



CITY OF SANTA BARBARA

FINANCE COMMITTEE AGENDA REPORT

AGENDA DATE: January 11, 2011

TO: Finance Committee

FROM: Housing and Redevelopment Division, Community Development Department

SUBJECT: Grant To Housing Authority For Acquisition Of 2904 State Street

RECOMMENDATION:

That the Finance Committee consider and recommend to the Redevelopment Agency Board approval of a grant of \$1,150,000 in Agency Housing Setaside funds to the Housing Authority of the City of Santa Barbara for the acquisition of 2904 State Street.

DISCUSSION:

The City's Housing Authority plans to acquire the property located at 2904 State Street with the intention of master leasing the property to a local nonprofit organization that provides housing and supportive services to the homeless.

Property Description

The property consists of an 8,276 square foot lot located on Upper State Street between Alamar and Verde Vista – across the street from the property recently acquired by the Housing Authority at 2940 State Street. The property is improved with a 1950's-era motel consisting of seven rooms and a two-bedroom manager's unit. The motel ceased operating several years ago, and the current owner, Stan Fard, has rented the rooms out to tenants under month-to-month leases. Except for one vacant room, the building is completely occupied. The property is in very good condition and is not in need of any renovations.

Housing and Supportive Services for the Homeless

The Housing Authority intends to relocate all of the existing tenants and then master lease the property to a local nonprofit homeless housing organization, such as Willbridge or Transition House, at a below-market rent. The Housing Authority would be responsible for maintenance and repairs to the property. To further the City's participation in the County Ten-Year Plan to End Chronic Homelessness, the nonprofit organization would rent the rooms to chronic homeless clients and provide critical support services. Agency staff would reserve the right to review and approve the selection of the nonprofit organization and the terms of the master lease.

Agency Grant

The Housing Authority has negotiated a purchase price for the property of \$1,150,000. The purchase price is \$50,000 less than the \$1,200,000 value recently appraised by

David Jasso & Associates. The Housing Authority seeks Agency financing for the full purchase price. Closing costs for the transaction would be paid for by the Housing Authority.

Given the type of tenancy planned for the project, rental income would be non-existent and would not support any amount of debt service. Therefore, the Housing Authority is not seeking any private lenders for the transaction and is requesting that the Agency assistance come in the form of a grant.

The requested Agency grant would be secured by a deed of trust recorded against the property in first position. The grant would only become payable in the unlikely event that the grant funds were misused. Given the appraised value of \$1,200,000 for the property, the Agency grant would be completely secured.

Affordability Covenant

As with all City- and 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 persons. The Housing Authority requests and staff supports the 60-year term that the City typically applies to Housing Authority projects. Also to be recorded is a Notice of Affordability Restrictions on Transfer of Property. The proposed term of the covenant and the notice would be consistent with California Redevelopment Law requirements.

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 rental 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 Housing Authority's planned maintenance and sound management practices will significantly extend the structure's useful life. As needs arise in the future, the Housing Authority plans to replace existing appliances with energy efficient models and install new energy efficient lighting, plumbing fixtures, and windows.

BUDGET/FINANCIAL INFORMATION AND CONCLUSION:

Staff asks that the Finance Committee recommend approval of the requested grant to the Agency Board. The proposed project would be an important addition to the Housing Authority's stock of affordable housing and would very quickly be put in service to meet the needs of the City's chronic homeless. At a cost of \$1,150,000 (\$143,750 per unit), the project makes sound financial sense. It would cost far more in time and money to construct new comparable housing.

The Agency has sufficient Housing Setaside funds to make the requested grant, as shown by the following summary (numbers are approximate for simplicity). The Agency Housing Setaside Fund began Fiscal Year 2011 with available reserves of \$6.1 million and expects to receive tax increment revenues of \$2.7 million during the year. Thus, the

amount of Housing Setaside funds available is \$8.8 million. From this amount, the Agency has committed \$360,000 to the Housing Authority for the acquisition of 2941 State, \$300,000 to the Housing Authority for adding two units to its property at 233 West Ortega, and \$925,000 for the purchase of land on East Canon Perdido by Habitat for Humanity for a future project. This leaves a balance of \$7.2 million. Today the Finance Committee is reviewing requests for Agency funding for two housing projects: this one for \$1,150,000 and a site acquisition at Salsipuedes and Haley Streets for \$2 million. If the Agency Board approves both of these requests, an estimated \$4 million in Agency Housing Setaside funds will be available for future projects.

ATTACHMENT: Letter from the Housing Authority

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



HOUSING

AUTHORITY OF THE
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November 16, 2010

HAND DELIVERED

Mr. Steven Faulstich, Housing Programs Supervisor
Housing & Redevelopment Division
City of Santa Barbara
630 Garden St.
Santa Barbara, CA 93101

RE: REQUEST FOR CITY RDA FUNDS FOR THE ACQUISITION OF REAL
PROPERTY LOCATED AT 2904 STATE STREET

Dear Steven:

The Housing Authority has located another existing apartment building that we feel can be purchased at a favorable price and added to our affordable rental housing inventory. To this end, we are seeking Redevelopment Agency Housing Set-aside (RDA) funds to cover the cost of this acquisition.

The subject property is a 9 unit multifamily residential building on an 8,276 sq. ft. lot located at 2904 State Street. The building is a former motel and consists of 2 one-bedroom/one-bath apartments and 7 studios rented on a month to month basis. There are 9 uncovered parking spaces on-site. One of the studios is vacant. The studios rent for an average of \$790 per month and the one-bedroom units rent for \$1,060 per month. Utility expenses for the property are approximately \$480 per month. At this juncture, incomes of the current tenants have not been verified. None of the existing tenants participate in the Section 8 Housing Choice Voucher program.

Given the City's current efforts to provide shelter for the chronically homeless by providing transitional and permanent, supportive housing opportunities, the Housing Authority considers the subject property an excellent response to that identified need. The units are small and each has its bathroom. If acquired by the Housing Authority with RDA funding, it would be the Authority's intention to master lease the property at a low rent to a group such as WillBridge or Transition House who in turn would operate it as permanent, supportive housing for the homeless. This arrangement would match our successful partnership with Transition House for owning and operating the "Fire House" at 3030 De La Vina. The Fire House provides transitional housing and related services for 16 people on average. This acquisition and use would also be in alignment with the *10 Year Plan to End Chronic Homelessness* (aka the "Bringing Our Community Home" plan) that all Santa Barbara Cities and the County have adopted.

The property is listed in the Santa Barbara Multiple Listing Service for \$1,200,000—or \$133,333 per unit. Given its favorable pricing and the fact that the property is well suited for the identified need (permanent supportive housing for the homeless), the Housing Authority Commission on November 3, 2010, adopted Resolution No. 2425 (copy enclosed) relative to this property. The Resolution authorized Housing Authority staff to make a full price offer for the property subject to securing an independent appraisal that substantiated the offer amount as well as securing Redevelopment

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Agency funding for the purchase. David Jasso & Associates was engaged by the Housing Authority to provide an independent, fair market value appraisal of the subject property.

Yesterday, the Housing Authority received its requested appraisal from David Jasso & Associates (copy enclosed). It establishes the property's fair market value at \$1.2 million. Looking at the comparables sales set forth in the appraisal, we consider the value established by David Jasso to be both reasonable and fair.

As you know, securing and operating affordable housing for special needs populations requires significant local subsidy. Based on our initial discussions with your office regarding this property, we feel it appropriate to seek a grant from the Redevelopment Agency for the full purchase price--\$1.2 million or \$133,333 per unit. It is the Housing Authority's intention to hold the property in its inventory and be responsible for its maintenance and capital needs in perpetuity (i.e. be its' stewards and maintain it as a community/public asset). The day to day operations including tenant selection and management would be handled under a master lease to a local non-profit who offer transitional and permanent supportive housing to the homeless. As of this writing, WillBridge is our likely candidate. Given that non profits like WillBridge operate on relatively thin budgets, the rent under any master lease must be low—we estimate somewhere between \$1,000 to \$2,000 per month for the entire property. Such limited revenue from the property make it impossible to afford any debt service; thus our request to the RDA for a grant for the purchase price. Whatever monthly revenue the Housing Authority receives from the property will need to go to property maintenance and replacement reserves. As the enclosed proform shows, the Housing Authority will be operating this property at a breakeven point (if not a loss) assuming a master lease of \$1500/month. That said, the Housing Authority recognizes that this type of housing (permanent, supportive housing for the homeless) is a community priority and as such is willing to assume some amount of risk with respect to operating income and expenses.

If this City/RDA staff find this request to be reasonable and appropriate, we would ask that it be placed before the City Council/RDA in the next 30 days for consideration. With our request moving forward at the City/RDA level, we would plan on closing shortly after the New Year as requested by the seller.

As always, the Housing Authority Commission and staff are hopeful that you will agree with us on the wisdom of this acquisition, its planned use as well as the structure of our requested financing.

Sincerely,

HOUSING AUTHORITY OF THE
CITY OF SANTA BARBARA



ROBERT G. PEARSON
Executive Director/CEO

Encls.

cc: Housing Authority Commission