



Legislation Details (With Text)

File #: 2022-0488
Type: Consent Calendar Item **Status:** Passed
File created: 4/18/2022 **In control:** Community Development Commission
On agenda: 5/24/2022 **Final action:** 5/24/2022
Title: Approval of Burbank Housing Development Corporation Refinance of Community Development Commission Loans
Sponsors: Community Development Commission
Indexes:
Attachments: 1. Summary Report, 2. Attachment 1 - Proposed Subordination Agreement

Date	Ver.	Action By	Action	Result
5/24/2022	1	Board of Supervisors	Approved as recommended	Pass

To: County of Sonoma Board of Supervisors and Board of Commissioners of the Community Development Commission

Department or Agency Name(s): Sonoma County Community Development Commission

Staff Name and Phone Number: Dave Kiff, (707) 565-7504

Vote Requirement: Majority

Supervisorial District(s): Countywide

Title:

Approval of Burbank Housing Development Corporation Refinance of Community Development Commission Loans

Recommended Action:

- A) Approve the refinancing of senior indebtedness by Burbank Housing Development Corporation Affiliates ("Burbank") and the California Housing Finance Agency, a public instrumentality and a political subdivision of the State of California ("CalHFA") on multiple Community Development Commission properties, including approximately \$360,000 cash out to Burbank to reinvest and increase the County's stock of affordable housing.
- B) Determine that the public purpose of the developments will continue to be protected by the refinancing of senior indebtedness between Burbank and CalHFA;
- C) Approve the subordination of specified Community Development Commission (Commission) affordable housing loans, associated security documents (including, as applicable, the loan agreements, regulatory agreements, promissory notes, assignment agreements, deed of trusts, and notices of affordability restrictions) (collectively, "Commission Loan Documents") to the private financing documents required by CalHFA for the refinancing loan(s), and the departure from Commission Loan Policies regarding subordinations;
- D) Authorize the Community Development Commission's Interim Executive Director, or designee, to execute a subordination agreement and such other documents as may be necessary to evidence the subordination of the Commission Loan Documents to CalHFA's private financing documents, provided that such subordination agreement complies with the terms of the California Health and Safety Code §33334.14; and

- E) Authorize and direct the Community Development Commission's Interim Executive Director, or designee, on behalf of the Commission and in its name, to execute and deliver such documents and to do such acts as may be deemed necessary or appropriate to accomplish the intentions herein.

Executive Summary:

Burbank Housing Development Corporation ("Burbank"), on behalf of its affiliated special purpose development entities, including: Carrillo Place, LP, Timothy Commons, LP, and Winter Creek LP, worked with the California Housing Finance Agency ("CalHFA") to identify existing properties in Burbank's portfolio who have existing CalHFA mortgages that can be refinanced to lock in lower interest rates on existing servicing loans and hedge against expected future rate increases when existing loans are fully amortized.

Six (6) multi-unit projects, with a total of eighteen (18) Community Development Commission (Commission)-held loans, are included in the portfolio refinance with CalHFA: Carrillo Place in Santa Rosa, Timothy Commons in Santa Rosa, Winter Creek in Windsor, Springs Village in Sonoma, West Avenue in Santa Rosa, and FMT II in Healdsburg. The refinancing loans will be closed in two phases. The phase one refinancing closing includes: Carrillo Place, Timothy Commons, and Winter Creek, and the phase two refinancing closing will include Springs Village, West Avenue, and FMT II. Burbank will proceed with phase one and, once closed, will further request loan modifications and subordinations for the second phase properties once underwriting has been completed.

To complete the refinance, Burbank has asked the Commission to modify and subordinate its loans and security instruments, including the loan agreements, regulatory agreements, promissory notes, assignment agreements, deed of trusts, and notice of affordability restrictions (collectively, the "Commission Loan Documents"). The proposed Subordination Agreement is attached hereto as Attachment 1.

Commission Loan Policies authorize the Interim Executive Director to subordinate Commission loans and options (with County Counsel review and approval), provided that the loan or option remains in a secure position, if the ongoing public purpose of the development is protected, and if the transaction will not adversely affect the security of the Commission's loan in any way.

The proposed Subordination Agreement and subsequent modifications to the Loan Documents require Board approval to accept the changes as requested because the changes are beyond the scope for the delegated authority to the Interim Executive Director pursuant to these Loan Policies.

While the proposed Subordination Agreement is more restrictive than a typical subordination, these refinances will protect the public purpose of these developments and will benefit the Commission, County, and Burbank by:

- Providing Burbank liquidity to weather the loss of rental revenue due to the Coronavirus pandemic; and
- Maintaining and increasing the county's stock of affordable housing.

Discussion:

For decades, the Commission and Burbank have been working together to achieve the common goal of providing and preserving affordable housing to Sonoma County residents. This has been accomplished with the Commission providing financial assistance to Burbank to develop various affordable housing developments such as the ones included in this refinancing project.

More specifically, the Commission approved a total of ten loans including: two loans for Timothy Commons, five loans for Carrillo Place, and three loans for Winter Creek Apartments in 2001, 2002, and 2003, respectively.

Each Commission loan is funded with one of three funding sources: Commission federal HOME Investment Partnerships (HOME), Commission federal Community Development Block Grant (CDBG), or Roseland Redevelopment Plan low- and moderate-income tax increment funds (ROSELAND). Each property is encumbered by a Regulatory Agreement that requires specified levels of affordability. Commission staff and counsel have reviewed the requirements of each funding source and determined Burbank’s request is allowable and beneficial because it will extend the period of affordability for each property.

Commission staff have reviewed the refinance terms, and though increasing the principal balance of senior debt inherently puts Commission loans at higher risk than where they stand today, the ratio of outstanding debt to the market value (Loan-to-value or LTV ratio) is firmly within typical lending standards for every individual loan - see table below. All assets associated with this refinance have been in Burbank’s portfolio for well over a decade, positioning them to benefit from significant equity build up over the years. The projects that include investment of federal Commission-managed entitlements HOME and CDBG funds have all met their HUD-required minimum affordability periods, so in the unlikely event of default and foreclosure the Commission would not be required to repay its HOME or CDBG investments to HUD.

As consideration for the approval of the CalHFA loans and the subordination of the Commission’s security interest in the various Commission Loan Documents, the Commission and Burbank will execute the following modifications to the Commission Loan Documents so that they align with the changes required by CalHFA in its Subordination Agreements:

- 1) Extend the “term” of each of the Commission loans to match the terms of the CalHFA Loan (30 years);
- 2) Extend the “term” of the affordability restrictions associated with each of the Commission loans to match the new loan term;
- 3) Extend the repayment term for each of the Commission loans and make the loans payable from surplus cash;
- 4) Modify the definition of surplus cash (residual receipts) to match CalHFA underwriting requirements;
- 5) Specifically authorize subordination to the CalHFA loan; and
- 6) Make any other revisions necessary to effectuate the approval of the CalHFA loan and the subordination of the Commission Loan Documents.

Additionally, these modifications will benefit the community by ensuring each property remains affordable until at least 2052, to align with the maturity date of the new senior loans and Commission subordinate financing. If existing Commission affordability periods extend beyond 2052, they will remain intact. Below are basic details of each loan, including projected debt service coverage ratios for the new senior loans as well as post-refinance loans to value ratios for Commission subordinate debt.

Carrillo Place, Santa Rosa, 68 units
New senior loan DSCR: 1.15%
Post-Refi LTV: 72%

Source	Principal	Interest 5/31/2022)	Existing Maturity	Post-Refi Maturity
HOME	\$477,300	\$246,166.17	2032	2052
HOME	\$353,836	\$198,996.35	2032	2052
HOME	\$200,000	\$123,119.01	2030	2052
CDBG	\$340,877	\$213,243.84	2030	2052

CDBG	\$41,850	\$21,797.59	2031	2052
TOTAL	\$1,413,863	\$803,322.96		

Timothy Commons, Santa Rosa, 32 units

New senior loan DSCR: 1.21%

Post-Refi LTV: 58%

Source	Principal	Interest (5/31/2022)	Existing Maturity	Post-Refi Maturity
ROSELAND	\$150,000	\$92,367.80	2031	2052
OTHER	\$150,000	\$76,227.26	2034	2052
TOTAL	\$300,000	\$168,595.06		

Winter Creek, Windsor, 41 units

New senior loan DSCR: 1.22%

Post-Refi LTV: 51%

Source	Principal	Interest (5/31/2022)	Existing Maturity	Post-Refi Maturity
HOME	\$308,400	\$169,609.87	2033	2052
HOME	\$200,000	\$112,703.41	2033	2052
CDBG	\$140,000	\$94,307.22	2029	2052
TOTAL	\$648,400	\$376,620.50		

Pursuant to the California Environmental Quality Act (CEQA), based upon a review of the evidence and information presented on the matter as it relates to the refinancing of the County Loan Documents, the approval is exempt from the California Environmental Quality Act (CEQA) § 15061(b)(3) as it can be seen with certainty that there is no possibility that this action will have a significant impact on the environment.

Strategic Plan:

This item directly supports the County’s Five-year Strategic Plan and is aligned with the following pillar, goal, and objective, by supporting the construction of more affordable housing units.

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.

Prior Board Actions:

1/31/2012 - The Board designated the Sonoma County Housing Authority as the successor agency to retain assets and functions of the Redevelopment Agency. The Commission assumed the ROSELAND PLAN loans when the municipalities that originated them declined to designate successor agencies for their cities’ assets.

FISCAL SUMMARY

Expenditures	FY 21-22 Adopted	FY 22-23 Projected	FY 23-24 Projected
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Budgeted Expenses			
Additional Appropriation Requested			
Total Expenditures	0	0	0
Funding Sources			
General Fund/WA GF			
State/Federal			
Fees/Other			
Use of Fund Balance			
Contingencies			
Total Sources	0	0	0

Narrative Explanation of Fiscal Impacts:

While these transactions impact the security of the Commission-held subordinate loans, the Commission does not project any new expenses or revenues as a direct result.

Staffing Impacts:			
Position Title (Payroll Classification)	Monthly Salary Range (A-I Step)	Additions (Number)	Deletions (Number)

Narrative Explanation of Staffing Impacts (If Required):

None

Attachments:

Attachment 1 - Proposed Subordination Agreement

Related Items "On File" with the Clerk of the Board:

None