



Legislation Text

File #: 2020-0360, **Version:** 1

To: Board of Supervisors / Community Development Commission

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

Staff Name and Phone Number: Barbie Robinson 565-4777 / Aldo Mercado 565-3740

Vote Requirement: Majority

Supervisory District(s): All

Title:

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

Recommended Action:

- A) Approve the refinancing of senior indebtedness on multiple Community Development Commission properties, including approximately \$5.5 million cash out to Burbank Housing Development Corporation, generated from various loans to be made by Berkadia Commercial Mortgage, LLC, a Delaware limited liability company, to various special purpose entity affiliates of Burbank Housing Corporation by determining that the public purpose of these developments are protected;
- B) Approve the subordination of specified Community Development Commission affordable housing loans, associated security documents (including, as applicable, *inter alia*, the loan agreements, regulatory agreements, promissory notes, assignment agreements, and deed of trusts, and notice of affordability restrictions) to the private financing documents required by Berkadia for the refinancing loan(s), and the departure from Commission Loan Policies regarding subordination;
- C) Authorize the Community Development Commission's Interim Executive Director to execute a subordination agreement and such other documents as may be necessary to evidence the subordination of the Commission Loan Documents to Berkadia's private financing documents, provided that such subordination agreement complies with the terms of California Health and Safety Code Section 33334.14;
- D) Authorize the Community Development Commission's Interim Executive Director to finalize the negotiation of and execute a Letter Agreement outlining the requirements to modify the Commission Loan Documents;
- E) Authorize the Community Development Commission's Interim Executive Director, or a designee, to finalize the negotiation of and execute documents modifying the various Commission Loans and to take all reasonable steps to effectuate the modifications described herein, in such forms as may be agreed to by the Interim Executive Director and approved by the County Counsel;
- F) Authorize and direct the Community Development Commission's Interim Executive Director, or a 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) worked with Berkadia/Freddie Mac to identify existing properties in their portfolio 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 multi-unit projects, with a total of twenty-one Community Development Commission (Commission)-held loans, are included in this phase of the refinance with Berkadia Commercial Mortgage, LLC (Berkadia)/Freddie Mac: Bodega Hills in Sebastopol, Firehouse Village in Sonoma, Lavell Village in unincorporated Santa Rosa, Park Land Senior Apartments in Healdsburg, Sea Ranch 31 in the north coast region of the County, and Wilford Lane Apartments in Cotati. Burbank estimates total proceeds of \$9.75 million in this phase of the refinance, including \$4.25 million from properties in which Commission is not invested.

Burbank does not seek any additional funds from Commission for these transactions. To complete the refinance, Burbank has asked Commission to modify and subordinate its loans and security instruments, including *inter alia*, the loan agreements, regulatory agreements, promissory notes, assignment agreements, and deed of trusts, and notice of affordability restrictions (collectively, the Commission Loan Documents). The proposed Subordination Agreement is attached hereto as Attachment A.

Commission Loan Policies authorize the 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 of the delegated authority to the Executive Director pursuant to these Loan Policies.

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

- Providing Burbank sufficient liquidity to weather the loss of rental revenue due to the Coronavirus pandemic;
- Creating a revolving investment account held by Burbank to support new development in the pipeline and positioning Burbank to utilize the 9% Low Income Housing Tax Credits allocated to Sonoma County to rebuild from the 2017 fires;
- Providing Burbank capital funds to renovate Burbank-owned?] properties serving households at the lowest end of the income spectrum; and
- Repaying a portion of debt on the Lantana homeownership project currently under construction in southwest Santa Rosa, ensuring the homes can be sold at affordable prices to households earning between 70% - 100% of the Area Median Income (AMI).

Discussion:

Each loan is funded with one of three funding sources: Commission federal HOME Investment Partnerships (HOME), Commission federal Community Development Block Grant (CDBG), or Low and Moderate Income Housing Asset Fund (LMIHAF). Each property is secured by a Regulatory Agreement that requires levels of affordability. Commission staff and counsel have reviewed the requirements of each funding source and determined Burbank's request is allowable.

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. All assets associated with this refinance have been in Burbank's portfolio for well over a decade, positioning them to benefit from significant equity built up over the years. The projects that include investment of Commission 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 Berkadia loans and the subordination of the Commission's security interest in the various Commission Loan Documents, the Commission, Berkadia, and Burbank will execute a Letter Agreement, attached hereto as Attachment B, that will authorize the Commission to make the following modifications to the Commission Loan Documents so that they align with the changes required by Berkadia in its Subordination Agreements:

1. Extend the "term" of each of the Commission loans to match the term of the Berkadia 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;
4. Modify the definition of surplus cash (residual receipts) to match Freddie Mac underwriting requirements;
5. Require annual repayments from prorata share of surplus cash for each of the Commission Loans;
6. Specifically authorize subordination; and
7. Make any other revisions necessary to effectuate the approval of the Berkadia Loan and the subordination of the Commission Loan Documents.

Additionally, these modifications will ensure each property remains affordable until at least 2050, to align with the maturity date of the new senior loans and Commission subordinate financing. If existing Commission affordability periods extend beyond 2050, they will remain intact. Below are basic details on each loan, including projected debt service coverage ratios for the new senior loans as well as post-refinance loan to value ratios for Commission subordinate debt.

Bodega Hills Apartments, Sebastopol, 24 units

New senior loan DSCR: 1.25

Source	Principal	Interest (3/31/20)	Existing Maturity	Post-Refi Maturity	Post-Refi LTV
HOME	\$ 135,450	\$ 100,928	2030	2050	22.7%
CDBG	\$ 148,050	\$ 110,317	2030	2050	26.4%
CDBG	\$ 130,000	\$ 96,867	2030	2050	29.7%
LMIHAF	\$ 150,914	\$ 109,525	2026	2050	33.5%
LMIHAF	\$ 16,881	\$ 11,618	2027	2050	33.9%
HOME	\$ 137,850	\$ 94,592	2032	2050	37.2%
HOME	\$ 134,400	\$ 406,705	2027	2050	45.0%
TOTAL	\$ 853,545	\$ 930,552			

Firehouse Village, Sonoma, 30 units

New senior loan DSCR: 1.27

Source	Principal	Interest (3/31/20)	Existing Maturity	Post-Refi Maturity	Post-Refi LTV
LMIHAF	\$ 614,000	\$ 351,231	2056	2056	30.7%
CDBG	\$ 121,000	\$ 47,679	2030	2050	32.3%
TOTAL	\$ 735,000	\$ 398,910			

Lavell Village, Santa Rosa, 49 units**New senior loan DSCR: 1.26**

Source	Principal	Interest (3/31/20)	Existing Maturity	Post-Refi Maturity	Post-Refi LTV
HOME	\$218,850	\$ 170,105	2024	2050	11.6%
CDBG	\$ 476,237	\$ 237,213	2025	2050	16.1%
CDBG	\$ 58,500	\$ 46,211	2025	2050	25.9%
TOTAL	\$ 753,587	\$ 453,529			

Park Land Senior Apartments, Healdsburg, 23 units**New senior loan DSCR: 1.29**

Source	Principal	Interest (3/31/20)	Existing Maturity	Post-Refi Maturity	Post-Refi LTV
CDBG	\$ 73,081	\$ 45,127	2039	2050	25.5%
HOME	\$ 255,267	\$ 153,314	2039	2050	33.6%
TOTAL	\$ 328,348	\$ 198,440			

Sea Ranch 31, Sea Ranch, 31 units**New senior loan DSCR: 1.27**

Source	Principal	Interest (3/31/20)	Existing Maturity	Post-Refi Maturity	Post-Refi LTV
CDBG	\$ 99,392	\$ 34,039	2034	2050	29.9%
CDBG	\$ 100,000	\$ 39,093	2036	2050	32.4%
CDBG	\$ 102,582	\$ 38,075	2037	2050	34.9%
CDBG	\$ 100,000	\$ 47,063	2038	2050	43.9%
CDBG	\$ 190,259	new loan	2052	2052	47.3%
TOTAL	\$ 592,233	\$ 158,270			

Wilford Lane Apartments, Cotati, 36 units**New senior loan DSCR: 1.36**

Source	Principal	Interest (3/31/20)	Existing Maturity	Post-Refi Maturity	Post-Refi LTV
CDBG	\$ 244,000	\$ 112,265	2032	2050	17.4%
CDBG	\$ 356,000	\$ 143,904	2032	2050	21.7%
TOTAL	\$ 600,000	\$ 256,169			

Prior Board Actions:

Between 1993 and 2019, the Commission provided eighteen loans to these six properties.

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 LMIHAF loans when the municipalities that originated them declined to designate successor agencies for their cities' assets.

FISCAL SUMMARY

Expenditures	FY 19-20 Adopted	FY 20-21 Projected	FY 21-22 Projected
Budgeted Expenses			
Additional Appropriation Requested			
Total Expenditures			
Funding Sources			
General Fund/WA GF			
State/Federal			
Fees/Other			
Use of Fund Balance			
Contingencies			
Total Sources			

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):

N/A

Attachments:

Attachment A: Proposed Subordination Agreement

Attachment B: Proposed Letter Agreement

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

None

