



**Mental  
Health  
Association**  
*in Santa Barbara County*  
*Creating Hope Through Understanding*

**ATTACHMENT**

September 25, 2008

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**Mr. David Gustafson, Housing and Redevelopment Manager**  
Housing and Redevelopment Division  
City of Santa Barbara  
630 Garden St.  
Santa Barbara, CA 93101

**RE: REQUEST FOR ADDITIONAL CITY SUBSIDY FOR THE COMPLETION OF  
GARDEN STREET APARTMENTS**

Dear Dave:

This letter requesting additional subsidy for our Garden Street Apartments project has been prepared in consultation with the City Housing Authority. As you will recall, the Mental Health Association (MHA) sought and secured assistance from the Housing Authority to manage our project's complicated financing and construction issues seven months after construction began. While the MHA has always had the right goals with respect to this project, we quickly learned that a project of this magnitude is not easily built out by a small non profit that is not a developer. Suffice it to say, with the Housing Authority's advice and assistance, we have the project back on schedule, preserved its Low Income Housing Tax Credits (a major albeit complicated source of project equity), and shaved some of our ever rising development costs. We are now in the home stretch and are doing everything possible to complete the project by its December 1<sup>st</sup> due date.

Unfortunately, finalizing the project's financial structure and filling identified funding gaps due to unanticipated cost overruns remains a significant hurdle. The funding gap we are trying to fill for all phases of the project is approximately \$2.49 million.

This letter seeks additional City subsidy of \$1.2 million for completion of the 51 low income rental housing units that are part of the project. As you know, this project is much more than an apartment complex of 51 units. It is very large and includes two office condominiums and underground parking of 110 spaces. Condominium 1 is the housing portion--51 low income rental units for downtown workers and clients of MHA. Condominium 2 is the Mental Health Association's (MHA) new Fellowship Club for clients and its offices. Condominium 3 is new office space that the City is purchasing from MHA. All totaled, the subterranean parking and three stories of above grade building results in a gross floor area of 113,000 square feet.

The original budget for the entire project was \$24.66 million. The new projected budget is \$27.15 million. The Housing Authority has concluded that our original budget was faulty in certain areas. Many of the line items for architecture, engineering, survey work and legal had been underestimated and were quickly exceeded. While the Housing Authority has assisted us in implementing cost saving measures and pursuing value engineering wherever possible, the project remains over budget. In addition to the aforementioned soft costs being over budget, construction supervision, site work, structural concrete, foundation work, finish carpentry and rough plumbing are significantly over budget. Given that our "construction approach" with Trabucco General Incorporated is formatted on a subcontractor bid plus management fee basis and material costs have increased dramatically over the past year, these cost overruns are real and unavoidable.

Mr. David Gustafson  
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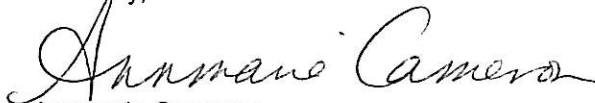
In looking at the housing portion of the project's budget, it was originally set at \$21.6 million and included a contingency allowance of \$536,000. Final costs are now projected at \$23.8 million—an additional \$2.2 million. The details of these rising costs are shown on the enclosed spread sheets. With the contingency now fully expended and additional remaining costs of \$2.2 million to complete the housing portion, we have been exploring all avenues to bridge this gap. We are pleased to report that we have secured \$1 million in Mental Health Services Act funding (Prop 63 monies) from the County. This leaves a balance of \$1.2 million; and we have explored every option available before making this request.

In terms of overall City subsidy for the housing units in this project, \$5.1 million has been pledged to date—or \$100,000 per unit. This added request of \$1.2 million, if approved, will take the City's subsidy to \$123,530 per unit. While we are not pleased about having to make this request, we believe that on a per unit basis we are in a "safe harbor" given past City subsidy on similar low rent housing developments of a complex nature.

The remaining \$290,000 in added overall project costs we face are being applied to Condominium 2 which will house our Fellowship Club and MHA offices. That is being addressed by converting our original permanent loan for Condo 2 from a taxable to tax exempt basis, and using the savings on interest rates to increase the loan amount. Tax exempt debt comes at a significantly lower interest rate such that we can incur and service a higher debt for this portion of the project. Because the purchase agreement with the City for Condominium 3 is fixed at \$1.164 million, there is no method for allocating higher construction costs to that portion of the project.

Thank you for considering this request. Should you or your staff have any questions about this letter or the enclosed spread sheets, please do not hesitate to contact me. The Mental Health Association greatly appreciates the assistance that you and your talented staff have brought to this important project and the support the City has provided us in helping to serve our community's most vulnerable citizens.

Sincerely,



Annmarie Cameron  
Executive Director, Mental Health Association in Santa Barbara County

encls.

cc: R. Pearson  
R. Fredericks  
S.Szymanski  
G. Lyons