



CITY OF SANTA BARBARA

FINANCE COMMITTEE AGENDA REPORT

AGENDA DATE: May 21, 2013

TO: Finance Committee

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

SUBJECT: Loan to Peoples' Self-Help Housing Corporation for a New Affordable Housing Project at 510-520 N. Salsipuedes and 601 E. Haley Street

RECOMMENDATION:

That the Finance Committee recommend to the City Council approval of a request from Peoples' Self-Help Housing Corporation (PSHHC) for \$900,000 of Home Investment Partnership Program (HOME) funds for the construction of low income rental housing at 510-520 N. Salsipuedes Street and 601 E. Haley Street (Haley and Salsipuedes Apartments).

DISCUSSION:

Background

The City of Santa Barbara receives federal HOME funds annually that are used to promote affordable housing through activities such as acquisition, rehabilitation, new construction and tenant-based rental assistance. PSHHC was selected from a request for proposals issued by the City in March. PSHHC's proposal meets the affordable housing priorities outlined in the City's 2010-2014 Consolidated Plan; the Housing Element and the following required criteria:

- Developer's expertise with HOME funded projects
- Developer's compliance with HOME regulations
- Project's compliance with HOME funding guidelines
- Cost and financial feasibility
- Timing of the project
- Energy efficiency and conservation
- Project's impact on affordable housing

Project Description

The project site consists of three contiguous parcels on the northeast corner of Haley and Salsipuedes. The combined area of the site is approximately 41,000 square feet. PSHHC acquired the Property with financial assistance from the City's former

Redevelopment Agency Housing Setaside Funds ("RDA Housing Funds") in the form of a \$2,000,000 acquisition loan.

The project includes the construction of 47 rental units for extremely low, very low and low-income households and one manager's unit. The Property is zoned for multi-family housing and is located near Ortega Park and Santa Barbara Jr. High School. The development will consist of five (5) one-bedroom, twenty-seven (27) two-bedroom and fifteen (15) three-bedroom units, community space and an on-site laundry facility.

Eight (8) of the 47 units will be HOME assisted units. The HOME units will be designated as "floating units". A floating designation provides PSHHC flexibility to maintain the HOME-assisted units throughout the affordability period, although the specific unit(s) designated may vary with availability. In addition, the system of floating units provides consistency with the requirements for Low Income Housing Tax Credits (LIHTC). Several of the one-bedroom units will be used either primarily for residents who are homeless or at risk of becoming homeless. PSHHC's Supportive Housing Program (a clinical case management and social services program) assists residents with accessing community services and provides direct "hands-on" assistance.

The Project construction will begin in December 2014 and PSHHC anticipates that this project will be completed by January 2016. This timeframe meets the HOME requirement that a project be completed within four (4) years of the commitment of funds. PSHHC seeks \$900,000 in HOME funds from the City to help pay for preconstruction and construction costs.

Project Costs

Below is a summary of the Project's estimated costs:

Site Acquisition:	\$2,000,000
Site preparation:	65,000
Building Materials:	3,287,996
Professional Labor:	5,836,084
Architect/Engineer/Permits:	410,000
Misc. Fees	3,873,397
Contingency:	<u>501,704</u>
Total	<u>\$15,974,181</u>

PSHHC serves as the sole developer, owner, and general contractor for the project. Its affiliate, The Duncan Group, serves as the management agent for the development team.

Through sustainable design and building methods, the project will promote energy efficiency and conservation. The project will exceed the Title 24 Energy Standards by 17.5% by utilizing florescent and LED lights; Energy Star rated appliances, water

saving fixtures in kitchens and bathrooms, and low emissions VOC paint. The project will obtain a Greenpoint multi-family rating of 100 or above.

Financing

The financing plan utilizes several funding sources including 9% Low-Income Housing Tax Credits which will pay off a \$9,613,066 construction loan. The previously provided RDA Housing loan and the requested HOME loan will provide needed leverage for the LIHTC application. The financing details on this Project, as well as the timing of each commitment, are as follows:

RDA Housing Funds	2,000,000 (3/2011)
Federal Home Loan Bank	\$420,000 (4/2014)
Bank Permanent Loan	1,634,072 (6/2013)
NeighborWorks Grant	470,000 (2012-13)
HOME Loan	900,000 (6/2013)
LIHTC	<u>10,550,109</u> (est. 8/2014)
Total:	<u>\$15,974,181</u>

() = Commitment Date

PSHHC will create a limited partnership (LC) in early 2014, which will own the project, and they will submit the LIHTC application to the California Tax Credit Allocation Committee in March 2014 for a LIHTC award allocation in August. During the initial 15-year tax credit compliance period, PSHHC will maintain operational control of the Property by master leasing the improvements from the LP. PSHHC will remain the managing general partner of this limited partnership. PSHHC has completed several successful LIHTC projects on the South Coast, including Dahlia Court Apartments (Carpinteria), Casas las Grandas (City of Santa Barbara), Pismo Creek Bungalows (Pismo Beach), Rolling Hills (Templeton), El Patio Hotel (Ventura), Lachen Tara (Avila Beach), Canyon Creek (Paso Robles), and Los Adobes de Maria II (Santa Maria).

Requested HOME Loan

The proposed \$900,000 HOME loan will have a 30-year term bearing 3 percent interest with a maturity date of 2043. Payments will be due on the loan on a "residual receipts" basis. No payments are due until the net income of the project, after payment of necessary operating expenses, is sufficient to support such payments. Any unpaid balance remaining at the end of the term is due and payable in full. These terms are typical of HOME affordable housing loans.

To satisfy HOME requirements, the proposed \$900,000 loan must be committed by July 30, 2013. Of the total amount committed, \$533,000 must be spent by July 30, 2016 with an initial disbursement prior to June 30, 2014. The project must be completed by June 30, 2017.

Loan Security

Security for the City's HOME loan is the value of the improved property which is estimated to be \$15.9 million. In the unlikely event of default by PSHHC, the City and the tax credit limited partner would have to negotiate paying off the first mortgage loan (\$1,634,072) and replacing the general partner (PSHHC).

Long-term Affordability

The Affordability Control Covenant Imposed on Real Property recorded on this property at the time of acquisition requires that the property remain affordable to low-income residents until the year 2102.

In conjunction with the proposed HOME loan, a revised Affordability Covenant will be recorded to incorporate the required HOME affordability and compliance provisions. The term of the revised Affordability Covenant will be ninety-(90) years.

Community Housing Development Organizations

PSSHC is a qualified Community Housing Development Organizations (CHDO) meeting HUD's requirements pertaining to experience, capacity and board representation. HUD requires that 15 percent of each year's HOME funds be used on affordable housing projects developed by CHDOs. The proposed HOME loan would therefore meet HUD's 15-percent CHDO requirement.

People's Self-Help Housing (PSHHC)

The Mission of Peoples' Self-Help Housing is to provide affordable housing and programs leading to self-sufficiency for low-income families, seniors, and other special needs groups. PSHHC works to create stable, healthy communities and neighborhoods through the provision of affordable housing, combined with resident education, health, and economic development programs. They emphasize self-sufficiency and empowerment of clients. They are experts at rental housing development (both new construction and rehabilitation).

PSHHC is the recipient of numerous local, state and national awards acknowledging its leadership and performance in the affordable housing field. Recently PSHHC was one of only 10 organizations nationally to be awarded the Fannie Mae Foundation's Sustained Excellence Award. PSHHC has completed several award-winning projects on the south Coast, including Dahlia Court Apartments (Carpinteria), Casas las Grandas, Milagro de Ladera Apartments and Victoria Hotel (City of Santa Barbara), Castilian and San Miguel Apartments (Isla Vista), Riverview (Guadalupe) and Storke Ranch Apartments (Goleta). PSHHC has long-term staff with extensive experience in affordable housing development and management.

Closing Summary

High housing prices and high rents combined with a low supply of affordable housing opportunities make this project ideal for the City of Santa Barbara. Both the 2010-2014 Consolidated Plan and the Housing Element state that the City places the highest priority

on supportive affordable housing and emphasize the need for low-income multi-family housing.

According to the Housing Element, a majority of rental units are studio or one-bedroom. Units for large households are hard to find and less affordable. This project would provide a combination of one, two and three bedroom units with a minimum thirty percent (30%) or fifteen of the units containing three bedrooms. In addition, the Housing Element states that approximately 68 percent of the City's housing stock is over 40 years old. This project would provide new housing units to address this issue.

The requested funds for this critical community-serving project result in a local housing subsidy cost per unit of \$61,702 which is lower than the City's typical per unit subsidy of \$120,000.

Staff supports the proposed loan and requests the Finance Committee to recommend that the City Council approve the \$900,000 HOME loan to PSHHC.

BUDGET/FINANCIAL INFORMATION:

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

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SUBMITTED BY: Paul Casey, Assistant City Administrator

APPROVED BY: City Administrator's Office