



CITY OF SANTA BARBARA

COUNCIL AGENDA REPORT

AGENDA DATE: May 22, 2012

TO: Mayor and Councilmembers

FROM: Housing and Human Services Division, Community Development Department

SUBJECT: Loan To Habitat For Humanity For New Affordable Housing Project At 822-824 East Canon Perdido

RECOMMENDATION: That Council:

- A. Approve a \$515,000 loan of federal HOME funds to Habitat for Humanity for the construction of twelve new residential ownership units affordable to low income persons located at 822-824 East Canon Perdido; and
- B. Authorize the Assistant City Administrator to execute a loan agreement and related documents and make nonsubstantive changes with approval by the City Attorney.

EXECUTIVE SUMMARY:

Habitat for Humanity of Southern Santa Barbara County (Habitat) has requested a \$515,000 loan of federal Home Investment Partnership Program (HOME) funds to help finance the construction of a new 12-unit ownership housing project for low income households. The project site is located on East Canon Perdido, just west of Milpas and represents Habitat's third project in Santa Barbara. Funding this project would help meet a June 30, 2012 deadline the City faces for committing federal HOME funds.

DISCUSSION:

Project Description

Habitat acquired the property located at 822-824 East Canon Perdido in December, 2010 with financial assistance from the City's former Redevelopment Agency Housing Setaside Funds ("RDA Housing Funds") in the form of a \$925,000 acquisition loan. The City's Planning Commission and Architectural Board of Review have approved Habitat's plans to demolish two residences on the 19,303 square foot property and develop three new residential structures with twelve ownership units comprising two 3-bedroom units,

eight 2-bedroom units, and two 1-bedroom units. Construction is expected to commence in the fall. Habitat seeks \$515,000 in HOME funds from the City to help pay for construction costs.

One of the two residences currently on the property is occupied. Residents will receive full relocation benefits consisting of relocation advisory services, moving expenses, plus 42 months of rental assistance based on the difference between the rent for the new residence and rent for the existing residence.

The cost to develop the project is estimated below:

Project Costs & Financing

Property acquisition:	925,000
Site preparation:	400,000
Building Materials:	750,000
Professional Labor:	875,000
Architect/Engineer/Permits:	425,000
Misc. Fees	265,500
Contingency:	<u>175,000</u>
Total:	<u>\$3,815,500</u>

The majority of the project financing comes from Habitat's extensive fundraising efforts. As demonstrated in previous projects, Habitat succeeds in raising funds from individuals, foundations, corporations, and local churches. Habitat will also rely on loan repayment from residents in two completed Habitat projects. From these sources, Habitat will raise \$2,375,500. The \$1,440,000 balance of the project funding consists of the previous RDA Housing Fund loan and the new HOME loan requested here. Not counted in this calculation, however, is the value of the hours of donated labor from future homeowners (sweat equity) and from community volunteers.

A critical component to Habitat's successful fundraising is their ReStore operation where donated materials not needed for Habitat projects are sold to contractors and the general public. Proceeds from the ReStore fund 90 percent of Habitat's administrative expenses, enabling Habitat to ensure that donated funds go directly to families in need.

Requested HOME Loan

Habitat requests \$515,000 in federal HOME funds from the City, which when combined with the previous RDA Housing Fund loan would result in a total City/RDA subsidy of \$1,440,000 or \$120,000 per unit. Previous City/RDA subsidies to Habitat have ranged from \$80,000 per unit to \$165,000 per unit, with variation dependent on project costs and availability of funds.

The terms of the requested HOME loan are proposed to match those of previous loans to Habitat. The \$515,000 loan would be executed initially with Habitat, covers construction expenses, and bears zero interest. Upon completion of construction, the HOME loan would convert to twelve separate loans of \$42,917 – one for each homeowner. The loans with the homeowners would be deferred, bear zero interest and would be forgiven upon conclusion of the City's 90-year affordability period. The previous \$925,000 RDA Housing Fund loan is structured similarly and will result in twelve separate loans of \$77,083.

The RDA Housing Fund and HOME loans would act as silent second and third mortgage loans behind the Habitat loan in first position. Habitat is providing homeowners with zero-interest first mortgage loans of about \$200,000, depending on actual construction costs and approval by the U.S. Department of Housing and Urban Development (HUD). Payment terms on the Habitat loan would be structured so that homeowners pay no more than 35 percent of their income on housing costs (mortgage payments, taxes, insurance, and homeowner association fees). Payment on these Habitat loans would help finance future Habitat projects.

The proposed HOME loan would be secured by a deed of trust in second position during construction, behind the previous RDA Housing Fund loan. With the property appraised at \$965,000 in late 2010, the HOME loan would be partially unsecured during construction, which is a common position for City loans. Upon completion of construction, the individual loans with the homeowners would be fully secured by the anticipated value of the completed home.

Income Targeting

Habitat will be seeking low income families in the 40-80 percent range of Area Median Income (AMI), the upper limit for which is \$60,700 for a family of four. City-subsidized ownership projects are typically targeted to moderate income households (80-120 percent of Area Median Income) and targeted to middle income households (up to 160% of AMI) under the City's Inclusionary Housing Ordinance. Habitat is the only organization in Santa Barbara that develops low income ownership housing. Ordinarily it would take a very large City subsidy to reach affordability for this income group. However, given Habitat's creative financing plan, they need only a total City subsidy of \$120,000 per unit.

Resale of the Units

If the homeowner sells before the end of the City's 90-year affordability period, the unit would be sold back to Habitat, who would market the unit to a new low income household. The departing homeowner would recoup only what they paid in down payment and mortgage payments, adjusted for inflation. The new homeowner would sign new loans and covenant agreements with the City and Habitat for the balance of the 90-year term, thereby assuring long-term affordability.

Community Housing Development Organizations

HUD requires that 15 percent of each year's HOME funds be used on affordable housing projects developed by Community Housing Development Organizations (CHDOs) – nonprofit organizations meeting HUD requirements pertaining to experience, capacity and board representation. Habitat is amending its by-laws and board membership to meet new HUD requirements. The proposed HOME loan would, thus, meet HUD's 15-percent CHDO requirement.

BUDGET/FINANCIAL INFORMATION:

There are sufficient existing appropriations in the HOME Fund to cover the proposed loan. No additional appropriations are needed. The City must commit \$752,530 before the end of the City's fiscal year, in accordance with HUD regulations. The proposed loan would help meet this commitment deadline and was approved by the Finance Committee at its May 15, 2012 meeting.

SUSTAINABILITY IMPACT:

The proposed housing project features sustainability measures that meet the 4-Star level requirements of Built Green Santa Barbara – the penultimate level of sustainability as established by the Santa Barbara Contractor's Association Education Foundation. Such project features include:

1. Installing solar thermal and/or photovoltaic systems with whole house heat recovery ventilators and installing efficient Energy Star appliances,
2. Meeting high standards for insulation, energy-efficient windows, recycled materials content, and re-used donated materials; and
3. Landscape planning that preserves existing plants on site, such as young oak trees, roses and succulents, installs other low-water, low-maintenance landscaping, and installs permeable paving surfaces.

Staff recommends that Council approve the requested HOME loan to assist in creating a new Habitat project.

ATTACHMENT: Letter from Habitat for Humanity dated April 30, 2012

PREPARED BY: Sue Gray, Administrative Services Manager/SK

SUBMITTED BY: Paul Casey, Assistant City Administrator

APPROVED BY: City Administrator's Office



*Building
homes,
building
hope*

April 30, 2012

Mr. Simon Kiefer
City of Santa Barbara Community Development Department
Housing & Redevelopment Division
630 Garden Street
Santa Barbara, California 93102-1990

Dear Simon:

This letter is to confirm Habitat for Humanity of Southern Santa Barbara County's intent to build twelve affordable housing units for low-income families at our site located at 822 and 824 E Canon Perdido Street, Santa Barbara. As per our attached budget, we will once again seek funding from a variety of sources, including individuals, foundation, faith-based organizations, civic groups and corporations along with the RDA and HUD funding provided by the City.

As part of our financing, we are applying for \$515,000 in HOME funds to be used for site preparation and construction of the homes, a total of \$42,917 per unit. These homes will be built in partnership with future homeowners and volunteers. Homeowners will be selected by our Family Selection committee according to Habitat's criteria: annual income between 40% and 80% of area median income; currently living in substandard housing; and willingness to work a minimum of 250 hours of sweat equity per adult family member to build the homes. At our recent orientations, we dispersed over 300 applications, which underscores the huge need for affordable housing.

We request that the HOME funds be carried as a zero-interest ninety-year mortgage on each of the units. Upon occupancy, the RDA funds previously provided by the City will also be carried as a silent mortgage in the amount of \$77,083 on each home. The two mortgages combined total \$120,000 per home, and would allow the City of Santa Barbara to monitor the continuing affordability of these homes through an affordability covenant recorded on each property. At the end of the affordability period and subject to restrictions imposed by the City, we request that these mortgages be forgiven. Habitat for Humanity of SSBC will carry the first mortgage, which will also be a zero-interest loan. Mortgages will be established upon completion of construction that allow all shelter costs, including property taxes, homeowners association fees, utilities and insurance, to total no more than 35% of the homeowner's income.



We plan to break ground on this project later this year once all permits have been approved by the City. To date, we have received approvals from the Planning Commission on January 12, 2012 and from the Architectural Board of Review on March 5, 2012. The consultants we have hired are providing their expertise to create the construction drawings, paying particular attention to the energy conservation measures that will help us achieve our goal of creating “net zero” energy usage homes.

The sustainability measures we propose for this project will satisfy the requirements of the Santa Barbara Built Green program, to Level 4. Our architect Ed DeVicente is also licensed in Passive House Design, and we plan to incorporate a number of components for sustainability, including:

- House wrap, insulation and highly energy-efficient windows to create a tight envelope
- Recycled content and low-VOC building materials such as carpet, flooring, adhesives and sealants
- Use of building materials donated to the ReStore such as bath sinks and light fixtures
- Solar thermal and/or photovoltaic systems with whole house heat recovery ventilators
- Highly efficient Energy Star appliances
- Permeable paving and low-water, low-maintenance landscaping
- Preserving existing landscape materials including two young oak trees, roses and succulents

We are pleased to join with other agencies in finding solutions to the affordable housing crisis on the South Coast, and we welcome a continuing partnership with the City of Santa Barbara. We look forward with great anticipation to the day we can begin building these affordable homes.

Sincerely,

Joyce McCullough
Executive Director