



ITEM NUMBER: RA C - 1

DATE: 12/08/09

Initially brought before the Board on 11/10/09

## ***Atascadero Community Redevelopment Agency***

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### ***Staff Report – Executive Director***

#### **Business Stimulus Program: Loan Program for Downtown Affordable Housing and Related Retail Uses**

#### **RECOMMENDATIONS:**

Agency Board:

1. Find the program consistent with the Council approved housing policy; and,
2. Authorize the Administrative Services Director to appropriate \$500,000 from the Redevelopment Low/Moderate income Housing Fund for the Downtown Affordable housing Program; and,
3. Authorize the Executive Director to implement the program and sign related loan documents and agreements.

#### **DISCUSSION:**

*This item was initially brought before the Community Redevelopment Agency Board on November 10, 2009, at which time the Board referred it back to Staff for more information. At the November 24, 2009, Agency Board meeting, it was the consensus of the Board to withdraw their request for more information and to have the report brought back as originally presented.*

**Summary:** In response to the City Council's number one goal, to increase revenues through economic development and stimulate the City's economy, the Atascadero Office of Economic Development (OED) was established in December 2008. One of the first projects for the OED was to develop a comprehensive business stimulus program. The Atascadero Business Stimulus Program was approved by the City Council on June 23, 2009. One of the components of the program was to encourage development of affordable housing units and retail space within vacant buildings in the downtown area. This report introduces such a program.

**Background:** There are several two-story buildings of various ages throughout the downtown area that are currently vacant. The buildings are located predominantly

along El Camino Real and Entrada Avenue. The buildings have sat vacant for some time. Based on their condition, cost to renovate and the current economic environment, it is not financially feasible to invest in the buildings to make them suitable for occupancy, as revenues derived from current lease rates would not create a reasonable return on investment or positive cash flow. Because of this, these buildings continue to sit vacant. One of the suggestions approved by the City Council on June 23, 2009 was to create a program that would provide long-term loans to property owners of these vacant buildings to improve them, specifically for retail uses on the first floor and affordable housing on the second floor. Staff has created such a program for Agency consideration.

### Components of Program

The primary goal of the program is to create an incentive for developers to improve vacant buildings in the downtown zone for housing/retail uses through a favorable loan program. The program offers a \$100,000 loan from the Affordable Housing Fund in exchange for the Agency receiving an affordable housing unit downtown for 55 years, and a new or improved retail use on the ground floor. Owners are responsible to rent and maintain the affordable housing unit throughout the duration of the loan and are responsible for all related reporting and placement of tenants. Revenues generated from the affordable housing unit are kept by the owner. Owners may participate in the program by filling out the attached Draft Owner Participation Agreement (Attachment A).

The loan is due to the Agency through one balloon payment payable at the conclusion of the 55-year term or sooner if the property is sold. This payment shall consist of the original principal amount of \$100,000 plus a pro-rata share of the appreciation of the project since the date the loan was initiated. The pro-rata share of appreciation is determined based on an appraisal provided by the project owner at the time the loan is issued. For example, if a property owner receives a \$100,000 loan on a building that is worth \$500,000 on the day the loan is taken out in 2009, and at the end of the loan term in 2064 the building is worth \$2,000,000, the Agency would receive a payment of \$400,000. This is calculated based on the fact that the Agency's investment was equivalent to 20% of the building's value in 2009. If the building appreciated \$1,500,000 over 55 years, the Agency would receive 20% of the appreciation, or \$300,000. This appreciation, plus the principal would total \$400,000. If the property has depreciated in fair market value upon the conclusion of the 55 year term or upon sale, the City will forgive the amount of the depreciation up to the \$100,000 loan principal amount. This policy of forgiving a portion of the debt upon decreases in value due to normal market fluctuations is consistent with the City's other affordable housing programs.

Although, the property may be sold prior to the end of the 55-year term, the restriction shall remain in place for the remainder of the 55-year term.

Loans will be secured by a deed of trust (Attachment B) and Promissory Note (Attachment C), and the affordable housing unit will be protected through a recorded Regulatory Agreement (Attachment D). For an owner to be eligible to participate in the

project, the loan to value on the existing note must not exceed 90%. In other words, on a property valued at \$500,000, an owner must have equity of at least \$50,000.

To protect the Agency from a participant taking loan proceeds and abandoning the project without developing the affordable housing unit, funding will be disbursed in three increments throughout the project. After execution of the agreement and upon receipt of an approved building permit for an affordable unit, participants will receive \$30,000. Upon completion of the inspection for interior framing, the participant would receive an additional \$30,000. At final inspection and occupancy of the housing unit, the participant would receive the final \$40,000. Funding is advanced to participants and is not provided on a reimbursement basis. In essence, the Agency is buying affordable units in the downtown area for \$100,000 each, not for the actual cost of completing the unit.

### Consistency with the General Plan, Redevelopment Plan and Affordable Housing Policy

The proposed program is consistent with the City's adopted General Plan, Redevelopment Agency Plan and the Council-approved Affordable Housing Policy.

The current General Plan Housing Element provides the following policy direction for Downtown housing:

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**Goal HOS 1: Promote diverse and high quality housing opportunities to meet the needs of all segments of the community.**

**Policy 1.1: Encourage steady production of new housing, including mixed-use projects in commercial land use areas, to meet the needs of all household types in the City.**

2. Continue to allow mixed residential and commercial development in the Downtown Zoning District.

Responsible Agency:	Planning Commission, City Council
Timeframe:	Ongoing
Quantified Objective:	1 very low income units/year 8 low income units/year

The draft proposed Housing Element includes the following policy:

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5. Establish a program to assist building owners in converting upper floor residential space in the downtown to deed restricted extremely low-, very low- and low-income units.

Funding Source:	Redevelopment Agency Set-Aside Funds and In-lieu Fees
Responsible Agency:	Community Development Department, Redevelopment Agency
Timeframe:	Within the planning period
Quantified Objective:	10 units

The Redevelopment Agency Plan includes the following housing policies:

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210.9 Expansion and/or improvement in the quality of the community's existing housing stock for low- and moderate-income persons, through rehabilitation, reconstruction programs.

Section 420 – PROVISION OF LOW AND MODERATE INCOME HOUSING

To carry out the purposes of this Article 4, the Agency may, to the extent permitted by law, acquire land, donate land, improve sites, or construct or rehabilitate structures or exercise any or all of its powers authorized under Section 33334.2 of the Health and Safety Code in order to provide housing for persons and families of low or moderate income. The Agency may also provide subsidies to, or for the benefit of, such persons and families or households to assist them in obtaining housing within the City. The Agency may enter into agreements with appropriate organizations for the purpose of increasing and improving the City's supply of low or moderate-income housing. The Agency shall provide preference to projects and activities within the Project Area for the purposes of this provision.

720.4 Housing programs including the following:

- (1) Rehabilitation
- (2) Replacement housing needs
- (3) Neighborhood residential conservation
- (4) Development of new, affordable units.

The City Council approved an Affordable Housing Plan and RDA funding checklist in August 2009. Staff has completed a preliminary checklist scoring for the program on the following pages. The program receives 79% percent of all the possible points, which staff considers a good score. The program loses points on the cost per unit, which is on the high side of the checklist scale and the lack of a local non-profit in the program. However, due to the nature of this program, focusing on rehabilitating existing downtown apartments, these deficiencies are understandable.

It is staff's opinion that the proposed program is very consistent with both the City's downtown and affordable housing goals and policies.

## City of Atascadero - Affordable Housing Participation Checklist

Organization Name:	City of Atascadero RDA		Date:	10/28/09
Project Name:	Downtown Stimulus Loan Program			
Contact Person:	Warren Frace		Project Type:	
Phone:	805/461-5000		New Construction	<input type="checkbox"/>
Email Address:	<a href="mailto:wfrace@atascadero.org">wfrace@atascadero.org</a>		Rehabilitation	<input checked="" type="checkbox"/>
Application Number:				

Is this an update to an existing checklist?  no

Instructions: Please insert the appropriate number of points in the "Points" column. Except where there is a range of points offered, there is no graduated point allowance for less than full compliance. In addition to the minimum optional points, all projects must meet the applicable mandatory requirements.

Optional Points value	2 points
Encouraged Points value	4 points
High Priority Points value	10 points
Mandatory Points value	18 points

Criteria	Description	Requirement Type	Points
<b>Section 1- Project Funding</b>			
1-1 Funding Leveraged	Are there funds from other sources?	<40% = 0 pts, 40-80% = 9 pts, >80% = 18 pts	9
1-2 Principal Sum Public Investment	Will principal sum be recovered in specified time?		18
1-3 Return on Investment	Will there be a reasonable return on investment?		4
1-4 Cost Per Unit	Lower City cost per unit given higher priority	<\$20,000 = 10 pts, \$20,000-40,000 = 8 pts, \$40,001-60,000 = 6 pts, \$60,001-80,000 = 4 pts, \$80,001-100,000 = 2 pts, >\$100,000 = 0 pts	2
<b>SUBTOTAL</b>			<b>33</b>

Criteria	Description	Requirement Type	Points
<b>Section 2- Site, Location, and Neighborhood Consistency</b>			
2-1 Neighborhood Compatibility	Does the project fit the neighborhood?		4
2-2 Adherence - Zoning Requirements	Does the project follow General Plan Consistency?		4
2-3 Environmental Suitability	Are there no significant environmental issues?		2
2-4 Neighborhood Acceptance	Does the neighborhood support? (neighborhood meeting required)		2
2-5 Green Development Plan	Is the project LEED certified?		0
2-6 Building Appearance	Does project provide high quality architecture?		4
2-7 Landscape	Does project provide high quality landscape?		2
2-8 Commercial Component	Project includes mixed use?		10
2-9 Downtown Site	Project in downtown zone?		10
2-10 Located in RDA Project Area	Project in the Redevelopment Project Area?		10
<b>SUBTOTAL</b>			<b>48</b>

<b>Section 3- Affordability</b>			
3-1 Very Low Income	Percentage very low income units?	<10% = 5pts, 10-30% = 10pts, >30% = 18pts	18
3-2 Low Income	Percentage very low income units?	<10% = 0pts, 10-30% = 5pts, >30% = 10pts	10
3-3 Moderate Income	Will there be any Moderate Income units?		0
3-4 Rental Units Project	Does project include rental units?	<50% = 0pts, 50-75% = 5pts, >75% = 10pts	10
3-5 Number of units/density	Is Project at maximum General Plan density?		4
3-6 Variety of Unit Size	Is there a mix of unit size/bedrooms? (min 25% of units)		0
<b>SUBTOTAL</b>			<b>42</b>
<b>Section 4- Term of Affordability</b>			
4-1 Ownership Units Deed Restriction Term	45 year term required		18
4-2 Rental Unit Deed Restriction Term	55 year term required		
4-3 Additional Time Restriction	Proposing to deed restrict at least 10 years more than 45/55 years?		0
<b>SUBTOTAL</b>			<b>18</b>
<b>Section 5- Proponent / Partnerships</b>			
5-1 Local Non-profit/For Profit	Is project a SLO County non-profit involved in the project?		0
5-2 Local Proponent	Is project proponent located in SLO County?		2
5-3 Experience of Proponent	Is developer experienced in affordable housing / good references?		10
5-4 Project Timing & Readiness	Are project entitlements approved?		4
<b>SUBTOTAL</b>			<b>16</b>
<b>Percentage of Points Received = 79%</b>		<b>Point Scored</b>	<b>157</b>
		<b>Out of Total Points</b>	<b>200</b>

**FISCAL IMPACT:**

Loans would be capped at \$100,000 per affordable housing unit built. The total cost of the program is \$500,000. Funding for this program is available in the Affordable Housing Fund.

**ATTACHMENTS:**

- [Attachment A- Owner Participation Agreement](#)
- [Attachment B- Deed of Trust](#)
- [Attachment C- Promissory Note](#)
- [Attachment D- Regulatory Agreement](#)