



CITY OF SANTA BARBARA

COUNCIL AGENDA REPORT

AGENDA DATE: June 30, 2015

TO: Mayor and Councilmembers

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

SUBJECT: Loan To Grace Village Apartments, L.P., For A New Affordable Housing Project At 3869 State Street (Grace Village Apartments)

RECOMMENDATIONS: That Council:

- A. Approve a request from the Housing Authority of the City of Santa Barbara (Housing Authority) for a \$1,000,000 loan to Grace Village Apartments, L.P., to support the development and construction of a new low income senior rental project located at 3869 State Street;
- B. Authorize the appropriation of \$500,000 in the Revolving Loan Fund from Socio-Economic Mitigation Program (SEMP) reserves to fund a portion of the requested loan;
- C. Authorize the appropriation of \$500,000 in the Successor Agency Housing Fund from reserves to fund a portion of the requested loan;
- D. Authorize the Community Development Director to execute such agreements and related documents, subject to approval as to form by the City Attorney, as necessary; and
- E. Consider a recommendation from the Finance Committee to transfer \$528,797 of unrestricted monies in the Revolving Loan Fund, which originated from the General Fund, back to the General Fund.

DISCUSSION:

Background & Project Description

Grace Lutheran Church donated property located at 3869 State Street to the Housing Authority for the express purpose of constructing a new affordable housing project for low-income seniors. Grace Village Apartments is designed as a three-story residential building with 58 housing units (57 one-bedroom affordable apartments and one one-bedroom manager's apartment) to serve low-income seniors (Project). Approval of the requested loan will increase the chances that Grace Village Apartments L.P. will obtain an award of Tax Credits.

Project Costs

Site Acquisition & Preparation:	\$ 3,921,036
Building Materials:	4,528,004
Professional Labor:	3,018,669
Architect/Eng/Permits/Taxes/Insurance:	1,803,228
Fees/Financing/Interest:	1,685,316
Dev. Overhead/Contingency:	1,415,336
Total:	<u>\$16,371,589</u>

Project Financing

The Low Income Housing Tax Credit (Tax Credit) program, coupled with local affordable housing dollars, is essentially the only vehicle available today for the development of affordable rental housing. The Grace Village Apartments, L.P. will apply for Tax Credits in July 2015. These Tax Credits will provide approximately 50% of the total project cost. The financing details on this Project are as follows:

Land Donation	\$ 3,000,000
Tax Credit Equity	8,612,367
1st Mortgage	2,519,593
City of Santa Barbara Loan	1,000,000
Housing Authority Loan	1,000,000
Deferred Developer Fee	239,629
Total:	<u>\$16,371,589</u>

The requested \$1,000,000 funds for this critical community-serving low-income senior project results in a local housing subsidy cost per unit of \$17,241 which is lower than the City's historical per unit subsidy of \$120,000.

If Grace Village Apartments, L.P. is successful in obtaining a reservation of tax credits, construction will begin in late 2015 and be completed and occupied within 14 months of commencement of construction.

Project Ownership Structure

As is typical for Housing Authority Tax Credit projects, the Housing Authority will form a Limited Partnership. The proposed Managing General Partner will be Garden Court Inc., and the proposed Co-general Partners will be Hearthstone Housing Foundation and 2nd Story Associates (the same partners that developed Bradley Studios). The Limited Partner has yet to be determined. Housing Authority will retain fee title ownership of the property and will lease the land to the Limited Partnership under a long-term ground lease.

Grace Village Apartments, LP will construct and own the new rental housing apartment building.

City Loan

If approved, the proposed \$1,000,000 City loan will have a 30-year term bearing 3 percent interest with a maturity date of 2045. Payments will be due on the loan on a “residual receipts” basis. No payments will be 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 affordable housing loans. Lending these funds at 3% will provide a return on investment of up to \$30,000 per year. The loan will be secured by a deed of trust recorded against the leasehold.

Long-term Affordability

An Affordability Control Covenant Imposed on Real Property (Covenant) will be recorded covering the Project and recorded against the leasehold requiring that the property remains affordable to low-income senior residents until the year 2105, or 90 years. A Tax Credit Regulatory Agreement with a 55-year term that has similar affordability restrictions to the City’s Covenant will be recorded with this Project’s Tax Credit financing. The City’s Covenant will be subordinate to the Tax Regulatory Agreement for the first 55 years.

BUDGET/FINANCIAL INFORMATION:

Funding for this requested \$1,000,000 loan will come from two accounts:

Socio-Economic Mitigation Program (SEMP)	\$ 500,000
Successor Agency Housing Fund	<u>500,000</u>
Total Loan	<u>\$ 1,000,000</u>

In the 1980’s and 1990’s, the City received SEMP Funds from oil developers to help mitigate the impact on the low and moderate-income housing supply due to an influx of south coast oil extraction operations employees.

Since the dissolution of the Redevelopment Agency, loan repayments to the Successor Agency Housing Fund have been used to support the administration and monitoring of the City’s Affordable Housing Programs with repayments in excess of these Program costs retained for future affordable housing projects.

Closing Summary

By 2030, the number of persons 65 and older will reach 71.5 million in the United States. It is expected that many of these growing seniors will need affordable living options that include various types of senior-centered housing: independent living, assisted living, nursing homes, home care, and others.

High housing prices and high rents, combined with a low supply of senior affordable housing opportunities, make this project ideal for the City of Santa Barbara. Both the City's 5-Year Consolidated Plan and the Housing Element state that the City places a high priority on affordable senior housing.

Finance Committee Recommendation

On June 23, 2015, the City's Finance Committee reviewed and recommended that City Council approve the requested loan to Grace Village Apartments, L.P. The Committee also recommended that \$528,797 of unrestricted funds in the Revolving Loan Fund be transferred to the General Fund. These monies were transferred from the General Fund to the Revolving Loan Fund many years ago to fund several housing loans. The \$528,797 represents the amount repaid through the current date.

ATTACHMENT: Housing Authority Funding Request letter dated May 15, 2015

PREPARED BY: David Rowell, Housing Project Planner/SG/DR

SUBMITTED BY: George Buell, Community Development Director

APPROVED BY: City Administrator's Office



HOUSING

AUTHORITY OF THE
CITY OF SANTA BARBARA808 Laguna Street / Santa Barbara
California / 93101Tel (805) 965-1071
Fax (805) 564-7041

May 15, 2015

David Rowell, Project Planner
Community Development Department
City of Santa Barbara
P. O. Box 1990
Santa Barbara, CA 93102-1990

RE: FUNDING REQUEST FOR CITY SUBSIDY FOR THE DEVELOPMENT OF 3869 STATE STREET AS A 58 UNIT AFFORDABLE RENTAL SENIOR HOUSING COMPLEX – GRACE VILLAGE

Dear David:

As previously discussed, the Housing Authority is seeking City funding for the Grace Village development in order to increase our chances to successfully garner an allocation of tax credits from the California Tax Credit Allocation Committee (CTCAC). The Low Income Housing Tax Credit (LIHTC) program coupled with local affordable housing dollars is essentially the only vehicle available today for the development of affordable rental housing in the U.S. The 9% LIHTC program, to which we intend to apply in July 2015, would provide approximately 60% of the total project cost. The remaining portion needs to be covered through other local public funding sources such as City Community Development funds and Housing Authority funds or donation.

As you will recall from our discussions and your previous communications with Front Porch, Grace Village is designed as 58 affordable housing units (57 one-bedroom apartments and a one-bedroom manager's apartment) and is intended to serve low-income seniors. The project will replace the current structure and function of Grace Lutheran Church at 3869 State Street. If successful in obtaining a reservation of tax credits, construction would begin in late-2015 and be completed and occupied within 14 months of commencement of construction.

The project proforma is currently structured as a \$16 million project overall with tax credits of about \$9.6 million. The proforma also incorporates a land value of \$3 million which we intend a major portion of the land value to be donated. We are requesting \$1 million in support funds from the City of Santa Barbara. We will be seeking other funding sources, such as an AHP grant which may be in the range of \$250,000. While we expect to be competitive in our application, the applicants with higher "local" public subsidies are able to request a lesser amount of tax credits which garner them a higher score in California's very competitive LIHTC awards process.

Mr. David Rowell
Re: Funding Request for Grace Village
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I included a draft proforma, but there are some adjustments to be made. We want to show all of the land as a donation if possible, and we hope to get some costs down and not have deferred developer fees. In short, the proforma is a work in progress at this time. The land was transferred to the Housing Authority earlier this year and agreements with Grace Lutheran Church, Front Porch and Cal Lutheran Homes are virtually complete.

We thank you in advance for your consideration of this request and would greatly appreciate your response. Please contact me if you have any questions about this request or require additional information.

Sincerely,

HOUSING AUTHORITY OF THE
CITY OF SANTA BARBARA



SKIP SZYMANSKI
Deputy Executive Director / CEO

cc: Housing Authority Commission
R. Pearson
R. Fredericks
B. Peirson
D. Aazam