



CITY OF SANTA BARBARA

COUNCIL AGENDA REPORT

AGENDA DATE: March 1, 2016

TO: Mayor and Councilmembers

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

SUBJECT: Loan Restatement Request On Property Located At 1018-1028 Castillo Street (Castillo Homes)

RECOMMENDATION: That Council:

- A. Approve a Restatement of a 1986 Loan Agreement funded with Redevelopment Agency Housing Set-aside Funds;
- B. Approve a Restatement of the Deed of Trust securing the Restated Loan Agreement;
- C. Approve Amendments to the Existing Affordability Covenant; 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 1986, the former Redevelopment Agency of the City of Santa Barbara provided South Coast Housing, Inc., a California nonprofit public benefit corporation ("Developer"), a residual receipts loan in the amount of \$597,000 at 4.5% simple interest ("City Loan"). The City Loan was used in conjunction with other financing for the construction of two apartment buildings at 1018-1028 Castillo Street, providing twelve (12) rental units for low-income senior households and twenty (20) rental units for moderate-income senior households ("Project").

In 1989, the Developer transferred ownership and assigned all rights and obligations in connection with the Project to Castillo Homes, Inc., a California nonprofit public benefit corporation ("Owner"). Castillo Homes, Inc. is owned and the Project operated by Santa Barbara Community Housing Corporation, a California nonprofit corporation.

The Loan transferred to the City upon assumption by the City of all rights and obligations pertaining to the Low and Moderate Income Housing Fund upon dissolution of the Redevelopment Agency. The City Loan is due and payable in full on July 24, 2016. In lieu of paying the loan in full, the Owner has requested that the terms of the Loan Agreement be restated and that the term of the City's affordability restrictions be extended.

Loan Restatement

The City Loan balance is approximately \$809,866 as of February 16, 2016, and the Owner is making residual receipt payments of \$5,610.66 per month. The requested restated loan secured by the restated deed of trust shall include the following terms:

1. The due date will be extended 30 years to expire on July 24, 2046. Simple interest will accrue at 3% per annum with all payments being first applied to the outstanding interest balance and then to principal.
2. Beginning 30 days after recordation of the restated loan agreement, the monthly payment shall be \$5,000 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 \$10,500 until the loan is paid in full.
4. Reserves will be increased from 6% to 10% of the annual gross rental income. These additional reserves will provide a source of funds that will be used, as needed, to extend the useful life of the Project.

All other loan terms remain unchanged.

Loan Security

The City Loan will remain in second lien position subordinate only to the existing bond financing due to be paid in full on November 15, 2020. The estimated loan-to-value ("LTV") is 17% based on a very conservative property valuation of \$5 million. The City Loan, plus all other financing on the Project, results in a combined LTV of 33%.

Bond Financing	\$ 691,915
City of Santa Barbara	809,866
State of California	<u>150,000</u>
Total:	<u>\$1,651,781</u>

The City Loan security is very strong based on the low LTV and the continued pay-down of loan balances. In addition, the Bond Financing will be paid off in 2020, which will place the City Loan in first lien position. Based on the proposed payments, the City Loan will be paid in full on or before January 30, 2026; however, as discussed below, the affordability provisions will remain in effect until July 17, 2046.

Long-term Affordability

In 1987, a document entitled "Declaration of Covenants, Conditions and Restrictions Imposed on Real Property" was recorded on the Project by the City ("Covenant") to ensure that the units were affordable to low- and moderate-income senior households.

To retain title priority of the Covenant, the Covenant will be amended as follows:

1. The term will be extended to expire July 17, 2046, which is twenty years after the City Loan is paid off.
2. The Covenant will provide that if upon annual review it is determined that a tenant's household adjusted gross income has exceeded 120% of the current Area Median Income (AMI), the tenant's monthly rent could increase to an amount equal to 1/12 of 30% of the household income upon expiration of the tenant's current lease and 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.

It is hoped that this provision will encourage turnover of the units to accommodate a very long waiting list and maintain the required proportion of low-income units.

Benefits

The requested Loan Restatement and Amendment to the Covenant 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 extending the affordability restrictions while providing no additional funding. In addition, the City Loan security is very strong and continues to improve as the loan balances are paid down. Due to the dissolution of the Redevelopment Agency and its loss of funding, these guaranteed payments will support the necessary monitoring and enforcement of the City's affordable housing program.

It should also be noted that the Project is well maintained and has always been in full compliance with the City's affordability and reporting requirements.

Finance Committee Recommendation

On February 23, 2016, Council's Finance Committee reviewed and approved the recommendations of this report and forwarded them to the Council with recommendation for approval.

BUDGET/FINANCIAL INFORMATION:

The City will incur no costs in connection with this request. The current principal balance of the Agency Loan is approximately \$809,866.

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

SUBMITTED BY: George Buell, Community Development Director

APPROVED BY: City Administrator's Office