



COUNTY OF HUMBOLDT

For the meeting of: 10/25/2022

File #: 22-970

To: Board of Supervisors
From: Planning and Building Department
Agenda Section: Consent

SUBJECT:
Execution of a Subordination Agreement with the Samoa Pacific Group

RECOMMENDATION(S):
That the Board of Supervisors:
1. Authorize the County Administrative Officer to sign the Subordination of Deed of Trust in Attachment 1.

SOURCE OF FUNDING:
General Fund, Long Range Planning (1100282-9360)

DISCUSSION:
This item is a request from the Samoa Pacific Group (SPG) to subordinate the county's security interest on 82 properties in the Town of Samoa to the interest in the properties held by Pacific Western Bank. According to SPG representatives, release of the remaining \$2 million of a \$12 million loan from Pacific Western Bank approved on April 4, 2022 for funding infrastructure improvements in the Town of Samoa requires the county's approval of the attached subordination agreement.

Description of the County's Interest in the Town of Samoa

From 2014 to 2018 SPG recorded a series of three deeds of trust in favor of the county covering the Town of Samoa to secure \$2,320,000 in Environmental Protection Agency (EPA) funding for lead abatement on 102 historic structures on the site. SPG was required by the California Coastal Commission to clean up the lead contamination as a condition of approval for subdivision of the property.

The term of the loan to SPG is 10 years with 0% interest. It requires SPG provide matching funds for 20% of the total cleanup cost. It also requires all lead abatement work to be completed by June 30, 2023, and full repayment of the loan by March 31, 2024.

Lead cleanup on 34 sites and structures were completed as of March 18 of this year including 32 homes, and two community (gym/community center) structures. Several more sites and structures have

been cleaned up since then. The continued cleanup of homes and other structures is now being financed by SPG's sale of homes after they are cleaned up. Approximately \$300,000 of the county's loan to SPG remains unspent.

Description of the Subordination Agreement

The subordination agreement in Attachment 1 subordinates the county's security interest on 82 Samoa Town properties described in Attachment 2 to the interest held by Pacific Western Bank.

Evaluation of the Public Interest of the Subordination Agreement

The Planning Department's recommendation to approve the subordination agreement is based on four findings described in the paragraphs below:

1. *The Subordination Agreement supports the continued development of infrastructure necessary for buildout of the Samoa Town Plan.*

Evidence supporting this finding was provided by the developer for the Town of Samoa (Dan Johnson) in an email sent on July 3, 2022 in Attachment 3 which states,

“We would like to continue the utility upgrades which I know the county wants to see them completed as well

we have an agreement with the county to have the work complete by the end of next year

the delay in getting this [subordination agreement] signed could jeopardize that agreement

it has been the intent from the start to get this paid off after all the homes are sold

it is in the best interest of the county and SPG, always has been, to clean up this site provide affordable housing”

2. *The Subordination Agreement will not affect the ongoing lead cleanup.*

As mentioned previously, SPG is required by the California Coastal Commission to clean up the lead contamination as a condition of approval of the subdivision of the property. That condition applies and guarantees cleanup of the lead contaminants on the site regardless of the county's position on loans assisting that work.

3. *The County's interest in the remainder of the properties is sufficient collateral for the EPA funding.*

In an email dated June 15, 2022 (Attachment 4) SPG representative Michele Kerrigan wrote, “The 35 acres currently in escrow for \$3 million would suffice as collateral and is sufficient to recover the County loan.” In addition to that property, 200 “paper” lots valued at approximately \$50,000 each and a 17-acre business park will not be subordinated by this agreement and security will continue to be held in first position by the county on all those properties.

4. *The terms used in the Subordination Agreement are standard language and do not otherwise put*

the County at risk.

The language of the subordination agreement was revised to address preliminary concerns expressed by County Counsel. Prior to the Board hearing this item, County Counsel will also be involved in reviewing the attached revised version along with Risk Management to ensure it contains the necessary protections for the county.

FINANCIAL IMPACT:

The subordination agreement in Attachment 1 subordinates the county's security interest on 82 Samoa Town properties described in Attachment 2 to the interest held by Pacific Western Bank. While the Subordination Agreement will diminish the value of the collateral held by the county to enforce the terms of a \$2.3 million loan, sufficient collateral remains after the subordination agreement is executed to ensure the terms of the county's loan are met.

STRATEGIC FRAMEWORK:

This action supports your Board's Strategic Framework by seeking outside funding sources to benefit Humboldt County needs .

OTHER AGENCY INVOLVEMENT:

County Counsel, Risk Management.

ALTERNATIVES TO STAFF RECOMMENDATIONS:

Board discretion.

ATTACHMENTS:

- Attachment 1: Subordination Agreement
- Attachment 2: Exhibit A - Legal Description of properties subject to the Subordination Agreement
- Attachment 3: Email from Dan Johnson dated July 3, 2022
- Attachment 4: Email from Michele Kerrigan dated June 15, 2022

PREVIOUS ACTION/REFERRAL:

Board Order No.: Click or tap here to enter text.

Meeting of: Click or tap here to enter text.

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