



# CITY OF SANTA BARBARA

## FINANCE COMMITTEE AGENDA REPORT

**AGENDA DATE:** February 12, 2013

**TO:** Finance Committee

**FROM:** Administration, Housing and Human Services Division, Community Development Department

**SUBJECT:** Loan Subordination Requests For Habitat For Humanity Affordable Housing Project Located At 822-824 East Canon Perdido Street

### RECOMMENDATION:

That the Finance Committee consider and recommend to Council approval of a request from Habitat For Humanity Of Southern Santa Barbara County to subordinate two City loans so that they can obtain new bridge financing in the amount of up to \$750,000 from the Housing Trust Fund of Santa Barbara County.

### DISCUSSION:

#### Background:

Habitat For Humanity Of Southern Santa Barbara County (Habitat) is currently developing a new twelve-unit low-income affordable ownership project located at 822-824 East Canon Perdido Street (Project). Upon completion of construction, this project will provide safe and affordable housing for 43 people, including 20 children. These are low-income families in the 40-80 percent range of Area Median Income (AMI), the upper limit for which is \$63,700 for a family of four. Habitat is currently the only organization in Santa Barbara that develops low-income ownership housing. This is their third project in Santa Barbara. Previous successful projects include a three-unit condominium project located at 3965 Via Lucero and a four-unit condominium project located at 618 San Pascual.

In December 2010, the former Redevelopment Agency of the City of Santa Barbara ("Agency") provided Agency Housing Setaside funds to Habitat in the form of a \$925,000 acquisition loan ("Acquisition Loan") to purchase property located at 822-824 East Canon Perdido Street. In May 2012, after obtaining the approval of the Project by the City's Planning Commission and Architectural Board of Review, the City provided Habitat a federal Home Investment Partnerships Program (HOME) loan in the amount of \$515,000 ("HOME Loan") for direct construction costs including contract labor, construction materials, and other costs incurred directly by Habitat for construction of the Project. This loan requires that construction commence on the Project no later than June 1, 2013.

### Project Costs & Financing

The cost to develop the project is estimated below:

Site 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:	\$3,815,500
RDA Acquisition Loan	\$925,000
City HOME Loan	515,000
Habitat +/-	<u>2,375,500</u>
(Includes HTF Bridge Loan)	
Total:	\$3,815,500

The balance of Project financing will come from Habitat's extensive fundraising efforts. As demonstrated in previous projects, Habitat succeeds in raising funds from individuals, foundations, corporations, and local churches. Habitat also relies on loan repayment from residents in the two completed Habitat projects. From these sources, Habitat has averaged almost \$625,000 per year in fundraising income over the past five years. Not counted in this calculation 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, which sells donated materials not needed for Habitat projects to contractors and the general public. Nearly \$300,000 of gross revenue per year is generated from the operation of the ReStore and proceeds fund 90 percent of Habitat's administrative expenses, ensuring that donated funds go directly to families in need.

To expedite the commencement of construction, which in turn will encourage more donations, the Housing Trust Fund of Santa Barbara County ("HTF") has offered to provide Habitat a 'bridge' loan in the amount of up to \$750,000 ("HTF Loan"). HTF requires that the City agree to subordinate its existing financing, including the former Acquisition Loan and the HOME Loan, to its new \$750,000 bridge loan for a period not to exceed three years.

### HTF Loan

The Housing Trust Fund of Santa Barbara County (HTF) is an innovative non-profit 501(c)(3) organization that is working on a countywide basis to help solve our communities' critical need for workforce and affordable housing. HTF is a funding

vehicle that helps bridge the 'affordability gap' by partnering with the private, public and non-profit sectors to raise new financial resources to support affordable community housing.

The \$750,000 HTF Loan has a fixed 3.75% interest rate, and it is structured in a similar manner as an equity line of credit. The minimum monthly payment is interest only based upon the principal drawn to date. It is Habitat's intent to draw funds only as needed and repay principal and accrued interest on a monthly basis.

The principal balance with accrued interest, if any, is due three years from date of recordation of the HTF's deed of trust or prior to the sale of the completed units to individual homeowners whichever event first occurs.

#### Sales Price Calculation and Permanent Financing

Upon completion of the Project, as evidenced by the issuance of a Certificate of Occupancy, all twelve (12) of the Project's units will be offered for sale and sold exclusively to qualified low income purchasers.

Both the Finance Committee and Council previously approved the sales price calculation and permanent financing proposed for the twelve units. To recap, the initial sale price for each unit will be an amount equal to 1/12 of the sum of 1) the loan to be provided by Habitat to Homeowner ("First Homeowner's Loan"), 2) the combined amount of the Acquisition Loan and HOME Loan (not to exceed \$120,000) ("Second Homeowner's Loan") and, if applicable, 3) another loan provided by Habitat ("Third Homeowners Loan") in an amount not to exceed one-twelfth (1/12) of the difference between Habitat's total development costs for the Project and Habitat's costs in excess of those included in their first loan. The initial sales price of each unit will be subject to approval by the Department of Housing and Urban Development.

The First Homeowner's Loan will bear an interest rate of zero percent and have a term of sufficient length that enables the Homeowner to spend no more than thirty five percent (35%) of household income on housing-related expenses, which include taxes, insurance, homeowner association fees, and mortgage payments on the Owner's Loan.

#### Long-term Affordability

It is important to note that the City's affordable covenant ("Development Covenant") will not be subordinated to the proposed HTF loan.

As a part of escrow proceedings on the sale of each unit, Habitat, the City, and the homeowner will sign and cause to be recorded in the office of the County Recorder a replacement covenant ("Homeowner's Covenant") approved by the City, which assures continued affordability and sets the procedure for calculation of the maximum sale price upon subsequent sale to future homeowners for a minimum of ninety (90) years.

Closing Summary

Habitat has raised approximately 50% of the funds required for this project. Subordination of the HTF Loan will expedite the commencement of construction and, in Habitat's experience, donations increase when donors see that construction is progressing on a project. In addition, given the dissolution of the Redevelopment Agency, utilizing HTF financing to assist in the delivery of affordable housing is a viable alternative that may become a model for future projects.

**BUDGET/FINANCIAL INFORMATION:**

This request requires no additional City funding and does not change the terms of the former RDA Acquisition Loan or HOME Loan financing.

**PREPARED BY:** Sue Gray, Community Development Business  
Manager/DR/DR

**SUBMITTED BY:** Paul Casey, Assistant City Administrator

**APPROVED BY:** City Administrator's Office