



CITY OF SANTA BARBARA

FINANCE COMMITTEE AGENDA REPORT

AGENDA DATE: July 14, 2009

TO: Finance Committee

FROM: Housing and Redevelopment Division, Community Development Department

SUBJECT: Loans For Affordable Housing At 416-424 East Cota Street

RECOMMENDATION:

That the Finance Committee consider and recommend that the Redevelopment Agency Board and the City Council take the following actions regarding the proposed 56-unit "Artisan Court" affordable housing project at 416-424 East Cota Street to be developed by the Housing Authority of the City of Santa Barbara using new City and Agency loans totaling \$3,200,000:

- A. That the Agency Board approve a loan of \$2,284,583 of Redevelopment Agency Housing Setaside funds to Artisan Court L.P., and appropriate this amount from the Agency's housing fund unappropriated reserves;
- B. That the Agency Board approve amending the terms of its 2006 site acquisition loan of \$2,000,000 to the Housing Authority so that the terms of the existing Agency loan are consistent with those of the new Agency loan, approve subordination of the existing loan to the construction financing and to regulatory agreements required under the tax credit program, and assignment of the existing loan to Artisan Court L.P.;
- C. That Council approve a loan of \$915,417 of federal Home Investment Partnerships Program (HOME) funds to Artisan Court L.P.;
- D. That Council and the Agency Board approve the subordination of their affordability control covenant to the lien of the construction lender and to regulatory agreements required under the tax credit program, and make the finding that there is no reasonably available and economically feasible alternative for financing this project without subordination of the affordability control covenant; and
- E. That the Agency and Council take these actions subject to the condition that Artisan Court L.P. receives approval of a commitment of low income housing tax credits according to their application to the California Tax Credit Allocation Committee dated June 9, 2009.

EXECUTIVE SUMMARY:

The City Housing Authority has requested new City and Agency affordable housing loans totaling \$3.2 million to assist in their development of a 56-unit low income housing project (55 studio units and one manager's unit). The "Artisan Court" project will be built on the site that the Housing Authority bought and landbanked for this purpose in 2006 with the assistance of a \$2 million loan from the Agency. Of the \$3.2 million in new City and Agency loans, \$1.2 million will be used to subsidize the project development costs, and \$2 million will be used toward retiring the existing bank loan on the site.

The target population for the units includes low income downtown workers, youth who are transitioning out of foster care and are at risk of homelessness, and formerly homeless persons or other special-needs persons who are at-risk of homelessness. The Housing Authority has recently applied for low income housing tax credits through the state, which, if approved, will be a major source of project funding.

The total City and Agency assistance to the project will be the sum of the \$3.2 million in new loans together with the \$2 million from the prior Agency loan. This \$5.2 million in assistance represents a subsidy of approximately \$93,000 per unit. This level of City and Agency subsidy is consistent with other recent affordable housing projects.

DISCUSSION:

Background

On June 20, 2006, the Agency approved a loan of \$2 million to the City Housing Authority to assist with their purchase and "landbanking" of a site at 416-424 E. Cota Street for future housing development. The site is about nine-tenths of an acre and contains two industrial buildings totaling about 21,000 square feet. The major tenant is Haagen Printing. The zoning is Commercial Manufacturing (C-M) which permits multifamily residential development at R-4 standards. The purchase price of the site was \$4,750,000, financed with a \$2,750,000 bank loan and the Agency's loan.

The Housing Authority initiated the project by selecting the architecture partnership of Christine Pierron and Mark Wienke through a competitive selection process. Christine Pierron was closely involved with the design of the very attractive and successful El Carrillo project which also was developed by the Housing Authority. The design of Artisan Court shares many of the elements that make El Carrillo an award winning project.

Project Design, Approvals and Affordability

The project as currently proposed is a two and three story complex with about 45,000 square feet of floor area. The residential portion will include 55 small studio apartments of 406 net square feet each, as well as a two-bedroom unit for the on-site manager. There will be a community room of approximately 1,000 square feet and a laundry room. There will be 40 parking spaces, 33 in the on-grade covered garage and 7 uncovered.

The project was reviewed and approved by the Architectural Board of Review, and received development approval from the Staff Hearing Officer. The project received a density bonus (lot area modification) to permit 56 units on a site zoned for 24 units. As was the case with the Housing Authority's 62-unit El Carrillo project, the density bonus was approved based on the substantial public benefit, the attractive design, the small unit sizes, acceptable building size and good neighborhood compatibility.

The parking was approved at 40 spaces rather than the required 74 spaces. The modification was granted 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 vehicle ownership by the tenants.

The project is located in a flood plain, so the habitable spaces will be raised by about three feet.

The 55 studio units will be rented at a range of rents, as follows: 17 units will be affordable to persons with incomes at 30% of area median income (AMI) with rents, including all utilities, at the initial level of \$408 per month; 26 will be for persons at 40% of AMI with rents at \$545; 6 will be affordable to 50% of AMI at \$681, and the remaining 6 will be affordable at 60% of AMI at \$817. These rents are required under the tax credit regulations, and are lower than the City's rental rates for low income housing. Like the City's rent restrictions, the rents may increase as the AMI increases. 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 \$12,929,050. The sources of this amount will be:

City HOME Loan:	\$915,417
Agency Loan:	<u>284,583</u>
City/Agency Loans for Development:	\$1,200,000
City/Agency Loans for Development:	\$1,200,000
Deferred Housing Authority Developer Fee:	272,021
Tax Credit Equity from Sale of Tax Credits:	9,800,425
Additional Tax Credit funds through the American Recovery and Reinvestment Act:	<u>1,656,604</u>
Total:	\$12,929,050

In addition to this funding, the Housing Authority also must retire the existing bank loan on the site which will enable the Artisan Court project to operate without mortgage debt. The very low rents from the 55 units would not be sufficient to support the operating costs as well as payments on the mortgage debt.

As noted in the background discussion above, the Housing Authority purchased the site in 2006 with a \$2,750,000 loan from Santa Barbara Bank and Trust (SBBT) which holds a first trust deed and the Agency's \$2,000,000 loan which holds a second trust deed. The Housing Authority has been making monthly payments on the SBBT loan using income from the commercial leases and has paid the loan balance down to approximately \$2,650,000. To retire this debt, the Housing Authority has requested that \$2 million of the \$3.2 million City and Agency loans be used for this purpose. The Housing Authority will pay off the balance of the SBBT loan from the net income derived from the commercial rentals on the site over the past three years.

Terms and Security of the Loans

The City and Agency loans 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 60 years will be due and payable at that time. These terms are typical of the City's and Agency's affordable housing loans.

The loans will be secured by trust deeds against the property. Because of the large amount of cash equity obtained from the sale of the low income housing tax credits, the City and Agency loans will be well secured by the project's equity after completion of the project. However, as is often the case, the loans will not be fully secured during the construction phase, so the City and Agency are assuming some risk should the project not go forward to completion. Staff believes this risk is low and is acceptable under the circumstances. The solid track record of the Housing Authority is great assurance.

The borrower will be the limited partnership established for purposes of holding the property during the 15-year tax credit period and not the City Housing Authority. This is the same situation as in other affordable housing projects such as the El Carrillo project and Mental Health Association's newly-completed project at 617 Garden Street.

Revisions to the 2006 Agency Loan

The Agency's \$2 million land acquisition loan made to the Housing Authority bore no interest and did not require payments. Because the loan was for landbanking of the site, and the City and Housing Authority anticipated that an affordable housing project will be approved within 7 years of the loan, the loan will automatically convert to a 3% interest loan with a 10-year term after 7 years. One of the recommendations of this report is that the Agency Board approve amending the Agency's 2006 loan to bring its terms into conformance with those of the new Agency loan (3% interest, payments on a residual receipt basis, all due in 60 years from the date of the loan amendment). Another important change will be to change the borrower from the Housing Authority to the limited partnership, Artisan Court L.P. Also, the construction lender and the tax credit regulations will require that the City and Agency subordinate this, and the other Agency loan to their liens.

Use of Agency Funds Outside the CCRP

The site of the Project is located outside the Central City Redevelopment Project Area (CCRP). California Redevelopment Law requires that in order for Agency Housing setaside funds to be spent for housing purposes 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. The proposed joint resolution is attached.

Project Timing

The Housing Authority has just submitted its application for low income housing tax credits. They expect to begin construction approximately November 1, 2009, once the tax credits have been approved. The project is estimated to be completed by December of 2010.

BUDGET/FINANCIAL INFORMATION:

As noted above, the Agency has sufficient loan funds available in the Agency's fiscal year 2010 affordable housing setaside fund budget for this project, and the City has sufficient federal HOME funds allocated through the fiscal year 2010 federal HOME allocation. The use of these funds for this project will conform to all applicable state and federal laws and regulations.

It should be noted that there is another affordable housing sponsor requesting HOME funds from the City at the same time as Artisan Court. Transition House, Inc. is proposing an eight-unit low income rental project on their "Mom's" site directly across Cota Street from Artisan Court. There are sufficient HOME funds available to fund both Artisan Court and the Mom's project.

CONCLUSION:

The 55 studio units in this affordable housing project are targeted to Santa Barbara residents who are most in need of a stable and safe place to live. This is an excellent use of \$3.2 million of the City's and Agency's affordable housing funds, and staff recommends that the Finance Committee forward this to Council and the Agency Board with a recommendation for approval.

ATTACHMENTS: 1. Letter from Housing Authority
2. Site Location Map

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

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
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June 16, 2009

Mr. Steven Faulstich, Housing Programs Supervisor
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 416-424 E. COTA ST. AND 517 OLIVE ST. AS A 56 UNIT
AFFORDABLE RENTAL HOUSING COMPLEX—ARTISAN COURT**

Dear Steven:

As you know, the Housing Authority is moving forward with the development of the above referenced property. We hope to be able to begin construction by November 1st. This important development, Artisan Court, will consist of 56 affordable housing units (55 studios and one manager's apartment) and is intended to serve a combination of low income, downtown workers, youth aging out of foster care, and special needs/homeless persons.

While we have submitted an application to the State for Low-Income Income Housing Tax Credit (LIHTC) 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 amended letter request.

In our original projections, we thought we would need a commitment from the City/RDA of an additional \$4.7 million. Now that we have fully completed our LIHTC application to the State, identified additional funding resources and refined our development numbers, we are able to reduce our funding request to the City and RDA to \$3.2 million at this "point in time." While we are confident in our numbers, our request must be "qualified" until such time that the needed tax credits are awarded and sold, the project is actually bid and all other funding sources are secured. This \$3.2 million request breaks down into two pieces: \$2 million to assist with the payoff of the Authority's existing commercial loan on the property and \$1.2 million to help cover the project's hard cost of construction.

As you know, the property was purchased by the Housing Authority for \$4.75 million in August of 2006. The City Redevelopment Agency provided a \$2 million loan to the

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Housing Authority to cover part of the acquisition cost. The balance was covered by a commercial loan of \$2.75 million from Santa Barbara Bank and Trust (SBB&T). The loan from SBB&T has a current principle balance of \$2,650,000. To retire this debt, the Housing Authority (as agreed to at the time of purchase) will apply excess revenue of \$400,000 derived from the commercial leases on the property over the past 35 months, along with \$2 million of the \$3.2 million requested herein. The remaining \$1.2 million that is the subject of this request will be used to cover a portion of the development's hard costs of construction.

Enclosed for your review is an updated Executive Summary of the project's development proforma (Exhibit A). It shows total development costs (not including land) of \$12,929,050. The Executive Summary further details funding sources as follows:

Source	Amount
City/RDA Funding	\$1,200,000
Deferred Housing Authority Developer Fee	\$272,021
Tax Credit Equity	\$9,800,425
CTCAC ARRA Award	\$1,656,604
Total Development Cost/Sources	\$12,929,050

In order to fully quantify City/RDA subsidy needs for the project (inclusive of land costs), one would add the initial land purchase loan of \$2 million, the bank loan pay-off need of \$2 million and the \$1.2 million for construction for a total of \$5.2 million or \$92,857 per unit in City/RDA subsidy. The Housing Authority believes that this level of local subsidy is in line with than other recent affordable housing projects in the City.

We thank you in advance for your consideration of this request and look forward to meeting with you soon to review the project and its financing needs in greater detail.

Sincerely,

HOUSING AUTHORITY OF THE
CITY OF SANTA BARBARA



ROBERT G. PEARSON
Executive Director/CEO

cc: Skip Szymanski
Rob Fredericks
Rita Lawrence
Roberta Macchianti

EXECUTIVE SUMMARY
ARTISAN COURT APARTMENTS
 Santa Barbara, CA

6/3/2009

EXHIBIT A

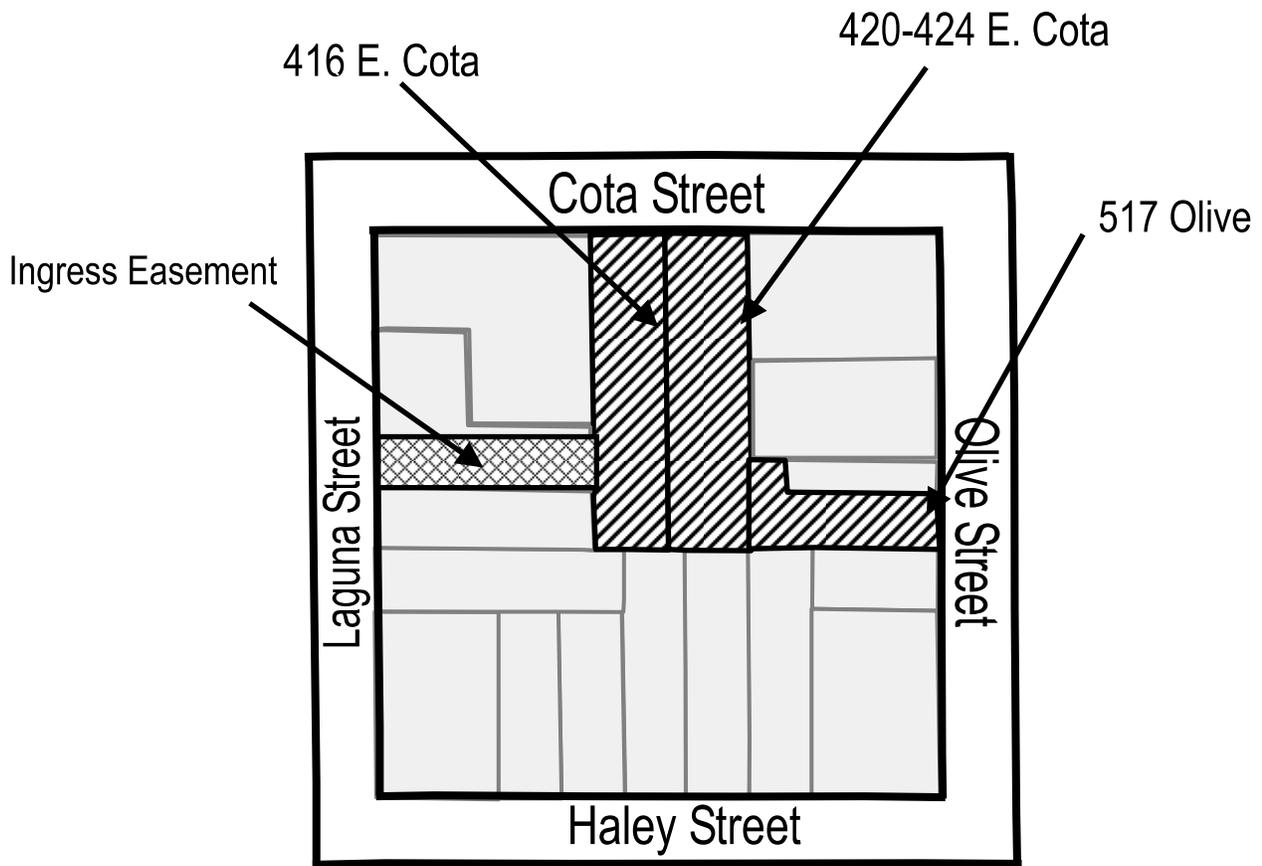
PROJECT SIZE	
TOTAL NUMBER OF UNITS	56
TOTAL PROJECT SQUARE FEET	31,142

PROJECT FINANCING	TOTAL	PER UNIT	PER SQ FT
AQUISITION/PERMANENT FINANCING	0	0	0.00
OTHER FINANCING	1,200,000	21,429	38.53
DEVELOPMENT FEE REINVEST	272,021	4,858	8.73
PARTNER CAPITAL CONTRIBUTIONS			
LIMITED PARTNER CONTRIBUTIONS	9,800,425	175,008	314.70
TCAC ARRA AWARD	1,656,604	0	0.00
TOTAL PROJECT FINANCING	12,929,050	201,295	

PROJECT COSTS	TOTAL	PER UNIT	PER SQ FT
LAND & EXISTING BUILDINGS	0	0	0.00
DIRECT CONSTRUCTION COSTS	10,263,488	183,277	329.57
FINANCING & INDIRECT COSTS	1,079,691	19,280	34.67
DEVELOPER COMPENSATION	1,403,411	25,061	45.06
CASH RESERVES & OPER. DEFICITS	182,460	3,258	5.86
TOTAL PROJECT COSTS	12,929,050	230,876	415.16

LOW INCOME HOUSING TAX CREDITS	
MAXIMUM ANNUAL CREDIT ALLOCATION	1,380,503

UNIT MIX	# UNITS	% OF M.I.	RENT	SQ. FT.	RENT/SQ FT
STUDIO	17	30%	\$408	450	0.91
STUDIO	26	40%	\$545	450	1.21
STUDIO	5	50%	\$681	450	1.51
STUDIO	7	60%	\$817	450	1.82



Housing Authority Property for Artisan Court Project