



San Bernardino County

Legislation Text

File #: 1960, Agenda Item #: 18

REPORT/RECOMMENDATION TO THE BOARD OF SUPERVISORS OF THE COUNTY OF SAN BERNARDINO AND RECORD OF ACTION

April 7, 2020

FROM

GARY HALLEN, Director, Community Development and Housing

SUBJECT

Restructure Neighborhood Stabilization Program Loan Agreement with Housing Partners I, Inc., for the Garden Drive Apartments Affordable Housing Development

RECOMMENDATION(S)

1. Approve Amended and Restated Neighborhood Stabilization Program loan agreement to restructure the existing Neighborhood Stabilization Program loan (Agreement No. 10-687 A2) between the County of San Bernardino and Family Services Association assigned to Housing Partners I, Inc. for the Garden Drive Apartments Affordable Housing Development.
 2. Authorize the Chairman of the Board of Supervisors or Chief Executive Officer, upon consultation with County Counsel, to make modifications, execute, and deliver all ancillary loan documents required for the project financing, necessary to carry out the transaction, and mandatory to close the transaction.
 3. Direct the Community Development and Housing Department Director to transmit all documents to the Clerk of the Board within 30 days of execution.
- (Presenter: Gary Hallen, Director, 387-4411)

COUNTY AND CHIEF EXECUTIVE OFFICER GOALS & OBJECTIVES

Promote the Countywide Vision.

Ensure Development of a Well-Planned, Balanced, and Sustainable County.

Pursue County Goals and Objectives by Working with Other Agencies.

FINANCIAL IMPACT

Approval of this item will not result in the use of any Discretionary General Funding (Net County Cost). Sufficient revenue has been included in the department's Neighborhood Stabilization Program budget (6210002498) as the loan will be repaid via residual receipt payments from the project over the life of the loan.

BACKGROUND INFORMATION

The action requested of the Board of Supervisors (Board) is to approve an amended and restated Community Development and Housing (CDH) Neighborhood Stabilization Program (NSP) loan agreement between the County of San Bernardino (County) and Housing Partners I, Inc. (HPI) to restructure the financing associated with the six-unit Garden Drive Apartments affordable housing development (Project), in the city of San Bernardino.

Board approval of this item will allow for the restructure of the Project's financing and extension of the

affordability period for an additional ten (10) years. The restructure is recommended because the rent that can be collected on the six units is very low and the loan, as currently structured, does not adequately allow for operating or capital reserves. To help the Project save cash for reserve accounts, CDH is recommending that the interest rate be lowered from 3% to 0%. This will allow the project to become more financially viable in exchange for an additional ten (10) years of affordability. If approved, the County can better ensure that operating and replacement reserves are adequate for the Project.

On July 27, 2010 (Item No. 23), the Board approved an NSP Loan with the Community Housing Development Organization (CHDO) developer Family Services Association (FSA) for an amount not to exceed \$652,000 for the acquisition and rehabilitation of the Project. On April 10, 2012 (Item No. 22), the Board approved an amendment to the NSP Agreement to increase the loan amount to \$666,520.34 because the costs of the rehabilitation were higher than originally budgeted.

Initially, after becoming operational, the Project was challenged to remain fiscally solvent. As part of its remediation efforts, CDH reached out to HPI, the non-profit affiliate to the Housing Authority of the County of San Bernardino, with the request to assume the financial and physical management of the Project. CDH considered HPI because it is an established affordable housing CHDO developer with access to various resources, experience managing affordable housing projects, and a sizeable portfolio of affordable units.

CDH's approach to fiscally reposition the Project was to restructure the Project's financing using a multi-phased process beginning with the assignment and assumption of the NSP Loan Agreement (AAA). On May 3, 2016 (Item No. 24), the Board approved an AAA between the County of San Bernardino and HPI, which facilitated the transfer of ownership of the Project from FSA to HPI. The next phase would be to restructure the transaction. The transfer was completed in May 2016. This proposed restructure is the next phase of the process.

The proposed new loan amount will be \$668,187.88 as calculated through April 30, 2020. With the proposed restructure, CDH will receive approximately \$322,471 in residual receipts payments over the remaining 30-year affordability period, which will be extended through 2040. At the conclusion of the affordability period, HPI has agreed to have the Project appraised and to secure a new first deed of trust on the property to repay the outstanding CDH NSP loan balance. There are three possible outcomes upon HPI securing a new first deed of trust:

1. The new first loan is enough to pay off the CDH NSP loan in full.
2. The new first loan is insufficient to repay the total CDH NSP loan balance. In this case, HPI will repay as much of the CDH NSP loan balance as possible and any remaining unpaid balance will be forgiven.
3. The new first loan is in excess of what is needed to pay in full the CDH NSP loan. In this case, the CDH NSP excess loan proceeds will be shared between CDH and HPI, with 75% of the excess equity going to CDH and 25% of the excess equity going to HPI. Currently, it is projected that the entire remaining CDH NSP loan balance of approximately \$345,679 will be repaid in 2040 at the end of the affordability period and CDH will receive an equity share of approximately \$38,896.

The following table outlines the proposed terms of the current NSP loan restructure as compared to the existing terms of the CDH NSP loan:

Loan Feature	Current Terms	Restructured Terms
Initial Principal Balance	\$666,449.54	\$668,187.88
Interest Rate	3%	0%

Interest Paid to Date	\$74,903.18	N/A
Term	20 years	30 years
Affordability Period	2030	2040
Repayment Terms	Amortized Debt Service	Residual Receipts
Operating Reserves	N/A	Capped at 6 months of operating expenses
Capital Replacement Reserves	N/A	\$1,000 per unit per year (with no cap)
Estimated Residual Receipts Payments by End of Term	N/A	\$322,471

As a negotiated condition of this amended and restated agreement, HPI has agreed to fund the initial capital replacement reserve account, in the amount of \$12,000, with their own funds and not with funds from the Project.

PROCUREMENT

Not Applicable

REVIEW BY OTHERS

This item has been reviewed by County Counsel (Suzanne Bryant, Deputy County Counsel, 387-5455) on February 26, 2020; Finance (Kathleen Gonzalez, Administrative Analyst, 387-5412) on February 28, 2020; and County Finance and Administration (Robert Saldana, Deputy Executive Officer, 387-5423) on March 20, 2020.