



# CITY OF SANTA BARBARA

## FINANCE COMMITTEE AGENDA REPORT

**AGENDA DATE:** September 9, 2008

**TO:** Finance Committee

**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 Finance Committee consider and recommend to the Agency Board approval of a \$120,000 loan of Redevelopment Agency Housing Setaside funds to Transition House for predevelopment of a new low-income rental housing project located at 421 East Cota Street.

### DISCUSSION:

This request from Transition House is a revision to the predevelopment loan previously approved by Finance Committee on April 22, 2008 and 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. Increase 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 April'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 a 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).

Staff supports the proposed changes to the predevelopment loan and requests the Finance Committee to recommend that the Agency Board approve the \$120,000 predevelopment loan.

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**SUBMITTED BY:** Paul Casey, Community Development Director

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