



# CITY OF SANTA BARBARA

## COUNCIL AGENDA REPORT

**AGENDA DATE:** February 25, 2014

**TO:** Mayor and Councilmembers

**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 Council approve a Restatement and Subordination of the 1994 Loan Agreement funded with Redevelopment Agency Housing Set-Aside Funds, a Restatement and Subordination of the Deed of Trust to secure the Restated Loan, and a new Affordability Housing Covenant with an extended term of an additional 45 years, and 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,

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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 the 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.

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.

**Finance Committee Recommendation:**

On February 11, 2014, Council's Finance Committee reviewed and approved the recommendations of this report and forwarded them to the full Council with a recommendation for approval.

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

**SUBMITTED BY:** Bettie Weiss, Acting Community Development Director

**APPROVED BY:** City Administrator's Office