



CITY OF SANTA BARBARA

FINANCE COMMITTEE AGENDA REPORT

AGENDA DATE: May 6, 2014

TO: Finance Committee

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

SUBJECT: Loan Restatement Request On Property Located At 625-627 Coronel Place

RECOMMENDATION:

That Finance Committee consider and recommend that Council approve a restatement of the 1984 Loan Agreement Funded with Redevelopment Agency Housing Set-aside Funds 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 1984, the former Redevelopment Agency of the City of Santa Barbara provided Lower Westside Associates, a California limited partnership ("Partnership"), a residual receipts loan in the amount of \$585,000 ("Agency Loan") secured by the improvements located at 625-629 Coronel Place. At the time of the Agency Loan, the underlying real property was leased from another entity. In 1990, Coronel Place, Inc., a California nonprofit public benefit corporation ("Owner") acquired title to the real property and improvements ("Project"); paid accrued unpaid interest, and assumed the Agency Loan.

The Project consists of 2 apartment buildings providing twenty (20) rental units for low and moderate income households. It has 2 two-bedroom units, 10 three-bedroom units, 2 four-bedroom units and 6 five-bedroom units.

The Agency Loan (assumed by the City) is due and payable on July 17, 2014. There are very few 3, 4 and 5 bedroom affordable units in the City. In exchange for agreeing to extend the repayment term of the Agency Loan, the Owner has agreed to also extend the term of the affordability term for an additional 30 years.

Loan Restatement:

Currently the Owner is paying \$2,823 per month based upon project year 2013 Residual Receipts. The restated Agency Loan, with the City as the successor to the Agency ("City Loan") will provide as follows:

1. The maturity date will be extended 30 years to July 17, 2044. The interest rate will continue to accrue at 4.5% and the monthly payments will be first applied to the outstanding interest balance and then to principal.
2. Beginning January 1, 2015 the monthly payment will be \$4,525, or the calculated Residual Receipts payment, if greater.
3. Beginning December 1, 2020, after existing bond financing is paid in full, the monthly payment shall be increased to \$9,525, or the calculated residual receipts payment, if greater.
4. The allowed reserves included in the calculation of the residual receipts payment will be increased from 6% to 10% of the annual gross rental income. These additional reserves will provide a source of funds which will be used, as needed, to extend the useful life of the Project.

All other loan terms remain unchanged and the City Loan will remain subordinate only to the existing bond financing due to be paid in full in November 2020.

Loan Security

The City Loan will remain subject and subordinate only to bond financing that has a current balance of approximately \$725,000. A breakdown of current Project financing is as follows:

Bond Financing	\$ 725,000 (due 11/2020)
City of Santa Barbara	\$ 533,000 (due 07/2014)
LTD Partners	\$ 27,993 (due 12/2021)
SBCHC	\$ 288,876 (due 01/2024)
Total:	\$1,574,869

The City Loan will remain in second lien position with an estimated loan-to-value (“LTV”) of 9% based on a very conservative property valuation of \$6 million. The City Loan, plus all other financing on the Project, results in a combined LTV of 26%. Currently, the Owner is paying \$8,754 monthly on the existing bond financing which will be paid in full on November 15, 2020.

Based on the minimum monthly payments proposed, the City Loan will be paid in full on or before January 30, 2024, however as discussed below, the affordability provisions will remain in effect until July 2044.

Long-Term Affordability

The City previously restricted rents and occupancy of the units through the conditions outlined in the 1984 Agency Loan. To retain title priority of the affordability restrictions,

the City Loan will also incorporate the restricted rents and occupancy requirements of the Project for an additional 30 years until July 17, 2044.

In addition to extending the affordability term, the affordable restrictions shall provide that if upon annual review it is determined that a households' adjusted gross income has exceeded 120% of area median income (AMI), the tenant's monthly rent could increase to that amount equal to 1/12 of 30% of the households' income upon 90 days written notice. In such cases, however, the maximum rent charged the tenant will not exceed the Housing and Urban Development (HUD) published Fair Market Rents (FMR) or exception FMR, if applicable.

As stated above, this Project has very desirable 3, 4 and 5 bedroom units. It is hoped that this provision will encourage turnover in the larger units to accommodate a very long waiting list and maintain the required proportion of low-income units for larger households.

The Project is extremely well maintained and has always been in full compliance with the City's affordability and reporting requirements. Based on the modified payment schedule the City Loan will be paid in full by January 30, 2021 with the affordability restrictions continuing an additional twenty-five years beyond payoff, expiring July 17, 2044.

Benefits

The requested Loan Restatement Agreement benefits both the Owner and the City. The Owner benefits by being able to anticipate predictable project cash flow to facilitate the provision of quality affordable housing to current and future residents for the next several decades.

The City benefits by providing no additional funding, extending the affordability restrictions 30 years, and increasing the City Loan security. In addition, due to the demise of the RDA and its funding, these guaranteed payments will support the necessary monitoring and enforcement of the City's affordable housing program.

BUDGET/FINANCIAL INFORMATION:

The City will incur no costs in connection with this request. The current principal balance of the Agency Loan is approximately \$533,000.

ATTACHMENT(S): April 7, 2014 Request Letter from Santa Barbara Community Housing Corp.

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

SUBMITTED BY: Bettie Weiss, Acting Community Development Director

APPROVED BY: City Administrator's Office



SANTA BARBARA
COMMUNITY HOUSING CORPORATION

Providing Santa Barbara with Affordable Housing Since 1975

April 7, 2014

Mr. David Rowell
Project Planner
City of Santa Barbara
Community Development Department
630 Garden Street
Santa Barbara, CA 93101

Re: Modification of Loan Agreement for 625-627 Coronel Place, Santa Barbara, California

Dear David;

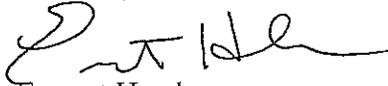
Pursuant to your previous discussions with Ms. Cynthia Young, Santa Barbara Community Housing Corporation would like to request the following modifications to the Loan Agreement for the real property identified as 625-627 Coronel Place, Santa Barbara, California.

1. The Loan Agreement shall be extended for a period of thirty (30) years, due on July 17, 2044;
2. Beginning January 1, 2015 the monthly payment shall be \$4,525.00, or the RDA calculated payment, whichever is greater;
3. The reserve account will be adjusted to ten percent (10%) of the Annual Gross Rental Income (the current reserve amount is six (6%) percent);
4. Current Bond financing will be paid in full on November 15, 2020, thereafter beginning December 1, 2020, SBCHC will pay \$9,525.00 per month, or the RDA calculated payment, whichever is greater.
5. Any request by SBCHC that the City of Santa Barbara consent to the subordination of all City owned debt and covenants to conventional financing, shall not be unreasonably withheld.
6. The following statement shall be added to Section 6 – Public Benefit of the Covenants: (d) If the household's certified income exceeds 120% of the median income, upon expiration of the household's lease and upon ninety days written notice, the rent may be increased to one-twelfth (1/12) of thirty percent (30%) of the household's adjusted income. The maximum rent will not exceed the HUD published fair market rent for the year the tenant is over 120% of median income.

The cooperation of the City of Santa Barbara will allow for the continued financial viability of the project and ensure that Santa Barbara Community Housing Corporation has the ability to provide well maintained affordable housing for an additional thirty years.

Thank you for your anticipated cooperation in this matter.

Sincerely,

A handwritten signature in black ink, appearing to read "Emmet Hawkes". The signature is fluid and cursive, with a large initial "E" and a long, sweeping underline.

Emmet Hawkes
Executive Director