



CITY OF SANTA BARBARA

FINANCE COMMITTEE AGENDA REPORT

AGENDA DATE: November 9, 2010

TO: Finance Committee

FROM: Housing and Redevelopment Division, Community Development Department

SUBJECT: Loan To Habitat For Humanity For Acquisition Of 822-824 East Canon Perdido Street

RECOMMENDATION:

That the Finance Committee consider and recommend that the Redevelopment Agency Board approve a \$925,000 loan of Agency Housing Setaside funds to Habitat for Humanity for the acquisition of 822-824 East Canon Perdido Street.

DISCUSSION:

Habitat for Humanity (Habitat) plans to acquire the property located at 822-824 East Canon Perdido Street and land-bank the site for future development of affordable ownership housing. Habitat requests \$925,000 in financial assistance from the Redevelopment Agency for acquisition of the property.

Property Description

The property consists of two adjacent parcels totaling 19,303 square feet (.44 acre) located on East Canon Perdido Street just west of Milpas Street. The site, currently owned by American Riviera Bank, is improved with two occupied single-family homes, a detached garage, and a carport. The zoning is C-2 (general commercial).

Plans for Development

The two parcels are independently entitled for four condominiums each. However, Habitat seeks to build more units and build units with more suitable designs. The plans approved for the site are for large units with only one or two bedrooms. The plans also involve construction that would be difficult to execute by the volunteer laborers and participant future homeowners that typically work on Habitat projects. Habitat has consulted with an architect and discussed potential plans with staff in the City's Planning Division. Habitat believes that they could build twelve suitable family units on the site. The additional units would require a density bonus, which would be consistent with the City's density bonus policies.

In addition to the assistance for acquisition financing, Habitat would likely need financial assistance for construction. Their request for additional financing would likely follow shortly after Planning Commission approval of the site plan.

Acquisition Financing

The property was recently appraised at \$965,000, and Habitat has successfully negotiated a sales price of \$925,000 (\$48 per square foot). The requested Agency Loan would cover the entire purchase price. Habitat would pay the closing costs for the transaction which are estimated to be around \$3,000 and the initial predevelopment costs for the new project.

Agency Loan

The proposed \$925,000 Agency acquisition loan would have terms similar to loans previously provided to Habitat. The Agency acquisition loan would be a no-interest, deferred, loan during the construction period. Upon completion of construction, the Agency acquisition loan would convert into twelve separate deferred Agency loans of \$77,083 for each of the twelve units to be sold to qualified low income homeowner families. These "silent second" Agency loans with the homeowners would be second to the zero-interest loans that Habitat plans to provide to the homeowners. The silent second Agency loans would bear zero interest and would be forgiven upon conclusion of the City's 90-year affordability period.

The Agency acquisition loan does have a repayment provision that the Agency typically requires in land-banking situations in order to protect the Agency's interests in the event the new project does not proceed in a timely fashion. After four years, in the unlikely event that the construction of the new project is not complete, the Agency acquisition loan would become a fully amortized 3-percent interest loan with a 10-year term starting after the four-year period allowed for construction.

Security

The requested Agency acquisition loan to Habitat would be secured by a deed of trust recorded against the property in first position during construction. Given the appraised value of \$965,000 for the property, the Agency acquisition loan would be completely secured.

Affordability Covenant

As with all Agency-funded affordable housing projects, an affordability control covenant must be executed and recorded to ensure that the property will be used to provide affordable housing to low income households. In accordance with the City's Affordable Housing Policies and Procedures, the term of the affordability control covenant will be 90 years.

Should the homeowner sell before the end of the City's 90-year affordability period, the unit would be sold back to Habitat pursuant to the affordability covenants, who would market the unit to a new low income household. The departing homeowner would recoup only what they paid in down payment and mortgage principal payments, adjusted for inflation. The new homeowner would sign a new promissory note and assume the existing covenants with the City and Habitat for the remainder of the 90-year term.

Replacement Housing Plan

California Redevelopment Law requires that before an Agency provides financial assistance to a project where affordable housing is destroyed or removed, a plan must be prepared to replace the lost housing with at least as many affordable units and at least as many bedrooms within a time period of no more than four years. Staff will prepare a replacement housing plan and request that it be adopted by resolution by the Agency Board in accordance with requirements for public noticing and review.

Relocation of Current Tenants

The two existing resident households on the property will be allowed to remain during the predevelopment phase of the new project. Habitat has provided them with notice of their plans and a description of the relocation benefits they may be eligible for. Prior to demolition, the existing residents will be provided ample notice and information regarding their eligibility for relocation benefits in accordance with state and federal law. However, should the existing residents elect to move prior to the notice of demolition, they would not be entitled to any relocation benefits.

Benefit to the Central City Redevelopment Project Area (CCRP)

While the site is located outside the CCRP, the project will benefit the CCRP in providing needed housing nearby that is affordable to low income persons. 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.

Sustainability Impact

The new project would be built in accordance with the guidelines of Built Green Santa Barbara for a level 3 home. Habitat will also consider the cost effectiveness of qualifying for LEED certification. Habitat would deconstruct all current structures on the property to recover as much usable material as possible to be sold at their ReStore. Habitat would also use donated product from their ReStore in building the new project. In previous Habitat projects about 10-15 percent of the materials used for new construction have been reused materials. Habitat will also consider the cost effectiveness of installing solar energy panels. Habitat will work with local landscape companies to meet and exceed all required runoff water recapture and to create a sustainable landscape plan utilizing native plants.

BUDGET/FINANCIAL INFORMATION AND CONCLUSION:

Staff asks that the Finance Committee recommend approval of the requested loan to the Agency Board. The new project would be an important next step for Habitat following the completion of the project it currently has in construction (618 San Pascual). The Agency has sufficient Housing Setaside funds to provide the requested financial assistance to Habitat.

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ATTACHMENT: Letter from Habitat for Humanity

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

SUBMITTED BY: Paul Casey, Assistant City Administrator/Community
Development Director

APPROVED BY: City Administrator's Office



Now More Than Ever.
Help Build It!

October 14, 2010

Mr. Simon Kiefer
City of Santa Barbara Community Development Department
Housing & Redevelopment Division
630 Garden Street
Santa Barbara, California 93102-1990

Dear Simon:

This letter is to confirm Habitat for Humanity of Southern Santa Barbara County's intent to build twelve affordable housing units for low-income families at a site located at 822 and 824 E. Canon Perdido Street, Santa Barbara. As per our attached budget, we will once again seek funding from a variety of sources, including individuals, foundation, faith-based organizations, civic groups and corporations along with the HUD funding provided by the City. Also please find enclosed the proof of service of the required tenant relocation notices, along with a current appraisal of the property.

We are in escrow on the property, currently owned by American Riviera Bank. There is a funding contingency on the purchase/sale agreement between the bank and Habitat for Humanity, pending approval of our request for RDA funding from the city for the purchase amount of \$925,000.

These homes will be built in partnership with future homeowners and volunteers. Homeowners will be selected by our Family Selection committee according to Habitat's criteria: annual income between 40% and 60% of area median income; currently living in substandard housing; and willingness to work a minimum of 250 hours of sweat equity per adult family member to build the homes.

The RDA funds will be carried as a zero-interest ninety-year mortgage on each of the units. Upon occupancy, these mortgages will be held as a second mortgage, and will allow the City of Santa Barbara to monitor the continuing affordability of these homes through an affordability covenant recorded on each property. At the end of the affordability period and subject to restrictions imposed by the City, these mortgages will be forgiven. Habitat for Humanity of SSBC will carry the first mortgage, which will also be a zero-interest loan. Mortgages will be established upon completion of construction that allow all shelter costs, including property taxes, homeowners association fees, utilities and insurance, to total no more than 35% of the homeowner's monthly income.

We are pleased to join with other agencies in finding solutions to the affordable housing crisis on the South Coast, and we welcome a continuing partnership with the City of Santa Barbara. We look forward with great anticipation to the day we can begin building these affordable homes.

Sincerely,


Joyce McCullough
Executive Director