2069.

Staff is recommending that the Finance Committee recommend approval of the loan modification because it requires no new money from the City, it provides increased fixed monthly payments over the term of the City Loan and it provides an extended affordability term.

With the dissolution of the Redevelopment Agency, it is important to have long term, stable, sources that generate funds to pay for on-going monitoring and enforcement of the City's affordable housing program's inventory.

ATTACHMENT: Project Proposal

PREPARED BY: David Rowell, Project Planner/SLG/DR

SUBMITTED BY: Bettie Weiss, Acting Community Development Director

APPROVED BY: City Administrator's Office

**Frank Thompson, Bob Pershadsingh, Peter Koelsch and
Community Housing Assistance Program, Inc.
3005 State Street #B
Santa Barbara, CA 93105**

December 2, 2013

Mr. David Rowell, Housing Programs Supervisor
City of Santa Barbara
630 Garden Street
Santa Barbara, CA 93101

RE: Rancheria Village Apartments, 424-430 Rancheria Street

Dear Mr. Rowell,

Please accept this letter request for approval of our plan to transition the ownership of the Rancheria Village Apartments, refinance the development, restructure and extend the existing City loan agreement and extend the housing affordability restrictions for the units.

Rancheria Village Apartments includes 14 apartments for families and large families, approved in 1994, constructed in 1995, and operated since 1996 as housing available to low and very low income families. The project benefited from a City Redevelopment Agency loan in the principal amount of \$560,000, and was one of the first generation in the City to utilize low income housing tax credits. The initial 15 year compliance period for the federal tax credits in the project passed in July, 2011, although the owner has continued to observe all requirements for low income compliance.

The original tax credit buyer, as the limited partner, 1995 WNC California Housing Tax Credits IV, L.P. Series 4, would now like to depart the partnership, and has the right to force the sale of the project. The general partners, including Community Housing Assistance Program, Inc. (the non-profit managing general partner) Frank Thompson, Bob Pershadsingh and Peter Koelsch would like to remain as partners and owners of the development. It is proposed that a new entity, Mariana Ranch Associates, LP, composed of Frank Thompson, Bob Pershadsingh, Peter Koelsch and Riverside Charitable Corporation (as non-profit managing general partner affiliated with Community Housing Assistance Program, Inc.) accept a transfer of the title to the development. The appraised value of the development, which will constitute the transfer price, is \$1,585,000.

In addition to the purchase price, there are costs for escrow, title, operating cash reserve, elective termite work, financing fees and other related costs in the amount of \$52,818, for a total cost to be financed of \$1,637,818.

It is proposed that the following financing sources be employed to finance this transaction, as follows:

New First Trust Deed Loan (local bank)	\$ 623,000
Assume Existing City Loan (principal)	\$ 560,000
<u>Assume Accrued Interest City Loan (estimated as of Jan. 31, 2014)</u>	<u>\$ 454,818</u>
Total Financing:	\$ 1,637,818

The existing first trust deed on the property has a remaining balance of approximately \$310,000. Current monthly payments approximate \$2,594.

Under the proposed financing, the new \$612,818 first trust deed would have monthly payments of \$3,685, an increase of \$1,091 per month over the existing first trust deed. City loan payments during 2013 were \$1,862.42 per month. Under the proposed financing, City loan payments would be \$4,363.58 per month each month for the following 30 years, to amortize the existing loan balance with accrued interest of \$1,014,818. The current fully amortized loan payment under the 1994 note and deed of trust is \$2,837.44. The difference between the two payment schedules and projected increase per month will be \$1,526.14 per month.

In recent years, Rancheria Village Apartments has generated effective gross income in the amount of approximately \$205,000 per year, against operating expenses of approximately \$105,000, leaving approximately \$100,000 of net operating income. This has typically been allocated as \$31,128 for first trust deed loan principal and interest, \$22,349 for City second loan payments, and approximately \$30,000 for capital repairs, with reserve accumulation of approximately \$16,525 each year.

An increase in rent levels has been approved for 2014, and the comparable figures are projected as \$215,000 effective gross income, \$105,000 operating expenses including reserves, net operating income of \$110,000, of which \$44,214 would constitute payments of principal and interest to the first trust deed, a coverage ratio of 249%, with \$52,363 for City loan payments (combined coverage ratio of 115%), and distributions of net income of approximately \$13,425.

The borrower is willing to extend the low and very low income rental restrictions from their current expiration date of June, 2024 to January of 2069, an extension of 45 years, in connection with this transaction.

The borrower is also in negotiations with Transition House to make vacant units as they come available to Transition House referred tenants, graduating from the shelter and transitional housing programs. Negotiations center on the ability of Transition House to provide supportive services to their tenant referrals. The option to utilize a new allocation of low income housing tax credits in 2014 or later years is a part of the negotiations to provide mutual benefits and further improvements in energy efficiency and security, as well as supportive services, to tenants of the apartment complex.

We have provided our audit for 2012 operations, year to date 2013 unaudited financial statements, and our pro forma of operations for 2014 and the following 14 years for your review. We have also included copies of the preliminary title report and existing loan documents, as well as financial statements for the proposed partners in the transfer ownership entity. Please let us know if there is additional information you may require.

Sincerely,



Frank Thompson

As partner and housing consultant