

Lompoc Redevelopment Agency

Agenda Item



Meeting Date: May 18, 2010

TO: Laurel M. Barcelona, Executive Director

FROM: Linda R. Wertman, Redevelopment Program Coordinator
e-mail: l_wertman@ci.lompoc.ca.us

Dinah Perez-Lockhart, CDBG Program Manager
e-mail: d_lockhart@ci.lompoc.ca.us

Arleen T. Pelster, AICP, Community Development Director/Agency Deputy Director, *e-mail:* apelster@ci.lompoc.ca.us

SUBJECT: Request for Approval of Funding Recommendations in response to the Lompoc Redevelopment Agency and Lompoc Affordable Housing Trust Fund (LAHTF) Notice of Funds Available (NOFA) and the Community Development Block Grant (CDBG), federal HOME and Human Services funding NOFA.

RECOMMENDATION:

Staff recommends that the Agency Board take the following actions:

1. Approve loan funds totaling \$1.3 Million to Pacific West Properties, Inc. for the Cypress Court project located at 1420 East Ocean Avenue, (APN: 085-150-17 & 18), with disbursement of funds contingent upon award of low-income housing tax credits from the California Tax Credit Allocation Committee (CTCAC) to the project. Loan funds will be provided as follows:
 - a. \$450,000 Housing Set-Aside Incentive funds.
 - a.b. \$650,000 Housing Set-Aside Revolving funds.
 - a.c. \$200,000 Redevelopment CalHFA HELP II funds; and

2. Approve loan funds totaling \$1.175 Million to the Housing Authority of the County of Santa Barbara (HACSB) for the housing portion of the Santa Rita Village project which is located at 815 West Ocean Avenue, (APN: 091-040-90, 92, & 93). Loan funds will be provided as follows:
 - a. \$500,000 Housing Set-Aside Incentive funds.
 - a.b. \$500,000 Housing Set-Aside Revolving funds.
 - a.c. \$175,000 CalHFA HELP II loan funds; and

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3. Approve a \$350,000 in Housing Set-Aside loan funds to NEO Consulting, Inc. dba Affordable Housing Solutions Group for foreclosure acquisition and rehabilitation of single family homes to be sold to lower-income households; and

Staff recommends that City Council take the following actions:

1. Approve a \$1,635,000 Lompoc Affordable Housing Trust Fund loan to the Housing Authority of the County of Santa Barbara (HACSB) for the housing portion of the Santa Rita Village project which is located at 815 West Ocean Avenue, (APN: 091-040-90, 92, & 93), with fund disbursement contingent upon fund availability; and
2. Approve a reservation of \$500,000 from the Federal HOME affordable housing funds for Pacific West Communities for project costs related to the development of a 78-unit affordable rental housing development at 1420 East Ocean Avenue (Assessor Parcel Number: 085-150-17 & 18)

BACKGROUND:

In November 2009, the City released a Notice of Funds Available (NOFA) for Federal Community Development Block Grant (CDBG) funding, federal HOME affordable housing funding (HOME) and Human Services funding. The reservation request being considered at this time would utilize HOME funding. As a result of the release of the NOFA, a total of six (6) requests for funding were received by the City, including an application from Pacific West Communities. The total amount of requests for City Federal HOME monies was \$1,970,000. In March 2010, the City reserved \$500,000 in HOME funds for the Housing Authority of the County of Santa Barbara. On May 4, 2010 the Council allocated \$232,000 in State HOME Program Income to Recovery Way Home.

The Agency released a combined NOFA for Housing funds controlled by the Agency and the City of Lompoc's Affordable Housing Trust Funds on December 1, 2009. The advertised loan funds available in the NOFA consisted of \$2.5 million in Redevelopment Set-Aside funds and \$1.6 million in Affordable Housing Trust Fund. The NOFA was sent to a total of 97 organizations located throughout California. The Agency received three applications for funding as a result of the published NOFA and is recommending funding to the three projects discussed by project in the discussion section of this report.

At the end of FY08-09, the Redevelopment Agency Housing Set-Aside funds were in a condition known as *Excess Surplus*. Excess Surplus is the carryover of unexpended and unobligated Housing Set-Aside funds that exceeds the greater of \$1,000,000 or the aggregate amount deposited into the Low and Moderate Income Housing Fund pursuant to H&S Codes 33334.2 and 33334.6 during the Agency's preceding four fiscal years. The release of the NOFA in December of 2009 was in response to the Excess Surplus Expenditure Plan submitted to the State as part of the Agency's Annual Report.

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The Agency must expend a minimum of \$1,043,981 from Housing Set-Aside funds to satisfy the current Excess Surplus condition.

PROJECT DISCUSSION:

In analyzing the loan applications and performing the financial feasibility analysis of the project, many factors were reviewed, discussed, and reworked by Agency staff and the applicant. The loan terms for each loan are a result of this analysis and negotiation. During the analysis, Agency and City staff utilized the following criteria to achieve a recommendation for funding and reservation:

- Project within City limits and/or Redevelopment Project Area
- Proficient proof of Site control
- Financial plan developed
- Market Analysis showing demand for housing units
- Construction management by an experienced housing development team
- Appropriate Land use
- Land Entitlement
- Development Cost appropriate
- Net Operating Income sufficient to provide debt service
- Sufficient Debt Coverage Ratio for Agency
- Sufficient Loan-To-Value (LTV) for Agency Debt
- Projected Rents compliant with Affordable Redevelopment Rents
- Identification of Gap requirement and analysis performed
- Adequate reserves and contingencies

CYPRESS COURT PROJECT (PACIFIC WEST PROPERTIES, INC.):

On July 21, 2009, the Redevelopment Agency certified a Mitigated Negative Declaration (MND) pursuant to the California Environmental Quality Act, and adopted Resolution No. 09-135, approving the Ocean Plaza project (the "Original Project"). The Original Project was located on approximately 2.69 acres located at 1420 East Ocean Avenue, and consisted of 78 affordable housing units, as well as 17,330 square feet of commercial space. As part of the Conditions of Approval, the Agency will record an Affordability Covenant on the property which will restrict 49% of the residential units to Very Low- and Lower-income tenants prior to the issuance of any building permits. The project is currently under revision, and the revised project will be presented to the Planning Commission on June 9, and to City Council at a future date. The revised project is reduced in size and will not result in new or more severe significant environmental impacts. The Agency has determined that no further environmental review is required, prior to approval of the referenced loan funds.

The applicant submitted an application for funding to the Agency on November 30, 2009. Agency staff worked with the applicant to resolve issues with the project financing and awaited the applicant's request to move forward with approval. The

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requested Agency funds will be used for predevelopment and land acquisition costs, with the HOME funds used for construction cost.

Total proposed funding for Cypress Court project - \$1,800,000:

\$1,100,000 - Redevelopment Set-Aside funds for Acquisition and Predevelopment cost.

- \$450,000 Housing Incentive funds, 0% interest, deferred for 55 years then forgiven at the end of term.
- \$650,000 Housing Revolving Loan funds, no interest until completion of project (or three years after the date of loan execution, whichever occurs first), followed by 3% interest for the remaining term of the loan. Principal and interest payments deferred for ten to fifteen years after the loan execution date, then amortized over the remaining 15 to 20 years. Total loan term is 30 years. The RDA loan terms are designed to meet the requirements of the 2010 CTCAC public funds leveraging points in Section 10325(1)(C) of their 2010 regulations. The terms may be slightly adjusted in regard to the deferral period to adequately meet those regulations, thus increasing the developments likelihood of receiving the tax credit allocation.

\$200,000 - Redevelopment CalHFA HELP II loan funds for Predevelopment costs.

- 3% interest, payments deferred, with a 24-month term. Loan must be executed by June 30, 2010 in order for repayment to occur by June 30, 2012, which will enable the Agency to easily meet the repayment date of the Agency's CalHFA HELP II loan which is due for repayment in early 2013. By using those funds, this project will assist the Agency in achieving its CalHFA HELP II production goals.

\$500,000 - HOME loan reservations for funding (Predevelopment/Construction) costs.

- The Federal Environmental Review and loan terms have not been solidified for the HOME funding at this time. The approval request is only for a reservation of funds. Environmental Review and loan terms will be brought back to the Council for approval when the project has received the Tax Credit Allocation funds and the applicant is ready to execute loan documents.
- In its application to the City's NOFA, Pacific West Communities requested \$200,000 in City HOME funds, although a second request was submitted to the County of Santa Barbara for County HOME funds for \$650,000. Due to the number of requests received by the County, and limited availability of funds, that request will not be eligible for consideration for County HOME funds until after November 2010. Since the City has sufficient funds available, staff is recommending increasing the City's HOME reservation for Cypress Courts to \$500,000.

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SANTA RITA VILLAGE PROJECT (HACSB):

On October 20, 2009, the Redevelopment Agency, as a responsible agency, certified a Mitigated Negative Declaration (MND) pursuant to the California Environmental Quality Act, and adopted Resolution No. 09-137, approving the Santa Rita Village located at 815 West Ocean Avenue and will consist of 55 affordable housing units. No further environmental review is required, prior to approval of the referenced loan funds. The Agency will record an Affordability Covenant on the property which will restrict 49% of the units to Very Low-, Lower-, and Moderate-income tenants.

The applicant submitted the original application for funding to the Agency on December 17, 2009, which was revised and resubmitted during the subsequent months as part of the Agency's review of the project Proforma and overall financing of the project.

Total proposed funding for Santa Rita Hills project - \$2,810,000:

\$1,635,000 - Lompoc Affordable Housing Trust funds for Construction costs.

- 0% interest, payments deferred until maturity. Repayment due at 80% rent-up or five years from the loan execution date, whichever occurs first.

\$1,000,000 - Redevelopment Set-Aside funds for Predevelopment/Construction costs.

- \$500,000 Housing Incentive funds, 0% interest, deferred for 55 years then forgiven at the end of term.
- \$500,000 Housing Revolving Loan funds, 0% interest for first five years, Principal and Interest payments amortized over 25 years. Total loan term is 30 years.

\$175,000 - CalHFA HELP II loan funds for predevelopment costs.

- 3% interest, payments deferred, with a 24-month term. Loan must be executed by June 30, 2010 in order for repayment to occur by June 30, 2012, which will enable the Agency to easily repay the CalHFA HELP II Agency loan by its due date in early 2013. By using these funds, this project will assist the Agency in achieving its CalHFA HELP II production goals.

SINGLE-FAMILY FORECLOSURE ACQUISITION AND REHABILITATION PROJECTS (NEO CONSULTING, INC):

The applicant submitted an application for funding to the Agency on February 1, 2010, and proposed loan terms for their projects. During a meeting with Agency staff on April 8, 2010, the proposed projects were discussed and the loan terms were modified in order to meet both applicant and Agency needs. The project will consist of the purchase of three to five foreclosed properties in the City of Lompoc, which will be

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rehabilitated, and sold as affordable owner-occupied single-family homes to lower-income households.

Total proposed funding for Foreclosure project - \$350,000:

\$350,000 - Redevelopment Set-Aside Loan funds for Acquisition and Rehabilitation of up to five foreclosed properties in the City of Lompoc.

Funds will be disbursed on a draw basis: Estimated at \$50,000 to \$60,000 toward the purchase price of each property, and an estimated \$20,000 to \$30,000 for the rehabilitation of the homes. Each home will be assessed on a case-by-case basis with code enforcement foreclosures receiving priority. Loan execution must occur prior to June 30, 2010. All loan funds must be drawn within 24 months after execution of the loan documents.

The Agency loan to NEO will be a 0% interest loan, payments deferred until assumption by the lower-income household. All properties will be under a forty-five-year (45-year) affordability covenant with the Agency, and will be sold at affordable rates to Lower-income households. The affordability covenant and loan will be assumed by the buyer at the time of purchase. As each property is sold, the buyer will assume approximately \$70,000 of the total loan and NEO will be released from that portion of the NEO loan, until all properties have been sold and all debt has been assumed. If the initial buyer decides to sell the home, then the new buyer must be income-approved by the Agency and the sales price must be approved by the Agency, prior to sale.

The Single-Family Foreclosure Acquisition and Rehabilitation Loan to fund the acquisition of housing for housing assistance programs is Categorically Exempt from the California Environmental Quality Act (CEQA).

ALTERNATIVE ACTION:

The Agency Board and City Council could take a variety of alternative action if they choose not to proceed with staff recommendations. The alternative actions could include:

1. Not to approve any of the loans or reservation requests.
- ~~1.2.~~ To approve only one or more of the loans and/or reservation.
- ~~1.3.~~ To reduce the amount of funding to one or more of the projects.

Agency staff would not recommend the Board not take action to approve any of the loans identified at this time due to the Excess Surplus condition of Housing Set-Aside Fund. Agency staff has identified the funding of one or more of the above projects in the Excess Surplus Expenditure Plan, which was approved by the Board in the Annual Report and

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submitted to the State in December of 2009. A substitute project would be required to ensure the Excess Surplus does not remain.

If the Agency Board/City Council does not choose to follow staff recommendations in the financing of the Santa Rita Village or Cypress Court projects, then those projects' financing will be significantly impacted and one or both of the projects may not be able to move forward at this time.

CONCLUSION:

The approval of the loans will produce two quality affordable housing projects for the community, one of which will assist seniors with a quality affordable housing opportunity, the other very low-, lower- and moderate-income families. The Housing Authority project may act as catalysis for the western region of the City along with the Community Center near that location. The NEO project will assist the City and Agency in the removal of blight and bring these properties back into reuse stabilizing these neighborhoods. NEO will also provide First Time Home Buyer opportunities to lower-income families in the community.

Linda R. Wertman
Redevelopment Program Coordinator

Dinah Perez Lockhart
Community Development Program Manager

**APPROVED FOR SUBMITTAL TO THE REDEVELOPMENT AGENCY
EXECUTIVE DIRECTOR:**

Arleen T. Pelster, AICP
Community Development Director/Deputy Director

**APPROVED FOR SUBMITTAL TO THE CITY COUNCIL AND THE
REDEVELOPMENT AGENCY BOARD:**

Laurel M. Barcelona
City Administrator/Executive Director