



CITY OF SANTA BARBARA

FINANCE COMMITTEE AGENDA REPORT

AGENDA DATE: June 15, 2010

TO: Finance Committee

FROM: Community Development Department

SUBJECT: Loan For New Housing Authority Project – Bradley Studios

RECOMMENDATION:

That the Finance Committee consider and recommend that Agency Board and Council:

- A. Approve and appropriate \$1.6 million from the unappropriated reserves of the Redevelopment Agency (Agency) Affordable Housing Setaside Fund for a loan to Bradley Studios L.P. to assist in the development of a 54-unit low income rental housing project at 512-518 Bath Street and, if required, approve subordination of the loan to construction financing and tax credit regulatory agreements; and
- B. Approve amending the terms of the Agency's 2008 site acquisition loan of \$4.8 million to the Housing Authority to make terms of the existing Agency loan consistent with the terms of the new Agency loan, and, if required, approve subordination of the existing loan to construction financing and tax credit regulatory agreements.

EXECUTIVE SUMMARY:

The City Housing Authority has requested a new Agency loan of \$1.6 million to assist in the development of a 54-unit low income housing project (53 studio units plus one manager's unit). The Bradley Studios project will be built on the site that the Housing Authority acquired and landbanked for this purpose in 2008 with a \$4.8 million loan from the Agency.

The target population for the proposed new units includes low income downtown workers and special needs/homeless persons. The site borders directly on Mission Creek. In accordance with the Lower Mission Creek Flood Control Project, the new project will be set back 25 feet from the new top of bank. Moreover, the Housing Authority will dedicate an access easement along the top of bank in favor of the City and County and will make a monetary contribution to future creek improvements planned for the property.

The majority of funding for the project is expected to come from low income housing tax credits, for which the Housing Authority is preparing an application for \$8.7 million that is due July 7, 2010. Total Agency assistance to the project would equal the sum of \$6.4 million, which represents a per unit subsidy of \$118,519 – an amount consistent with other recent affordable housing projects. Staff supports this request for Agency funding.

BACKGROUND:

On April 22, 2008, the Agency approved a loan of \$4.8 million to the City Housing Authority to acquire and “landbank” a site located in the Agency’s project area at 512-518 Bath Street for future housing development. The site, previously owned by the Bradley family, covers 1.06 acres and, at the time of acquisition, the site included a 10-unit apartment building (circa 1960), carports, swimming pool, and four, small dilapidated houses that had been previously yellow-tagged by the City. The Housing Authority has since demolished the dilapidated houses and has maintained as part of their stock of affordable housing the 10-unit apartment building that sits at the rear of the lot and encroaches into the 25-foot setback currently established for Mission Creek. The apartments will be demolished in order to create a new affordable housing project and make improvements to Mission Creek.

As rental income has exceeded operating costs for the existing apartments, the Housing Authority uses this net operating income to help cover predevelopment costs for the new project. The new project is planned to be very similar to the Housing Authority’s Artisan Court project at 416-424 East Cota (currently in construction) in terms of ownership, financing, target population, and number of units.

DISCUSSION:

Project Design

The Housing Authority selected the architecture firm of Peikert Group Associates (PGA) to design Bradley Studios. The project consists of seven structures of two and three stories totaling 27,688 gross square feet. There will be 53 studio apartments of 321-445 net square feet each, a two-bedroom unit for the on-site manager, a 1,400 square foot community center, and 700 square foot recreation room. For parking, there will be 30 spaces for cars (13 enclosed single car garages tucked under the residential structures and 17 uncovered spaces) and 38 spaces for bicycles (32 covered spaces and 6 uncovered spaces).

The structures are configured around a central courtyard which serves as common open space. From there, pathways lead to additional open space at the rear of the property adjacent to Mission Creek. The craftsman style of the architecture and the height, bulk and scale of the project are all compatible with the neighborhood.

The project was conceptually reviewed by the Architectural Board of Review and is scheduled to appear before the City’s Staff Hearing Officer on June 16. The Housing Authority seeks a density bonus (lot area modification) to permit 54 units on a site zoned for 29 units and parking modification (30 spaces to be provided instead of 69). As with previous Housing Authority projects like Artisan Court and El Carrillo, staff expects the density bonus will be approved based on the substantial public benefit, attractive design, small unit sizes, acceptable building size and neighborhood compatibility. Staff expects the parking modification to be approved based on several findings, including that the project will serve a population that typically does not own cars, is in a downtown

location with good access to bus routes, and will be managed by the Housing Authority which has the ability to restrict and monitor tenants' vehicle ownership. The proposed new Agency loan would be contingent upon the project securing all site plan and design approvals.

Mission Creek

The rear of the site is located within the Lower Mission Creek Flood Control Project area. This project is designed to increase flood water conveyance capacity and enhance recreational opportunities and riparian habitat. The creek will be widened shifting the new top of bank farther west into the site. The new construction will be situated so as to ensure a 25-foot setback from the new top of bank. The Housing Authority has agreed to dedicate an access easement along the top of bank in favor of the City and County at no cost. Moreover, the project will make a monetary contribution of approximately \$200,000 to future creek improvements planned by the City and County that include a new containment wall and restoration activities like removing non-native vegetation and replanting in the setback area.

Affordability

All 53 units will be affordable to low, very low, and extremely low income persons. The range of rents includes the following levels targeted to Area Median Income (AMI):

<u>Unit Count</u>	<u>Income Target</u>	<u>Income Limit</u>	<u>Initial Rent Level</u>
16	30% AMI	\$15,540 (extremely low)	\$388
27	40% AMI	\$20,720 (very low)	\$518
10	60% AMI	\$31,080 (low)	\$777

This schedule of rents and incomes is required under the tax credit regulations, is lower than the City's required restrictions for affordable low income housing, and is far below the market rent for studios (\$1,095). Like the City's restrictions, the rents and income limits may vary in accordance with the AMI, as established annually by the U.S. Department of Housing and Urban Development. The City will require that an affordability control covenant be recorded against the property with a term of 90 years.

Proposed Project Financing

The development cost of the project (excluding land) is budgeted at \$10,344,532. The sources of this amount will be:

New Agency Loan:	\$1,600,000
Tax Credit Equity from Sale of Tax Credits:	8,677,600
Deferred Housing Authority Developer Fee:	10,932
Deferred Interest on Agency Loan:	<u>56,000</u>
Total:	<u>\$10,344,532</u>

The amount of the proposed new Agency loan will not exceed \$1.6 million. By the time the loan closes, after the anticipated award of tax credits, the loan amount will likely be slightly less. This is due to a provision in the existing 2008 Agency loan regarding the operation of the existing 10-unit apartment building. As mentioned above in the

Background discussion, the rental income from these units exceeds their operating costs, resulting in net operating income (NOI). Pursuant to the 2008 Agency loan, the Housing Authority is required to use this NOI on predevelopment expenses for the new affordable housing project. To date, NOI accruals have reached \$77,000, and NOI will continue to accrue until the 10-unit apartment building is demolished. At that point, the total NOI will be calculated and this amount will be subtracted from the \$1.6 million loan amount.

When the new Agency loan amount of \$1.6 million is added to the existing 2008 Agency loan amount of \$4.8 million, the total Agency subsidy for the project equals \$6.4 million, or \$118,519 per unit. This subsidy level is slightly higher than the total per unit subsidy provided for Artisan Court, the Housing Authority project awarded tax credits last year and currently under construction. The total subsidy for Artisan Court was \$93,000 per unit. The biggest reason for the difference in subsidy levels is due to the reduced amount of tax credits expected for Bradley Studios. The tax credit award for Artisan Court was augmented with \$1.7 million in American Recovery and Reinvestment Act of 2009 (ARRA) funds that will not be available to Bradley Studios. The ARRA funds accounted for a per unit subsidy of roughly \$30,000. Additionally, the Bradley Studios project is less dense than Artisan Court, and the units are slightly larger. Thus, staff considers the subsidy requested for Bradley Studios to be reasonable and consistent with other recent affordable housing projects.

Terms and Security of the New Agency Loan

The proposed new Agency loan 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 55 years will be due and payable at that time. These terms are typical of the Agency’s affordable housing loans.

The loan will be secured by a trust deed recorded against the property. Because of the large amount of cash equity obtained from the sale of the low income housing tax credits, the new Agency loan will be well secured by the project’s equity after completion of the project. However, as is often the case, the loan would not be fully secured during the construction phase, so the Agency is assuming some risk should the project not go forward to completion. Staff believes this risk is low and is acceptable, given the solid track record of the Housing Authority.

The award of tax credits is critical to the project going forward and is a condition of the proposed new Agency loan. The borrower on the new Agency loan will be Bradley Studios L.P., the limited partnership established for the purpose of securing the tax credits. The project’s ownership structure would resemble that of Artisan Court. The land is owned by the Housing Authority and would be leased to Bradley Studios L.P. The new buildings would be owned by Bradley Studios L.P. and master-leased to the Housing Authority who would manage the project. Upon conclusion of the 15-year tax credit period, the Housing Authority would acquire the buildings, and Bradley Studios L.P. would be dissolved.

As an implementation strategy for the “Ten-Year Plan to End Chronic Homelessness Throughout Santa Barbara County, Bringing Our Community Home,” the City, working in conjunction with the Housing Authority and the Ten-Year Plan organization, will determine a specific number of units in the Bradley Studios project that will be targeted to serve the chronically homeless within the City, as identified by a possible City-sponsored outreach program. The agreement that results from this discussion will be incorporated into the loan agreements and the covenant, as appropriate, and implemented on behalf of the City by the Housing Authority working together with the Ten-Year Plan organization.

Revisions to the 2008 Agency Loan

The Agency’s \$4.8 million land acquisition loan made to the Housing Authority in 2008 was designed for landbanking of the site. The loan anticipates that a new affordable housing project would be approved by the year 2011, and that during this predevelopment period, the loan bears no interest and does not require any interim payments. If no new project is approved by the year 2011, then the repayment terms would convert to a fully amortized 3 percent interest loan with a 10-year term. However, with the approval of the new project and as recommended in this report, the loan’s repayment terms should be amended to convert to those of standard Agency loans, i.e. 3 percent interest rate, payments on a residual receipt basis, all due in 55 years from the date of the loan amendment. Also, the construction lender and tax credit regulations may require that the 2008 Agency loan be made subordinate to their liens.

Replacement Housing and Relocation Plans

The Replacement Housing Plan approved by the Agency Board on April 22, 2008 covers all residential structures on the site that will and were already demolished. No changes to the plan will be necessary. Existing tenants will be provided relocation benefits in accordance with State and Federal law and pursuant to a relocation plan prepared by the Housing Authority.

Project Timing

The Housing Authority’s application for low income housing tax credits is due July 7. If awarded the tax credits, they expect to close on the project financing before the end of calendar year 2010 and commence construction no later than February 2011.

BUDGET/FINANCIAL INFORMATION:

The Agency has sufficient reserve funds available in the Agency’s Fiscal Year 2011 Affordable Housing Set-aside Fund budget for this project. The use of these funds for this project will conform to all applicable state and federal laws and regulations. With the anticipated award of federal tax credits, the total sum of \$6.4 million in Agency funds would leverage \$8.7 million in private capital brought to the Santa Barbara community by outside tax credit investors.

SUSTAINABILITY IMPACT:

Bradley Studios encourages alternate forms of transportation through its downtown location, proximity to jobs, public transportation and services. Moreover, members of the project's target population often do not own cars.

Bradley Studios has been designed to include many environmentally friendly features, including photovoltaic panels on the roofs that will provide a significant portion of the project's electrical needs, energy efficient insulation and glazing systems, on-demand water heating and energy efficient space heating systems to reduce energy consumption. The units are small; they allow for maximal use of the site and have been designed to maximize cross ventilation and natural day lighting. To the maximum feasible extent, construction materials will be high in recycled content and produced regionally. Finish materials will be selected to minimize the off-gassing of volatile organic compounds.

Bradley Studios also features bioswales for site drainage, landscaping with drought-tolerant plants throughout the site, and creek improvements made in accordance with the Lower Mission Creek Flood Control Project.

ATTACHMENT: Letter from City Housing Authority

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

SUBMITTED BY: Paul Casey, Community Development Director

APPROVED BY: City Administrator's Office



HOUSING

AUTHORITY OF THE
CITY OF SANTA BARBARA808 Laguna Street / Santa Barbara
California / 93101Tel (805) 965-1071
Fax (805) 564-7041

May 17, 2010

Mr. Brian Bosse, Housing and Redevelopment Manager
Housing & Redevelopment Division
City of Santa Barbara
630 Garden St.
Santa Barbara, CA 93101

**RE: FUNDING REQUEST FOR ADDITIONAL CITY/RDA SUBSIDY FOR THE DEVELOPMENT OF
512 BATH STREET AS A 54 UNIT AFFORDABLE RENTAL HOUSING COMPLEX—BRADLEY
STUDIOS**

Dear Brian:

The Housing Authority has submitted a development application for above referenced property to the City of Santa Barbara. This important development will consist of 54 affordable housing units (53 studios and one two-bedroom manager's apartment) and is intended to serve a combination of low-income downtown workers, and special needs/homeless persons. Once development entitlements are obtained, we plan to submit an application to the State for Low-Income Housing Tax Credits (LIHTC) in this year's second funding round, which has a due date of July 7, 2010. Construction is planned to begin early next year. Although the Tax Credits will provide funding for the bulk of the project's needed equity capital, we will require additional local funding for the project to be financially viable. To this end, we are submitting this letter to request funding in the amount of \$1.6 million.

As you know, the property was purchased by the Housing Authority for \$4.8 million in July 2008. The City Redevelopment Agency provided a residual receipts loan in the full amount to cover the acquisition cost. The \$1.6 million that is the subject of this request will be used to cover a portion of the development's construction costs.

Enclosed for your review is the project's development pro-forma (Exhibit A). It shows total development costs (not including land) of \$10,344,532. Please note that for purposes of the LIHTC application, this pro-forma shows the anticipated land value appraised at \$4,000,000. The Tax Credit Allocation Committee is requiring us to show the current value of the land lease in the source of funds.

Mr. Brian Bosse
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In order to fully quantify City/RDA subsidy for the project (inclusive of land costs), one would add the initial land purchase loan of \$4.8 million and the \$1.6 million for construction for a total of \$6.4 million or \$118,518 per unit in City/RDA subsidy. The Housing Authority believes that this level of local subsidy is in line with other recent affordable housing projects in the City.

It is further understood that our request is for a loan of up to \$1.6 million and if approved, this amount will be reduced at closing by the amount of the Net Operating Income from the existing 10 unit apartment complex generated since July 2008.

We thank you in advance for your consideration of this request and would greatly appreciate if this matter could be placed before the City Council/RDA in the next 30 days

Sincerely,

HOUSING AUTHORITY OF THE
CITY OF SANTA BARBARA



ROB L. FREDERICKS
Deputy Executive Director/CAO

cc: Housing Authority Commission
R. Pearson Executive Director/CEO
S. Szymanski, Deputy Executive Director/COO
R. Maccianti, Property & Development Director