



# CITY OF SANTA BARBARA

## FINANCE COMMITTEE AGENDA REPORT

**AGENDA DATE:** July 14, 2009

**TO:** Finance Committee

**FROM:** Housing and Redevelopment Division, Community Development Department

**SUBJECT:** Loan For Affordable Housing At 421 East Cota Street

### RECOMMENDATION:

That the Finance Committee recommend that the City Council and Redevelopment Agency Board take the following actions regarding the proposed "Mom's Place" affordable housing project at 421 East Cota Street to be developed by Transition House using a new City loan of \$680,000:

- A. That Council approve a loan of \$680,000 of federal Home Investment Partnerships Program (HOME) funds to Transition House with subsequent assignment to Mom's L.P.;
- B. That Council approve funding the proposed new HOME loan subject to the condition that Mom's L.P. receives low income housing tax credits and state loan funds, or other comparable financing as approved by staff and the City Attorney;
- C. That the Agency Board approve amending its 1999 acquisition loan and its 2009 predevelopment loan to Transition House so that the terms of the existing loans are consistent with the proposed new HOME loan and to approve assignment of the two existing Agency loans to Mom's L.P.; and
- D. That the Agency Board approve subordination of the Agency loans to a new bridge loan, to a new permanent loan from the State of California, and to the regulatory agreements and covenants required under the Low Income Housing Tax Credit Program and the state's Supportive Housing Program.

### EXECUTIVE SUMMARY:

Transition House seeks \$680,000 in HOME funds to demolish a building that formerly housed the Mom's Restaurant and to construct a new mixed-use building with affordable rental housing units for homeless families and an infant care center. Transition House acquired the site in 1999, with Agency assistance, which includes an existing mixed-use building on the property with eight residential units, which Transition House plans to rehabilitate.

Two existing Agency loans will need to be assigned to the limited partnership created for the purpose of receiving tax credits. The documents will also need to be subordinated to new financing for the project and related regulatory agreements. The existing Agency loans plus the proposed new HOME loan total \$1,120,000. The City has sufficient HOME funds for the proposed project and faces an August 30<sup>th</sup> deadline to commit them.

The proposed project concludes a decade-long Transition House plan to create a cohesive campus dedicated to the full and lasting recovery of homeless families.

### **BACKGROUND:**

For 25 years Transition House has provided food, shelter and services to homeless families in Santa Barbara. Transition House acquired an old warehouse located at 434 East Ortega in 1992 and converted it to a family homeless shelter with ground-floor administrative offices and program space. In 1999, the family owners of the former Mom's Restaurant sold their property at a discounted price to Transition House. This property included the Mom's Restaurant building on Cota plus an adjacent modern mixed-use building at the corner of Olive and Cota with eight apartments located over ground-floor commercial space (renamed the Cordover Center after the organization's original Executive Director, Jill Cordover).

The Mom's property and the family homeless shelter on Ortega are located on the same block and are connected via a driveway (see attached site plan). After acquiring the Mom's property, Transition House was then able to embark on an ambitious plan to develop the properties as one cohesive campus that addresses the needs of homeless families in a comprehensive fashion. Transition House first created new space for offices and its programs and support services by converting the ground floor commercial space in the Cordover Center. This freed up the ground-floor space in the family shelter on Ortega and enabled Transition House to devote that building exclusively to shelter use. Transition House renovated the shelter and reconfigured the space to give families more privacy and to increase the number of families served.

Meanwhile, as vacancies arose in the eight apartments on the second floor of the Cordover Center, they were filled with client families that successfully completed Transition House programs and demonstrated readiness for more independent living. As described below, the focus now shifts to the Mom's Restaurant building, which has been leased during the interim to antiques and furniture merchants (Cominiche's).

### **PROPOSED PROJECT:**

Transition House plans to demolish the Mom's Restaurant building and construct a new, two-story mixed-use building with 9,700 square feet that will feature eight new apartments for client families and a 2,000 square foot infant care center and offices on the ground floor. The new building will include an elevator and a bridge connection to the adjacent Cordover Center building. With its location in a flood zone, the site area for the new building will be raised about three feet and will include access ramps. The Cordover Center will receive a new roof and repairs will be made to the eight existing apartments.

The proposed eight new units will include six 2-bedroom units with 850 square feet and two 3-bedroom units with 1,175 square feet. When combined with the existing eight units, this will result in four 1-bedroom units, ten 2-bedroom units, and two 3-bedroom units. Rents will range from \$437 to \$1,050 per month, depending on size and income targeting. The units will be targeted exclusively to low and very-low income households. Six units will be targeted to households earning 25 percent of the Area Median Income (AMI). Eight units will be targeted to 50 percent AMI, and two units will be targeted to 60 percent AMI.

Transition House submitted their application for preliminary design review in May. The proposed mixed uses are allowed in the C-M zone where the site is located. While Transition House is not seeking a density modification, they are seeking a parking modification. They submitted their pre-application for the parking modification in May and hope to appear before the City's Staff Hearing Officer in August. Their application for design review was also submitted in May. The City's Architectural Board of Review reviewed their conceptual design on June 29, and Transition House is working on incorporating their comments into their re-submittal due in the coming weeks.

#### **DEVELOPMENT TEAM:**

In order to be eligible for tax credit financing, Transition House established Mom's L.P., a California limited partnership, which consists of two general partners – Santa Barbara Housing Assistance Corporation and Garden Court, Inc. Both parties serve as general partners in a number of affordable housing projects, including El Carrillo and Garden Court. Transition House will retain ownership of the property and will ground-lease it to Mom's L.P. Transition House will also sell the existing buildings at the Cordover Center and the Mom's Restaurant Building to Mom's LP. The new building to be erected at 421 East Cota will also be owned by Mom's LP. Transition House will have an option to acquire both buildings and terminate the ground lease with Mom's L.P. after the first 15 years of the new project's operation.

The Housing Authority will assist Transition House in managing construction of the new project, just as they assisted Transition House with the renovation of the Ortega family shelter. Artisan Court, the new affordable housing project planned by the Housing Authority, is located directly across the street. The two projects share the same architecture team of Christine Pierron and Mark Wienke.

#### **PROPOSED FINANCIAL PLAN:**

1. Original Financing: Transition House acquired the property in 1999 for \$3 million by raising nearly \$2 million in private funds and securing first mortgage financing from Santa Barbara Bank & Trust (SBBT) in the amount of \$727,578. The SBBT loan was refinanced in 2006 with a new loan of \$675,000 that Transition House plans to pay-off at the start of construction of the new project. The Agency provided the gap financing for the acquisition, which amounted to \$320,000. Over the last ten years, interest has accrued on the Agency acquisition loan (resulting in a current balance of \$420,000), which will be part of the permanent financing and will be amended as described below.

2. Costs of Proposed New Project: The total development cost of the new project is roughly \$8 million. This includes (i) acquisition of the existing buildings, (ii) rehabilitation of the existing eight affordable units in the Cordover Building, (iii) construction of the new mixed-use building with eight new affordable units and including the infant care center and office space for supportive services. (iv) (See details in Attachment 3).

3. Proposed New Financial Plan: Transition House has retained Frank Thompson Housing Consultants to prepare the financial plan. Roughly half of the \$8 million project development cost will be paid for with tax credits. They also plan to receive roughly \$1 million from the state's Supportive Housing Program. Montecito Bank & Trust (MBT) has made a commitment to provide a bridge loan which will cover construction costs and fund to retire the existing SBBT loan. The MBT loan will be repaid upon completion of project construction when tax credits start flowing and the state loan closes. (See details on amounts in Attachment 3 and see descriptions of all financing sources below.)

The combined City and Agency contribution will total \$1,120,000, which is comprised of the proposed new HOME loan (\$680,000), the Agency predevelopment loan (\$120,000), and the Agency's acquisition loan (\$320,000). This subsidy amount is consistent with other affordable housing projects - \$40,000 per unit for the 1999 acquisition of the existing eight units and \$100,000 per unit for the proposed eight new units, resulting in an average per unit subsidy for the whole project of \$70,000.

a. Low Income Housing Tax Credits: Critical to the project's financing is the application Mom's L.P. submitted in early June to the California Tax Credit Allocation Committee (TCAC) – a highly competitive program designed to generate cash for low income affordable rental housing projects. If Mom's L.P. is awarded by TCAC, then it will be authorized to sell low income housing tax credits to investors. Transition House estimates that proceeds from the sale of tax credits would result in a cash infusion of \$4,231,000 to the project. Transition House has until August 17, 2009 to perfect their application (including documentation of the \$680,000 commitment of HOME funds requested here). TCAC is scheduled to announce their awards in September.

b. State Supportive Housing Program: Another critical component of the financial plan is the Supportive Housing Program. This program is a new bond-funded program operated by the State of California's Department of Housing and Community Development (HCD) to provide financial assistance to permanent affordable housing projects for the homeless that include supportive services. Transition House is seeking a 55-year loan in the amount of \$1,037,174. The HCD loan would not close until after construction is complete, and loan proceeds would be used to repay the bridge loan described below.

c. Bridge Loan from Montecito Bank & Trust: Transition House has secured a commitment for a short-term bridge loan from Montecito Bank & Trust (MBT) in the amount of \$1.1 million. Proceeds from this loan would be used to retire the existing first mortgage with SBBT and will be used for construction. The MBT loan will have a fixed interest rate of 6 percent and a term of 2 years.

d. *Proposed New HOME Loan:* Transition House has requested \$680,000 in permanent financing to be used exclusively for construction of the eight new affordable housing units. This request is consistent with what was anticipated when the Agency Board approved the Transition House predevelopment loan last September. Once the tax credit financing is in place, the HOME loan will be assigned to Mom's L. P.

e. *Existing RDA Loans:* The 1999 Agency acquisition loan and the 2009 Agency predevelopment loan will be assigned by Transition House to Mom's L.P. It will also be necessary to extend the term of the loans and the repayment terms to make them consistent with the proposed new HOME loan (as described below).

f. *Transition House Contributions:* Transition House will make contributions to the project in the form of a seller "carryback" loan, deferred developer fee, and funds they raise from private sources for the infant care center. They will also be paying rent to Mom's L.P. for their office and program space and for the infant care center for at least 15 years until their option to purchase comes up.

4. *Terms, Subordination and Security of City and Agency Loans:* The proposed new HOME loan and the two existing Agency loans will bear interest at 3% per year, with payments due on a "residual receipts" basis. This means that 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 which remains after 60 years will be due and payable at that time. These terms are typical of the City's and Agency's affordable housing loans.

During construction, the three City and Agency loans would be subordinate to the MBT bridge loan. After construction concludes, the City and Agency loans would be subordinate to the HCD loan and to the regulatory agreements related to HCD and the tax credits. This subordinate position is a typical position for local government lenders in funding affordable housing projects.

The three loans would be secured by Mom's L.P.'s leasehold interest in the land and by Mom's L.P.'s ownership of the Cordover Center and the new mixed-use building. Because of the large amount of cash equity obtained from the sale of the low income housing tax credits which bears no debt, the proposed HOME and existing Agency loans will be well secured by the leasehold interest and the project's equity after completion. However, as is often the case, the loans will not be fully secured during the construction phase, so the City and Agency are assuming some risk should the project not go forward to completion. Staff believes this risk is low and is acceptable under the circumstances. The solid track record of Transition House and the involvement of the Housing Authority provide great assurance.

**BUDGET/FINANCIAL INFORMATION:**

The City has sufficient federal HOME funds for the proposed project. In fact, the City faces an August 30<sup>th</sup> deadline to commit these funds, which are funds HUD earmarks for use by specially designated nonprofits known as Community Development Housing Organizations (CHDOs). HUD sets aside 15 percent of the City's annual HOME award for exclusive use by CHDOs. Transition House is one of Santa Barbara's three nonprofit organizations that meet the federal CHDO requirements.

**CONCLUSION:**

Staff supports the proposed project and requests that the Finance Committee recommend to the City Council and Agency Board that they take the actions proposed herein. In this one new building, Transition House will provide the three critical elements that constitute their comprehensive approach to treating homeless families – housing, child care, and training/support services – resulting in full and lasting recovery.

- ATTACHMENTS:**
1. Letter from Transition House
  2. Site Location Map
  3. Development Costs/Financing Plan

**PREPARED BY:** Brian Bosse, Housing and Redevelopment Manager/SK

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

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



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EMAIL: admin@transitionhouse.com

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June 17, 2009

Steven Faulstich  
City of Santa Barbara  
P. O. Drawer P-P  
Santa Barbara, CA 93102

RE: Mom's Apartments, Transition House, 421 and 425 E. Cota Street,  
8 New Permanent Apartments for Homeless Families and Child Care

Dear Mr. Faulstich,

Transition House appeared before the Redevelopment Agency in May, 2008 to review the plan to construct eight new apartments of permanent housing for the homeless, a new child care center and space to provide supportive services on property it owns at 421 E. Cota Street, and to renovate the eight apartments owned by Transition House in the building at 425 East Cota Street. The Redevelopment Agency approved the loan request of Transition House for \$120,000 for predevelopment and design expenses for the proposed project.

Transition House hereby requests final review of its financing plan and approval of its request for \$680,000 of HOME funds toward development and construction costs. Specifically, Transition House has established a new limited partnership, Mom's L.P., a California Limited Partnership, to hold the ownership of the existing buildings to be renovated and to construct the new building. Transition House requests that the new HOME funding in the amount of \$680,000 be committed to Mom's, L.P., and that the existing loans of Transition House at this location, be approved to be assumed by Mom's, L.P., and their terms modified so that each of the loans are extended for a 60 year period, to be co-terminus with the new State financing for the project.

## Project Planning Concept

This building site comprises the old "Mom's Restaurant" and is adjacent to and legally on the same parcel as our existing building with eight affordable apartments and service space. Transition House proposes to build eight new permanent housing apartments for homeless families graduating from its present shelter and transitional housing program. These 8 new units would be situated behind and above a new ground floor infant child care space for 25 infants, and other supportive services at 421 E. Cota Street. The project also envisions minor rehabilitation and improvement of the existing eight affordable units situated over the administrative offices located at 425 E. Cota Street, including upgraded windows and insulation, appliances, lighting, and mechanical equipment, and a new solar photovoltaic system.

The children served in the new Infant Care Center at 421 East Cota will come from Transition House's client base along with babies from other very low-income families participating in Transition House's Homelessness Prevention Program.

## Project Development Team

Transition House now operates an eight-unit complex at 425 E. Cota Street next door to Mom's, and 70 beds at its now-fully-renovated emergency shelter at 434 E. Ortega Street, all in close proximity to the project site. Transition House also owns and operates a 19-unit affordable apartment complex located at 320 S. Salinas Street. Transition House's experience demonstrates its ability to be able to successfully manage the eight new apartments in the new building.

Transition House plans to work with the Santa Barbara City Housing Authority to manage the construction of the new facility as the developer. In 2004, Transition House successfully employed the Housing Authority's development staff to manage its \$2 million shelter renovation construction. The two agencies have collaborated since 1992 serving Santa Barbara's very low income population, and both look forward to working together on the Mom's project.

Transition House has also retained Frank Thompson Housing Consultants to prepare the finance and business plan, obtain necessary financing, including low income housing tax credits and available State and federal financing, and to work closely with the Housing Authority to manage the design and development teams.

The Housing Authority is concurrently financing the Artisan Court project (formerly Haagen Printing) across Cota Street from Transition House. If timing and other factors allow, both projects may move through some aspects of financing, and construction together, and benefit from close cooperation between the staff of each agency. In addition, the child care center to be built in Transition

House's new project, along with educational programs and career development services aimed at engendering economic stability in participants, will be offered to qualifying low-income residents of the Artisan Court project. These services are provided at the 425 E. Cota Street location as part of Transition House's Homelessness Prevention Program.

### Project Financial Elements

The ability of the Low Income Housing Tax Credit program to generate large amounts of capital for new permanent housing for the homeless has been demonstrated in several recent projects in Santa Barbara. With the goal of reducing Transition House's City funding request to the minimum, safe level that can be anticipated, the ownership of the new project and existing development needs to be legally structured in a limited partnership, so that low income housing tax credits can be obtained and equity funding obtained. Transition House, with Frank Thompson's assistance, has established Mom's, L.P., a California Limited Partnership, including Santa Barbara Housing Assistance Corporation, and Garden Court, Inc. as general partners. We have applied to the State Treasurer's Office on June 9, 2009, and anticipate receiving \$ 4,230,726 in limited partner equity from low income housing tax credits toward total project costs.

Santa Barbara Housing Assistance Corporation serves as general partner in the Garden Court project, El Carrillo project, and 9 other affordable housing projects throughout California, with other housing authorities and private investors. The Housing Authority of the City of Santa Barbara is available to provide technical assistance with management, or other ongoing facilities issues if requested by Transition House.

Transition House anticipates borrowing \$1,037,174 from the State of California Department of Housing and Community Development Supportive Housing Program. This is a new program, bond-funded, to provide 55 year financial assistance for qualified permanent housing for the homeless where substantial supportive housing services are available. This supportive housing service model is currently offered at each of Transition House's properties.

Mom's, L.P. has applied to and been approved by Montecito Bank and Trust for an acquisition and construction loan in the amount of \$3,475,400 for the project. This loan would be fully repaid when the State loan is received and the tax credit equity is received by the project.

Although the exact costs to construct and develop the new facility can not be known at this time, we have based our costs on recent low income housing construction costs in the City of Santa Barbara, plus a contingency intended to cover higher costs over the estimated two-year period until the facility could be completed.

The estimated total project cost is \$7,987,453, including the cost of the eight new apartments and infant day care center at \$5,162,453. The total cost of acquisition is \$2,505,000, based on our appraisal dated June 1, 2009, including \$1,252,500 for the apartments, above, and \$1,252,500 for program and administrative space at the first floor of the building at 425 East Cota Street. The estimated costs to renovate the existing building is \$320,000.

The June 1, 2009 appraisal of Wayne Holden, SRPA, shows land value at \$4,395,000. Transition House will keep the land, free and clear, and execute a 90 year ground lease with Mom's, L.P. We seek City approval to have Mom's, L.P. assume the existing City loan for \$320,000 principal plus approximately \$100,000 in accrued and unpaid interest, and the recent City loan of \$120,000 for predevelopment. These loans would be secured against the leasehold interest and ownership of the buildings held by Mom's, L.P. The Transition House ground lease will subordinate to the mortgage financing on the buildings (City, Redevelopment Agency, Montecito Bank and Trust and State loans).

Transition House hereby requests an allocation of HOME funds in the amount of \$680,000 to be added as a loan, to the existing City financing on our property. Transition House also requests City cooperation to restructure the existing financing as follows:

- \$320,000 existing Redevelopment Agency loan for acquisition of the property in July, 1999 plus accrued interest of approximately \$100,000 as of July 30, 2009, with the loan due date extended from July 30, 2029 to July 30, 2069, subordinate to acquisition and construction financing of Montecito Bank and Trust (or similar lender) and State of California loan, and;
- \$120,000 existing Redevelopment Agency loan for predevelopment expenses of the project, with a loan due date of July 30, 2069 and 3% simple interest deferred as residual receipts through the life of the loan, subordinate to the Montecito Bank and Trust loan and the State of California loan, and;
- \$680,000 new HOME loan for development expenses of the project, with a loan due date of July 30, 2069 and 3% simple interest deferred as residual receipts through the life of the loan, subordinate to the Montecito Bank and Trust loan and State of California loan..

We have included a tabular time frame for the project, below, showing our continuing steps, culminating in construction start in May, 2010, completion in August, 2011, followed by occupancy by December, 2011.

Transition House appreciates the past support we have received from the City of Santa Barbara and we are grateful to City for considering our request.

We have included a detailed projected draw schedule for City and other predevelopment expenses, a copy of our architect proposal, a copy of our recent property appraisal, and a schedule showing the areas and cost allocations between the residential and non-residential construction, new and existing parts of the building.

Transition House has provided notice to the existing commercial and one residential tenant on the building site, pursuant to federal requirements, and has included costs of relocation in its development budget, in compliance with federal statutes.

If you have further questions, please don't hesitate to contact me at 966-9668, or the other members of our project team.

Sincerely,



Kathleen Baushke  
Executive Director

cc: Skip Szymanski, Housing Authority of the City of Santa Barbara  
Rob Fredericks, Housing Authority of the City of Santa Barbara  
Frank Thompson, Frank Thompson Housing Consultants



## Attachment 3

### Development Costs & Financing Plan for Mom's Place Project

#### Original Financing (1999)

SBB&T:	\$727,578
RDA Acquisition Loan:	320,000
Trans House Fundraising:	<u>1,952,422</u>
Total:	\$3,000,000

SBB&T refinanced original loan in 2006 with new 15-year note of \$675,000. Over the last 10 years, interest has accrued on the RDA Acquisition Loan, resulting in a current balance of \$420,000. This new revised amount appears in the lists of funding sources below.

#### Costs of Proposed New Project

New Construction:	\$5,163,000
Renovation:	320,000
Acquisition by Moms LP:	<u>2,505,000</u>
Total	\$7,988,000

#### Funding Sources During Construction

MBBT Bridge Loan:	\$3,475,000
Proposed HOME Loan:	680,000
RDA Predev Loan:	120,000
RDA Acq Loan:	420,000
Tax Credit Equity Adv:	1,270,000
Seller Carryback:	470,000
Deferred Developer Fee:	568,000
Transition House:	<u>985,000</u>
Total	\$7,988,000

#### Permanent Funding Sources

Tax Credits:	\$4,231,000
State Supportive Hsng:	1,037,000
Proposed HOME Loan:	680,000
RDA Predev Loan:	120,000
RDA Acq Loan:	420,000
Seller Carryback:	240,000
Deferred Dev Fee:	257,000
Transition House:	<u>1,003,000</u>
Total	\$7,988,000