



Agenda Item No. _____

CITY OF SANTA BARBARA

FINANCE COMMITTEE AGENDA REPORT

AGENDA DATE: June 14, 2011

TO: Finance Committee

FROM: Housing and Redevelopment Division, Community Development Department

SUBJECT: Proposed Loan Increase For The Housing Authority's Bradley Studios Project

RECOMMENDATION:

That the Finance Committee consider and recommend to the Redevelopment Agency Board approval of a \$2,000,000 loan increase in Agency Housing Setaside funds to the Housing Authority of the City of Santa Barbara for the development of the Bradley Studios affordable housing project located at 512-518 Bath Street.

DISCUSSION:

Requested Loan Increase

The City Housing Authority has requested that the Agency increase the \$1.6 million development loan it approved last June by \$2 million to help finance the construction 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 land-banked for this purpose in 2008 with a \$4.8 million acquisition loan from the Agency. The loan increase is necessary in order for the Housing Authority to increase the likelihood of securing funds under the highly competitive Low Income Housing Tax Credit Program that is critical to the project's financing.

Project Description

The Agency loaned the City Housing Authority \$4.8 million to acquire and "land-bank" a site in 2008 located in the Agency's project area at 512-518 Bath Street. At the rear of the site is a 10-unit apartment building (circa 1960) that encroaches into the 25-foot setback currently established for Mission Creek. The apartments will be demolished in order to create the new housing project and to provide a setback and restore habitat in accordance with the Lower Mission Creek Flood Control and Restoration Project.

The Housing Authority plans to construct seven structures of two and three stories totaling 27,688 square feet on the 1.06 acre site. There will be 53 studio apartments, a two-bedroom manager's unit, plus a community center and recreation room. 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 City's Planning Commission determined that the craftsman style of the architecture and the height, bulk, scale and density of the project would all be compatible with the neighborhood and approved the design last July.

Bradley Studios will be an affordable rental housing project that serves a combination of low income downtown workers and special needs/homeless persons.

Project Financing

Critical to the project's financing are tax credits. Competition for tax credit equity is significant. Tax credits are extremely valuable in that they provide large direct cash subsidies to the development of affordable housing projects. If awarded to Bradley Studios, tax credits would fund approximately 80% of the project's hard construction costs, without adding any debt. There is no other comparable financing mechanism for the development of affordable housing.

Competition for tax credits has grown even more intense over the past years. The two applications recently submitted by the Housing Authority for Bradley Studios scored very well and would likely have been awarded in previous years. However, the applications did not succeed because they were not rated as highly as other competing applications in one particular category, "Local Subsidy." Other applications showed a greater percentage of loans and grants from their local jurisdiction, and thus scored higher. Increasing the Agency's contribution as requested would boost the score for Bradley Studios in the "Local Subsidy" category, and the Housing Authority believes this would likely result in the award of tax credits. Funding for the Agency's existing \$1.6 million development loan plus the requested \$2 million development loan increase would all be contingent on the award of tax credits. The deadline for the next round of applications is July 6th.

The proposed \$2 million funding increase would result in a per unit subsidy that is greater than what the City/Agency typically provides. To date, the Agency's subsidy for the project is \$6.4 million or \$118,519 per unit; in adding the requested \$2 million, it would grow to \$8.4 million or \$155,556 per unit. The City/Agency per unit subsidy for projects completed over the last five years ranges from \$92,857 to \$165,000 per unit and averages \$118,769. While the resultant per unit subsidy for Bradley Studios would be greater than the usual subsidy, it appears to be a primary factor in successfully securing the additional financing for the project.

BUDGET/FINANCIAL INFORMATION:

The Agency has sufficient funds to accommodate the requested loan increase. The Agency currently has available roughly \$4 million in uncommitted Housing Setaside funds. These funds can only be spent on the development of low and moderate income affordable housing under the State Redevelopment law.

ATTACHMENT: Request Letter from City's Housing Authority
PREPARED BY: Brian Bosse, Housing and Redevelopment Manager
SUBMITTED BY: Paul Casey, Assistant City Administrator/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
TDD (805) 965-2521

May 18, 2011

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:

As discussed during our recent meeting, the Housing Authority is seeking additional RDA funding (i.e. local public subsidy) for the Bradley Studios development in order to successfully garner an allocation of tax credits from the California Tax Credit Allocation Committee. The Low Income Housing Tax Credit (LIHTC) program coupled with local affordable housing dollars is essentially the only vehicle available today for the development of affordable rental housing in the U.S. The 9% LIHTC program, to which we submitted two previous applications for Bradley, would provide approximately 80% of the project's construction costs. The remaining portion needs to be covered through other local public funding sources such as RDA Affordable Housing Set-Aside monies and/or federal HOME dollars that the City receives.

Last May, the Housing Authority requested, and subsequently received approval for a loan from the Redevelopment Agency in the amount of \$1,600,000 as an additional funding source for the development of Bradley Studios. While we expected this loan to be a sufficient amount of local public subsidy, it turns out that other projects in California competing for an allocation of tax credits are showing greater amounts of local public funding such that they are being deemed more competitive and are beating out our Bradley project. With higher "local" public subsidies, these other projects are able to request a lesser amount of tax credits which garners them a higher score in California's very competitive LIHTC awards process.

We have, thus, revised our development pro-forma for Bradley so that our third application for a reservation of tax credits, due by July 6, 2011, can have the competitive edge required for an award of 9% tax credits. To that end, the Housing Authority is requesting \$2 million in addition to the funds previously committed by the City/RDA.

Mr. Brian Bosse
Letter – Funding Request for Bradley Studios
May 18, 2011
Page 2

As you will recall, Bradley Studios is comprised 54 affordable housing units (53 studios and 1 two-bedroom manager's apartment) and is intended to serve a combination of low-income downtown workers and special needs/homeless persons. If successful in obtaining a reservation of tax credits, construction would be begin at the end of 2011 or early 2012 and be completed and ready for occupancy within 13 months of commencement of construction.

In order to fully quantify City/RDA subsidy for this project (inclusive of land costs), one would add the initial land purchase loan of \$4.8 million, the \$1.6 million approved in 2010 for construction and this additional request for \$2 million for a total of \$8.4 million (or \$155,5556 per unit) in local City/RDA subsidy.

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. Please contact me or Rob Fredericks if you have any questions about this request or require additional information.

Sincerely,

HOUSING AUTHORITY OF THE
CITY OF SANTA BARBARA



ROBERT G. PEARSON
Executive Director / CEO

cc: Housing Authority Commission
R. Fredericks
S. Szymanski
B. Peirson
R. Maccianti