



**Community
Services
Department**
Connecting People to Opportunities

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February 13, 2017

**STAFF REPORT
TO THE CAPITAL LOAN COMMITTEE**

For the meeting of:

Date: February 16, 2016

Time: 2:00 – 3:30 P.M

Location: 706 Laguna St., Santa Barbara, CA

BY: Laurie Baker, Grants and Program Manager
Division of Housing and Community Development (HCD)

RE: Habitat for Humanity of Southern Santa Barbara County
Construction of 3 affordable homes in Carpinteria

The purpose of this staff report is to provide information on a proposed project by Habitat for Humanity of Southern Santa Barbara County (Habitat) and to request that the Capital Loan Committee (CLC) recommend that the County Board of Supervisors approve funding for the project.

Project Summary

Habitat has requested \$300,000 in County funds to construct three (3) single-family homes on vacant property located at 4949 Sawyer Avenue in Carpinteria. The homes will be sold to families with incomes ranging between 40% and 80% of the Area Median Income (AMI), as published annually by the U.S. Department of Housing and Urban Development (HUD) for the Santa Maria/Santa Barbara Metropolitan Statistical Area (MSA).

Background:

The County of Santa Barbara is the lead entity of the federal Community Development Block Grant (CDBG) Urban County partnership and federal HOME Investment Partnership (HOME) Consortium. The CDBG Urban County is comprised of the County, and the cities of Buellton, Carpinteria, and Solvang. The HOME Consortium is comprised of the County, and the cities of Goleta, Buellton, Carpinteria and Solvang. As the lead entity, the County receives an annual allocation of CDBG and HOME funds to provide grants and loans to support a variety of community projects and programs. The County's Division of Housing and Community Development (HCD) administers the federal funds for the County and its partner cities.

In addition, HCD administers the uses of fees collected from developers who paid the fees in lieu of constructing affordable housing units as required under the County's Inclusionary Housing Ordinance (IHO). The fees are used toward the costs of affordable housing development.

The County's Capital Loan Committee (CLC) makes funding recommendations to the County Board of Supervisors for housing projects utilizing County funds. Applications from developers requesting County funds for the development of affordable housing are accepted on a year-round basis. Applications for all other programs are accepted during the annual Notice of Funding Availability (NOFA) process.

Project Description

Habitat for Humanity of Southern Santa Barbara County (Habitat) is a nonprofit organization that provides homeownership opportunities for low-income families. Staff is seeking a recommendation from the Capital Loan Committee (CLC) that the County Board of Supervisors approves a forgivable loan for \$300,000 in County funds to Habitat to construct three (3) single-family homes in the City of Carpinteria. Each home will be roughly 1,200 square feet in size, with three bedrooms. The homes will be sold to families with incomes ranging between 40% and 80% of the Area Median Income (AMI), as published annually by the U.S. Department of Housing and Urban Development (HUD) for the Santa Maria/Santa Barbara Metropolitan Statistical Area (MSA). Habitat and/or the County will record a resale restriction recorded against each home to assure continued affordability to low-income families for ninety (90) years.

Since 2007, Habitat for Humanity of Southern Santa Barbara County (Habitat) has built 19 new homes in three (3) affordable housing developments in the County, which have provided affordable housing options for 70 County families, including children. Habitat indicates it can build cost effectively by combining volunteer labor, donations of money, national partnerships, community support, and sweat equity. Habitat homeownership provides family and children with long-term stability, avoiding annual rent increases, frequent moves to new neighborhoods and schools, and a sense of dignity and pride.

Prospective Habitat Homeowners are selected based on five criteria:

- 1) Total family income between 40% and 80% of the area median income (AMI). This is equal to about \$32,080 to \$67,350 a year for a family of four;
- 2) Families currently live in substandard housing, which is defined as unsafe or overcrowded housing, transitional housing, or paying over 50% of the family income on rent;
- 3) Families have the ability to make monthly mortgage payments designed to fit within 35% of the family's income;
- 4) Families are legal residents of the U.S. and have lived or worked in Southern Santa Barbara County for the past year;
- 5) Each adult in the family is willing to partner with Habitat by completing 250 sweat equity hours and participating in the 16-month Homeownership Readiness Curriculum.

Habitat homeowners purchase their homes from Habitat at a price set according to their ability pay, using 35% of their gross income as available for housing payments, including principal payments on a first mortgage, taxes, insurance and homeowner association (HOA) fees, if applicable. Habitat provides the first mortgage on the homes and does not charge interest; therefore, each dollar paid by a family on its mortgage loan builds homeowner equity (assuming stable or increasing property values for the market area over time).

Homeowners will have the option to resell their properties at any time just as market-rate homeowners do. Habitat and/or the County will record a resale restrictive covenant against each of the homes subjecting them to certain resale restrictions in order to ensure that the homes remain affordable for a period of ninety (90) years.

County CDBG (\$224,891) and In-Lieu (\$75,109) funds will be used toward the construction costs of the homes (see Table 1). The County funds will be secured initially by the land and then forgiven upon the sale of all three homes to eligible homebuyers.

Table 1

Construction Costs		Sources of Funds	Construction	Sources of Funds	Repay HTF Loan
Land	\$300,000	Housing Trust Fund SBC	\$700,000	Excess from constr sources	\$50,111
Off Site/Soft Costs/Fees	451,822	County Funds	300,000	Pledges confirmed	68,000
Site Work	141,850	Habitat Cash on Hand	113,275	Pledges (corp, foundations, etc.)	194,250
Vertical Construction	854,684	Pledges confirmed	200,000	Pledges (Individuals)	<u>387,639</u>
Appliances	<u>1,000</u>	In-Kind/Volunteer Credit	205,206		\$700,000
	\$1,749,356	Spent to-date	<u>280,986</u>		
			\$1,799,467		
		<i>Excess to HTF repayment</i>	<i>\$50,111</i>		

The construction loan provided by the Housing Trust Fund of Santa Barbara County (HTF) will be repaid with proceeds from continued fundraising efforts during construction. The current gap is \$581,889. It is Habitat's experience that additional donations and volunteer labor are stimulated during the construction period; however, should donations not be sufficient to repay the HTF loan in full when construction is complete, Habitat will rent the homes to the future homeowners until the HTF loan is fully repaid.

Staff recommends that the County provide \$300,000 toward construction costs and secure the funds with a 2nd mortgage on the subject property (behind HTF) and, if necessary, secure the County loan with additional property owned by Habitat. The lien on the second property will be released upon repayment of the HTF loan, and the lien on the subject property will be released, in part, upon the sale of each home to an eligible homebuyer. The lien will be fully released upon the sale of the 3rd and final sale.

Staff will continue to work with Habitat during construction on a mutually acceptable form of resale restriction to be recorded against each home at the time of sale to an eligible homebuyer.

cc: Dinah Lockhart, Deputy Director Housing and Community Development
George Chapjian, Community Services Director