



CITY OF SANTA BARBARA

COUNCIL AGENDA REPORT

AGENDA DATE: August 9, 2016

TO: Mayor and Councilmembers

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

SUBJECT: Transfer Of 518 East Canon Perdido (Eleanor Apartments) To The Housing Authority Of The City Of Santa Barbara

RECOMMENDATION: That Council:

- A. Approve Assignment and Assumption Agreement that assigns all contractual rights, duties, and obligations of all City documents to the Housing Authority;
- B. Increase appropriations in the amount of \$122,000 in the Housing Successor Agency Fund, from reserves, to cover the cost of the additional loan amount;
- C. Increase the allocation to City Loan Agreement No. 18,701 account by \$122,000 from the Housing Successor Agency Fund;
- D. Approve the Amendment to the City Loan Agreement No. 18,701, including forgiveness of \$592,000 of accrued interest;
- E. Approve the Additional Advance of \$122,000 to the City Deed of Trust;
- F. Approve the Amendment of the Affordability Control Covenant Imposed on Real Property; and
- G. Authorize the Community Development Director to execute such agreements and related documents, subject to approval as to form by the City Attorney, as necessary.

DISCUSSION:

Background

Eleanor Apartments (Project) is an eight-unit affordable housing complex for very low-income residents with mental health disabilities developed in 1997 by Canon Perdido Associates, LP, a California limited partnership (Owner) under the Low-Income Housing Tax Credit Program. The City assisted the Project by providing a 30-year loan in the

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amount of \$511,000. The current balance is \$1,103,000 (\$511,000 principal plus \$592,000 accrued interest), due November 1, 2028. The City loan was comprised of Redevelopment Agency (RDA), HOME, and Socio-Economic Mitigation Program (SEMP) funds.

Eleanor Apartments is master leased to the Mental Health Association, DBA the Mental Wellness Center. The Mental Wellness Center has managed the Project for 17 years, providing supportive services to tenants. Priority status is given to applicants who live with a mental disability, and in some cases the tenants were previously homeless. In the past few years, four out of five vacant units were filled by persons listed on the Central Coast Collaborative (C3H) Vulnerability List.

The Mental Wellness Center approached the City with a request for debt forgiveness in February 2015 because the initial 15-year Low-Income Housing Tax Credit Program compliance period had expired, and the Owner was interested in selling the Project to the organization. If the Mental Wellness Center was able to enter an agreement with the Owner to purchase the Project, and in order to make the purchase feasible, the Mental Wellness Center requested that the City forgive both the principal and accrued interest on the City loan. City staff expressed support (subject to City Council approval) to forgive the accrued interest on the City loan, but not the principal.

After extensive negotiations, the Owner and Mental Wellness Center were unable to agree on a sale price. Existing City documents require that an assignee or transferee of the Project be a not-for-profit corporation, organized under section 501(c) (3) of the Internal Revenue Code, which has a stated corporate purpose of the provision of housing low-income persons. Therefore, the Mental Wellness Center approached the Housing Authority to consider purchasing the Project, with the understanding that Mental Wellness Center would continue to operate and manage the Project under a favorable master lease agreement. The Housing Authority agreed and has been in negotiations with the Owner since January 2016 to purchase the Project. The Owner's firm sale price is \$1,725,000, and the Housing Authority is requesting the City's assistance to bridge the financing gap by amending the City Loan to forgive the \$592,000 accrued interest, increase the principal of the loan by \$122,000, and reduce the interest rate to 3%. Any purchase between the Owner and the Housing Authority will be contingent upon City Council approval of this request.

Transaction Financing

- Housing Authority Funds: \$ 500,000
- Assumed City Loan: \$1,103,000
- Additional Housing Successor Funds: \$ 122,000
- Purchase Price \$1,725,000

Amended City Loan Agreement

- Borrower: Housing Authority of the City of Santa Barbara
- Amended Loan Amount: \$633,000 (\$1,103,000 minus up to \$592,000 of accrued interest: plus \$122,000 additional funding (Housing Successor Agency Funds))
- Interest Rate: 3% (previously 6%)
- Payment Terms: Residual Receipts
- Term: 30 years

Long-term Affordability

The City's current Affordability Control Covenant Imposed on Real Property (Covenant) requires that the property remain affordable to very low-income residents until 2057. As a component of this transaction, the Covenant will be assigned to the Housing Authority and amended to extend the term 19 more years to 2076.

Staff supports this request because it will allow the Mental Wellness Center to continue to manage the property and keep its vulnerable clients housed. The transition would be seamless for the tenants, and a favorable lease arrangement with the Housing Authority will enable the Mental Wellness Center to continue to provide extensive supportive services to these vulnerable low-income individuals and families dealing with mental disabilities and homelessness.

BUDGET/FINANCIAL INFORMATION:

The source of funds for the additional \$122,000 will be from the Housing Successor Agency Fund, which receives income generated by outstanding former Redevelopment Agency loan repayments. Sufficient reserves exist to increase appropriations to cover the proposed commitment.

FINANCE COMMITTEE RECOMMENDATION:

On August 2, 2016, Council's Finance Committee reviewed and approved the recommendations of this report and forwarded them to full Council with a recommendation for approval.

PREPARED BY: David Rowell, Housing Project Planner/DER/SLG

SUBMITTED BY: George Buell, Community Development Director

APPROVED BY: City Administrator's Office