



Agenda Item No. \_\_\_\_\_

File Code No. 660.04

# CITY OF SANTA BARBARA

## COUNCIL AGENDA REPORT

**AGENDA DATE:** May 10, 2011

**TO:** Mayor and Councilmembers

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

**SUBJECT:** Grants To Housing Authority For Rehabilitation Of Three Affordable Housing Projects

### **RECOMMENDATION:**

That Council approve three grants to the Housing Authority of the City of Santa Barbara in a total amount not to exceed \$850,000 from Housing Rehabilitation Loan Program repayment funds for needed repairs to three Housing Authority projects located at 418 Santa Fe Place, 521 N. La Cumbre Road, and 2941 State Street, and authorize the Assistant City Administrator/Community Development Director to execute grant agreements in a form acceptable to the City Attorney.

### **DISCUSSION:**

The Housing Authority of the City of Santa Barbara has requested grants for needed repairs to three of its affordable rental housing projects. The rehabilitation grants would be funded through the City's Housing Rehabilitation Loan Program (HRLP) from funds received through repayment of prior rehabilitation loans.

#### Background Regarding the HRLP:

The City's housing goals include both creating new affordable housing and preserving existing affordable housing. The City's housing preservation accomplishments have been achieved through the City's Housing Rehabilitation Loan Program. The HRLP has been funded annually since 1976 from federal Community Development Block Grant (CDBG) funds. Since its inception, the HRLP has provided over \$16 million in loans for needed repairs to over 750 single family homes owned by low income owner-occupants. The HRLP has also provided loans and grants totaling over \$14 million for repairs to 44 low income housing projects owned by non-profit sponsors. These projects contain a total of 600 units. Usually the HRLP is the only source of funds for needed repairs to these projects, because the affordable rents are so low that the projects cannot maintain adequate reserves. The City's HRLP subsidies to non-profit sponsors are often structured as grants because such projects are not likely to have the surplus funds necessary for loan payments.

The HRLP assistance for repairs to single family homes has predominately been in the form of deferred loans rather than grants. Typically no payments are due until the house is sold or is transferred through the estate of the borrower. However, some borrowers are making scheduled payments on their loans. The repayments average about \$20,000 per month, but there are occasional large repayments upon the sale of the house. We are not able to predict when a large repayment will come in. In the current fiscal year the HRLP has received nearly \$500,000 from such loan pay-offs.

Loan repayments are deposited into the City's CDBG revolving rehabilitation loan fund ("Revolving Loan Fund"), which has a current balance of about \$675,000. Under federal regulations, these loan repayments are considered to be "program income," and must be used for additional rehabilitation loans and grants for low-income housing units.

#### Future Focus of the HRLP:

In recent years, the HRLP has seen a decline in loan applications from low income owner-occupants. As prices of single family homes have risen beyond the reach of even middle income households, the number of low income homeowners has declined. The clientele of the HRLP has largely been elderly persons who bought their homes decades ago. When these elderly owners (or their estates) sell their homes, the homes are bought by higher income households who do not qualify for HRLP loans.

Because of declining demand for such loans and the increasing cost of administering single family rehabilitations, staffing for the HRLP has been reduced through attrition over recent years. When the last remaining HRLP staffer retired in November, 2010, City management decided to not fill the position. Consequently, for the first time in 35 years, the HRLP did not apply for new CDBG funds for the upcoming fiscal year. The HRLP will no longer provide loans to low-income owner-occupants.

Since the HRLP does not have the staffing to administer single-family rehabilitations, the HRLP will focus on affordable multifamily housing projects owned by non-profit sponsors. Staff recommends that the City HRLP initially focus on the deferred rehabilitation needs of the Housing Authority's projects. The Housing Authority has several rehabilitation jobs that are ready to proceed, and has experienced staff to assure that the work will be high quality and will proceed quickly to completion.

#### Proposed Grants to the Housing Authority:

The three Housing Authority projects for the proposed HRLP grants are listed below:

- The largest rehabilitation grant is proposed for the SHIFCO low income senior housing project, located at 418 Santa Fe Place. The project contains 107 one-bedroom units (plus one manager's unit). The entire project is in need of new roofs, at an estimated cost of about \$550,000. This is an average of about \$5,000 per unit. Like all CDBG rehabilitation projects of more than four units, this project must comply with federal prevailing wage requirements.

- Substantial rehabilitation of the six units at 2941 State Street. In October, 2010, the City's Redevelopment Agency approved a loan of \$360,000 for the Housing Authority's purchase of the property and the City approved a grant of \$90,000 in CDBG rehabilitation funds for initial rehabilitation. At that time, staff advised Council that the Housing Authority would identify additional rehabilitation needs for the property and return to Council to request more funding. They have completed their assessment, and are requesting an additional \$210,000 in CDBG funds for electrical upgrades, window replacement, interior work and repairs to balconies and stairs.
- Completion of the re-roofing at 521 N. La Cumbre Road (about \$90,000). The Housing Authority began to replace the roofs on this 60 unit senior housing project, but did not have sufficient funds in the project's reserves to complete the work. This additional grant will enable them to complete the re-roofing work.

The total estimated cost of these jobs is \$850,000, and the staff recommendation is that Council approve grants up to \$850,000. However, as noted earlier in this report, the current balance of the Revolving Loan Fund is about \$675,000 (although repayment funds continue to accrue each month). At some point during the rehabilitation work, the Revolving Loan Fund will likely be exhausted. At that point, the Housing Authority will need to either cut back on the scope of the rehabilitation work (perhaps at 2941 State) or will use another source of funds to complete the work. This means that the actual total of these CDBG grants may be less than \$850,000.

The City does not usually approve grants in excess of available funds. Staff is proposing this unusual grant structure in order to facilitate the City's compliance with CDBG deadlines for the expenditure of new CDBG funds. A portion of the City's Revolving Loan Fund came from a prior CDBG grant for new HRLP loan funds. Under CDBG regulations, the City may not draw down this portion until all loan repayment funds are first exhausted. Because we have never reached a zero balance in the Revolving Loan Fund, these unspent CDBG funds are carried over from year to year, and these carryovers make it more difficult for the City to meet the CDBG spending deadlines. We can eliminate these carryovers if we spend the Revolving Loan Fund down to a zero balance sometime during the work on these three properties. With new funds coming in every month, the only way to spend all available funds is to commit more than we estimate we will have. The Housing Authority understands this dilemma, and looks forward to working with City staff in order to spend the available funds in the most effective way possible. The grant agreements to be entered into with the Housing Authority will expressly provide that, should the balance of the Revolving Loan Fund reach zero during the course of the rehabilitation work, the City will not extend any additional funds and the City's obligation under the agreement will terminate.

Conclusion

Staff supports the Housing Authority's request and recommends approval of the requested grants of CDBG funds in order to continue preserving well-maintained and affordable housing for low income residents. Council's Finance Committee was scheduled to review this item at their meeting of May 3, 2011, and will have reported their recommendation to the full Council by the time this item is heard by Council.

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

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

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