



SUMMARY REPORT

Agenda Date: 4/15/2025

To: Board of Commissioners, Board of Supervisors

Department or Agency Name(s): Community Development Commission

Staff Name and Phone Number: Michelle Whitman and Rhonda Coffman 707-565-7542

Vote Requirement: Majority

Supervisory District(s): Countywide

Title:

Sea Ranch Loan Forgiveness and Conversion of Rental Units to Homeownership Units

Recommended Action:

- A) Authorize the Sonoma County Community Development Commission to forgive the principal and accrued interest up to \$701,854 for five units associated with the Sea Ranch 14 HOME Invest Partnerships Program loan.
- B) Authorize the Sonoma County Community Development Commission's Executive Director to enter into and execute all documents required or deemed necessary to complete the Conversion of Rental Units to Homeownership Units including the amended applicable Regulatory Agreements.

Executive Summary:

Burbank Housing Development Corporation (Burbank) owns and manages 45 affordable rental units in Sea Ranch and intends to renovate and convert all 45 units to affordable homeownership units in phases, starting with five vacant units. In 1994 the Sonoma County Community Development Commission (Commission) provided a federal HOME Investment Partnerships Program (HOME) loan in the amount of \$367,250 to Burbank to refinance 14 of the 45 units, known as Sea Ranch 14.

Sea Ranch 14, as an affordable rental property, it is not financially feasible for Burbank to maintain and operate in perpetuity. Therefore, converting the rental units to permanent, deed restricted affordable ownership units that will be sold to lower income households allows Burbank to preserve all 45 of the units by creating affordable homeownership opportunities. Commission staff is requesting authorization to forgive the principal and accrued interest up to \$701,854 for the 1994 HOME loan and to amend the applicable Regulatory Agreements to remove the five units from affordable rental restriction covenants. At the time of purchase, each lower income homebuyer will enter into a new Regulatory Agreements with 55-year deed restriction, requiring each unit to be affordable, extending the period of affordability on these 5 units.

The Commission's anticipated fiscal impact from the loan forgiveness is nominal, as loans of this type are generally not "must pay" loans, instead serving as an aid to encourage affordable housing production and preservation. Although the Commission, as a participating jurisdiction would use the HOME funds for additional HOME activities, based on the U. S. Department of Housing and Urban Development (HUD) § 92.301 the Board of Supervisors (participating jurisdiction) may waive repayment of the loan, in whole or in part, if there are impediments to project development that the participating jurisdiction determines are reasonably beyond the control of the community housing development organization. Without the requested

loan forgiveness for this project, Burbank's proposal to convert affordable units from rental to homeownership would not be financially feasible.

Discussion:**Background**

Burbank is a non-profit affordable housing developer, owner, operator, and property management company. In 1985, Burbank acquired 14 affordable single-family rental units in Sea Ranch, CA, referenced as Sea Ranch 14 (Sea Ranch 14). In 1994, Burbank constructed 31 additional single-family rental units, referenced as Sea Ranch 31 (Sea Ranch 31). Sea Ranch 31 are the only units financed in part with Low Income Housing Tax Credits (LIHTC). Collectively, the 45 single-family rental units are known as the Sea Ranch Apartments (Sea Ranch Apartments) and are the only low-income housing available in Sea Ranch, and they directly support its essential workforce and long-term residents.

The Sea Ranch Apartments, under a 1985 subdivision agreement, have been subdivided into individual lots and have unique assessor parcel numbers (APN's), water meters, and gas meters. All 45 units are encumbered with varying long-term affordability covenants and regulatory agreements. On November 15, 1994, the Commission provided a \$367,250 federal HOME loan to Burbank to assist with the refinance of Sea Ranch 14 and this remains a debt on the property.

The Sea Ranch Apartments face two primary ongoing financial feasibility issues: (1) the operating costs, being in a very remote location near the coast, have far surpassed the maximum potential revenue, and (2) the late 1980's, early 1990's construction and product design have not performed well in the particularly corrosive ocean-side climate at Sea Ranch. For several years, Burbank has diligently sought to address the rapidly advancing physical deterioration and financial concerns by seeking out both public funding and contributing nearly two million dollars (\$2,000,000) of corporate cash directly to the property. Unfortunately, the estimated hard costs of eleven million dollars (\$11,000,000) or more to maintain the units at a minimum living standard is far greater than Burbank has been able to source internally and externally.

In 2023, Burbank invited the residents to learn more about the opportunity to purchase a home at Sea Ranch Apartments and the Burbank homeownership team provided individual one on one counseling for each resident. These counseling sessions consisted of income and asset analysis, credit reporting, credit repair opportunities and availability of resources. Burbank plans to hold several more in person group and individual meetings to help prepare interested buyers for the homeownership opportunity. These meetings will consist of income and credit education, home maintenance, and financing education. There will not be any relocation involved in the conversion of the rental units to ownership units, as they will be sold as tenants voluntarily vacate units.

Proposed Project

To preserve affordable housing inventory in Sea Ranch, rehabilitate the units, and ensure long-term physical resiliency, Burbank has designed, subject to normal entitlement review and approval, a project plan for all 45 units that will accomplish each of these goals. Burbank is proposing to revitalize Sea Ranch Apartments by performing extensive renovations on each unit, in phases, and create affordable homeownership opportunities, starting with five vacant units (Proposed Project).

The Proposed Project would be financed through forgiveness of the 1994 HOME loan and with a new

construction loan, to be repaid with the proceeds generated through the home sales. Burbank will draw from its CalHome Disaster Assistance award to provide down payment assistance to all eligible homebuyers. In addition, the site is in a USDA-eligible area which will allow homebuyers to apply for USDA Section 502 first mortgages, where the first mortgage rates offer subsidy recapture that in turn secures interest rates as low as 1%. Additionally, an existing agreement with the Sea Ranch Homeowners Association (HOA) provides for subsidized community assessments and dues. This agreement will be incorporated into the Proposed Project so that the homebuyers will benefit from the subsidized HOA fees. The subsidized HOA fees are factored into the project underwriting assumptions and are part of the calculation of housing expenses to income ratios used to ensure the monthly housing expenses remain affordable to the new homeowners. Finally, to ensure the physical resiliency of the units, Burbank will coordinate home warranty contracts on behalf of the new owners and implement a maintenance plan for service.

Burbank would like to renovate the five vacant proposed units and offer them for sale to eligible low-income first-time homebuyers with priority given to current residents at Sea Ranch Apartments. The five units were voluntarily vacated over time and were held unoccupied knowing Burbank planned to renovate and convert the units in the near future. In order for Burbank to sell the five units as affordable homeownership units, they are requesting the Commission forgive the HOME loan, inclusive of the principal and interest accrued through May 1, 2025, in an amount not to exceed \$701,854. Any remaining funds available after completion of the renovation and conversion will be placed into a repair reserve fund for a 10-year extended warranty program administered by Burbank.

The HOME loan deferred principal and interest for the term of the loan, so there is no impact to the Commission revenue. These types of loans are typically extended at maturity, and in doing so the affordability covenants are extended to coincide with the new term, so the repayment of this loan would likely never occur and was therefore not anticipated in the Commission's fiscal multi-year projections financing future loans. The federal HOME program regulations allow for the Sonoma County to forgive the HOME loan and the Commission's loan policies also allow for the loan to be forgiven, and for the Sea Ranch Apartments to be financially feasible and be preserved as affordable units, loan forgiveness is necessary. Per the Commission's loan policies, requests for loan forgiveness must go before the Community Development Committee and Cities and Towns Advisory Committee (CD and CTAC Committees) for their recommendation of approval to the Board of Supervisors.

In addition to the loan forgiveness, Burbank is also requesting the five converted units be released from applicable existing Regulatory Agreements for Sea Ranch 14. The HOME Regulatory Agreement will terminate concurrent with the loan forgiveness, but the remaining Regulatory Agreements including Community Development Block Grant (CDBG), and County Fund for Housing (CFH) will need to be amended to remove the five units. The remaining 9 rental units from Sea Ranch 14 will continue to be restricted under CDBG and CFH Regulatory Agreements.

At the time of purchase, each new homebuyer will enter into a new and separate Regulatory Agreement with a 55-year deed restriction to ensure the long-term affordability of the unit. The Regulatory Agreement will require the unit to be the primary residence of the lower income homebuyer and includes resale restrictions that require the home to be resold to lower income homebuyers if it is offered for sale again during the 55-year deed restriction period. Each time a resale of the unit occurs, a new Regulatory Agreement with a new 55-year deed restriction is executed. The Commission will be named as the second party in line to Burbank to

exercise the option to purchase (or assign its right to purchase to lower income household) the homes in the event Burbank is unable to do so. This allows the new owners to benefit from appreciation tied to increases in area median income over time, in addition to loan amortization and donated down-payment equity. In some cases, ownership will provide a deeper level of affordability than renting. In all cases, ownership will provide a greater opportunity for wealth building for lower-income households, even with long-term affordability covenants in place.

After the first five units are converted, renovation will be conducted on a unit-by-unit basis at Sea Ranch 14 and Sea Ranch 31 subject to California Tax Credit Allocation Committee (TCAC) approval and will be brought back to the CD and CTAC Committees at each phase for review.

Burbank has requested TCAC's approval of the modification of the existing 55-year TCAC Regulatory Agreement to help facilitate the conversion of the rental units to for-sale homeownership units at Sea Ranch 31. Note that TCAC's approval is not required for Sea Ranch 14 which was not financed by LIHTC nor subject to a TCAC's regulatory agreement.

Throughout the Proposed Project, no resident at Sea Ranch Apartments will be forced to relocate and priority will be given to current residents at Sea Ranch Apartments to purchase units. Units not sold for homeownership will continue to stay in Burbank's portfolio as rental units owned and managed by Burbank. The long-term goal is to convert 100% of the 45 units at Sea Ranch Apartments into homeownership and this may take several years.

The Commission staff has reviewed and conducted an in-depth analysis of the Proposed Project, including underwriting, feasibility, and related impacts to tenants and long-term affordability. The Commission supports up to \$701,854 requested loan forgiveness, removal of five units from existing Regulatory Agreements, and conversion to new deed restricted, affordable ownership of the five units. All the affordable units at the Sea Ranch Apartments are at high risk of eventual loss of affordability covenants if not transitioned to affordable homeownership units. The approval of the Proposed Project will prevent the loss of the critically needed affordable units in Sonoma County's affordable housing inventory while creating affordable homeownership opportunities for low-income households. On February 26, 2025, the Proposed Project was presented to the CD and CTAC Committees, and they unanimously recommended approval to the Board.

By approving up to \$701,854 loan forgiveness and the modifying the Commission's Regulatory Agreements to allow the 5 units' conversion to affordable homeownership, the Commission sees this as a unique opportunity to preserve five affordable units at risk of loss (conversion to market rate) due to the financial infeasibility described in this report. The recommended action also supports the Housing Element goals by exercising Affirmatively Further Fair Housing (AFFH) by protecting existing residents from being displaced, ensuring the existing affordable housing stock is protected, and providing housing opportunities for affordable homeownership. The conversion of affordable rental units to affordable homeownership units will maintain the current inventory of affordable units counted towards the County's Regional Housing Needs Allocation (RHNA), with no net change.

Strategic Plan:

This item directly supports the County's Five-year Strategic Plan and is aligned with the following pillar, goal, and objective.

Pillar: Healthy and Safe Communities

Goal: Goal 3: In collaboration with cities, increase affordable housing development near public transportation and easy access to services.

Objective: Objective 2: Identify and leverage grant funding sources for permanent supportive and affordable housing development.

Racial Equity:

Was this item identified as an opportunity to apply the Racial Equity Toolkit?

No. This item was not included in the original version of the annual Significant Items Calendar considered by the Board in early 2025.

Prior Board Actions:

11/03/1987 Modifying the Final Subdivision Map for Sea Ranch Subdivision 35-D to Reduce the Requirement for Rental units from 50 Percent to 49 Percent.

FISCAL SUMMARY

Expenditures	FY24-25 Adopted	FY25-26 Projected	FY26-27 Projected
Budgeted Expenses			
Additional Appropriation Requested			
Total Expenditures	N/A		
Funding Sources			
General Fund/WA GF			
State/Federal			
Fees/Other	\$3,510		
Use of Fund Balance			
General Fund Contingencies			
Total Sources	\$3,510		

Narrative Explanation of Fiscal Impacts:

Loan forgiveness will allow the Commission to remove the HOME loan debt from the Commissions books. All legal costs associated with amending and modifying the applicable regulatory agreements will be covered by Burbank. The developer will also pay a loan modification fee of .5%, or \$3,510 of the loan balance pursuant to the Commissions loan policies. The FY2024/25 Adopted Budget has sufficient appropriations to record the loan forgiveness.

Narrative Explanation of Staffing Impacts (If Required):

None

Attachments:

Attachment 1 - Sales Plan

Agenda Date: 4/15/2025

Attachment 2 - Project Timeline

Related Items “On File” with the Clerk of the Board:

None.