



CITY OF SANTA BARBARA

JOINT CITY COUNCIL AND REDEVELOPMENT AGENCY AGENDA REPORT

AGENDA DATE: September 16, 2008

TO: Mayor and Councilmembers
Chair and Board Members

FROM: Housing and Redevelopment Division, Community Development
Department

SUBJECT: Predevelopment Loan To Transition House For New Affordable Units
At 421 East Cota Street

RECOMMENDATION:

That the Redevelopment Agency Board and the City Council take the following actions regarding the new low-income rental housing project to be developed at 421 East Cota Street by Transition House:

- A. That the Agency Board approve a \$120,000 loan for predevelopment;
- B. That the Agency Board appropriate \$120,000 from the Redevelopment Agency Housing Setaside Fund unappropriated reserves for the predevelopment loan;
- C. That the Agency Board authorize the Agency's Deputy Director to execute a loan agreement and related documents in a form acceptable to Agency Counsel and to make nonsubstantive changes; and
- D. That Council and the Agency Board adopt, by reading of title only, A Joint Resolution of the Council of the City of Santa Barbara and the Redevelopment Agency of the City of Santa Barbara Finding that the Use of Redevelopment Agency Housing Setaside Funds as a Loan to Transition House for Developing Affordable Housing Located Outside the Central City Redevelopment Project (CCRP) Area at 421 East Cota Street Will be of Benefit to the CCRP.

DISCUSSION:

This request from Transition House is a revision to the predevelopment loan previously approved by Council on May 6, 2008. The approved predevelopment loan was in the amount of \$100,000, funded by the City with federal Home Investment Partnerships (HOME) program funds. Since then, Transition House has made refinements to their plans for construction and long-term financing. Based on these refinements, Transition House determined that it could better maximize the funds it could raise for construction and operation of the new project if two minor adjustments were made to the approved predevelopment loan:

1. Changing the amount of the predevelopment loan from \$100,000 to \$120,000; and
2. Use Redevelopment Housing Setaside funds for the predevelopment loan instead of HOME funds.

Despite the increase in the predevelopment loan, Transition House is not seeking to increase the total City/RDA subsidy (\$800,000) it anticipates requesting. As reported in last May's agenda report, Transition House requested a \$100,000 predevelopment loan that was anticipated to roll over into a permanent loan that would total \$800,000 for the construction of an 8-unit affordable housing project – both loans being HOME-funded. Transition House now requests a \$120,000 loan in RDA Housing Setaside funds for predevelopment expenses and then plans to request a \$680,000 loan from the City of HOME funds for construction.

There are several advantages to amending the predevelopment loan as requested by Transition House. By limiting the amount of HOME funds to \$680,000 Transition House is better able to take advantage of federal rental housing subsidy funds through the Section 8 program. This has the potential of adding up to \$30,000 in annual rental income to the project – funds Transition House would need to help cover the cost of providing the social services the residents are expected to need.

By using RDA Housing Setaside funds for predevelopment instead of HOME funds, the City is better able to meet HUD guidelines for project completion within two years of providing HOME funds to the project. This would have been difficult to meet because Transition House is still in the process of securing its development entitlements. By waiting to use HOME funds until the project is in construction, the City is much better able to comply with the two-year completion guideline. The Agency has sufficient Housing Setaside funds to make the proposed predevelopment loan.

There would be no other changes to the financing previously approved last April/May. To reiterate, the RDA loan would be tailored to a predevelopment situation and would be secured by a deed of trust in third position against the property. For the first two years, it would be a no-interest deferred loan. At the beginning of the third year, the loan would become a fully amortized 3-percent interest loan with a 10-year term.

However, well before the beginning of the third year, it is anticipated that Transition House would proceed through predevelopment, request \$680,000 from the City in HOME funds for construction of the project and request that the RDA predevelopment loan be converted to permanent loan with standard RDA terms, such as a 30-year term, 3-percent interest, and deferred repayment based on residual receipts (repayments made to the extent there is cash flow, with a balloon payment made upon due date of the loan).

The site of the planned new project is located outside the Central City Redevelopment Project Area (CCRP). California Redevelopment Law requires that in order for Agency Housing Setaside funds to be spent outside the CCRP, the City Council and the Redevelopment Agency must adopt a resolution with certain findings and the determination that the project is of benefit to the CCRP. The proposed resolution is attached.

Staff supports the proposed new loan, and the Finance Committee approved it at its meeting of September 9, 2008.

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