



Monterey County

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Board Report

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Matter Type: General Agenda Item

- a. Consider approving the security documents related to the County of Monterey's 2002 HOME loan with a balance of \$170,861.94 and CDBG loan with a balance of \$10,500 to the Housing Authority of the County of Monterey (HACM) which are now being assumed by the Monterey County Housing Authority Development Corporation (HDC); and
- b. Consider authorizing the Economic Development Department Director to execute the Allonge to Promissory Note (HOME loan) dated April 2, 2002, Amendment to HOME Loan and Regulatory Agreement, Allonge to Promissory Note (CDBG Loan) dated May 23, 2002, Amendment to CDBG Loan and Regulatory Agreement, Assignment, Assumption and Release Agreement, Subordination Agreement (to conventional first loan and USDA loans), including minor changes thereto, contingent upon approval by County Counsel as to form and legality, required to finalize the project financing closing.

RECOMMENDATION:

It is recommended that the Board of Supervisors:

- a. Approve the security documents related to the County of Monterey's 2002 HOME loan with a balance of \$170,861.94 and CDBG loan with a balance of \$10,500 to the Housing Authority of the County of Monterey (HACM) which are now being assumed by the Monterey County Housing Authority Development Corporation (HDC); and
- b. Authorize the Economic Development Department Director to execute the Allonge to Promissory Note (HOME loan) dated April 2, 2002, Amendment to HOME Loan and Regulatory Agreement, Allonge to Promissory Note (CDBG Loan) dated May 23, 2002, Amendment to CDBG Loan and Regulatory Agreement, Assignment, Assumption and Release Agreement, Subordination Agreement (to conventional first loan and USDA loans), including minor changes thereto, contingent upon approval by County Counsel as to form and legality, required to finalize the project financing closing.

SUMMARY:

In 1972, the Housing Authority of Monterey County (HACM) constructed 48 units of farmworker housing on two sites in Castroville. In 2002, the County made two zero-interest loans, totaling \$376,000, to HACM to rehabilitate the units. The project reached the end of its economic life.

The Housing Authority of the County of Monterey (HACM) sold the project to the Monterey County Housing Authority Development Corporation (HDC) as an affiliated limited partnership. The HDC is demolishing the existing units and replacing them with 54 new units. Fifty two (52) of the new units will be restricted for use as farmworker housing at affordable rates ranging from 30% to 60% of the Area Median Income. HDC has secured tax credits from the California Tax Credit Allocation Committee (CTCAC) to finance the project; it has

requested and obtained approval from the County to modify the terms of its outstanding loans, and the County issued a Commitment Letter, evidencing new loan terms that comply with CTCAC requirements.

On June 21, 2016, the Board of Supervisors approved Resolution 16-032 committing State HOME and CDBG Program Income funds in the amount of \$181,362 to the Monterey County Housing Authority Development Corporation's Castroville FLC Apartments LLC project.

HDC is now expecting to close the financing transactions by June 30, 2017. The Economic Development Department Housing Office needs to issue the executed amendment documents implementing changes to the outstanding County loans, as well as subordination, and assumption and assignment documents. For this reason, the County is presenting the documents to the Board for approval.

DISCUSSION:

HDC is tearing down and rebuilding the Castroville Farmworker Housing development, located at Speegle & Haight and Pajaro & Seymour Streets in Castroville.

HDC has secured final financing from CTCAC to construct 54 units on the two sites. CTCAC approves awards of federal tax credits issued by the State that provide for equity investments by limited partnerships in affordable housing projects. HDC also received a loan from the U.S. Department of Agriculture (USDA) and a conventional loan which will be in first position.

The two County loans will be subordinated to California Community Reinvestment Corporation and USDA. The outstanding County loans must be subordinated to both the conventional first loan and the proposed USDA loan, as well as existing USDA loans, and must meet CTCAC's required affordability term of 55 years from Certificate of Occupancy. Thus, to support the project, the County is extending the term of its loans and subordinating them to the first and USDA loans. Further, CTCAC requires that the source of repayment of the County's loan be limited to "residual receipts" from project cash flow. Residual receipts equals cash flow remaining after payment of the conventional, first loan and USDA loans, as well as other allowable property expenses. HDC has agreed to pay 50% of the residual receipts to the County, annually, so that its loans will be paid off in a timely manner. Moreover, HDC will pay 3% interest on the County loans, which are currently 0% interest.

The HOME loan of \$341,000 currently has a balance of \$170,861.94 and is scheduled to be paid off in July 2032. The CDBG loan of \$35,000 currently has a balance of \$10,500 and is scheduled to be paid off in July 2022. Both loans restrict rent to be affordable to farmworkers who are income qualified at very low and low incomes.

Based upon residual receipts projections provided by HDC and reviewed by County staff, the County loans are estimated to be paid within four years after construction completion, projected to be 2022. This date is ten years earlier than the current HOME loan term and equal to the CDBG loan term. However, there are no guarantees that there will be sufficient cash flow in any of the years during the term of the loans, which could delay repayment beyond the 40 year term of the USDA loans and up to the 55 year loan term from Certificate of Occupancy. Although there could be some delay in repayment of the County loans, the County supports the

project in order to improve the availability and quality of farmworker housing in the County.

OTHER AGENCY INVOLVEMENT:

The project received funding approvals from California Tax Credit Allocation Committee and the United States Department of Agriculture. It also secured a conventional first loan from the California Community Reinvestment Corporation. County Counsel has reviewed all of the proposed security documents as to form and legality.

FINANCING:

There is no impact on the General Fund. Revision of the loan terms change the rate at which the County's HOME and CDBG loans are repaid and may impact the timing of the County's ability to use the funds for other projects.

BOARD OF SUPERVISORS STRATEGIC INITIATIVES:

Authorizing the Economic Development Department to approve and execute the documents which modify and extend the HOME and CDBG loans to the Monterey County Housing Authority Development Corporation (HDC) is a step toward creating new affordable housing opportunities for farmworkers in the County.

Mark a check to the related Board of Supervisors Strategic Initiatives

- X Economic Development
- __ Administration
- X Health & Human Services
- X Infrastructure
- X Public Safety

Prepared by: _____
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Approved by: _____
David L. Spaur, CEcD, EDFP, Economic Development Director, Ext. 5387

Attachments:

- Exhibit A - Allonge to Promissory Note (HOME Loan)
- Exhibit B - Amendment to HOME Loan and Regulatory Agreement
- Exhibit C - Allonge to Promissory Note (CDBG Loan)
- Exhibit D - Amendment to CDBG Loan and Regulatory Agreement
- Exhibit E - Assignment, Assumption and Release Agreement
- Exhibit F - Subordination Agreement (to conventional first loan and USDA loans)