



# CITY OF SANTA BARBARA

## COUNCIL AGENDA REPORT

**AGENDA DATE:** September 21, 2021

**TO:** Mayor and Councilmembers

**FROM:** Housing & Human Services Division, Community Development Department

**SUBJECT:** Project Agreement Between The City And The Housing Authority Of The City Of Santa Barbara To Develop Housing On The Carrillo Commuter Parking Lot

### **RECOMMENDATION:**

That Council approve and authorize the Community Development Director to execute and implement a project agreement between the City and the Housing Authority and related instruments for development of approximately 60 rental housing units on the Carrillo Commuter Parking Lot.

### **EXECUTIVE SUMMARY:**

In 2019, the City Council directed staff to work with the Housing Authority of the City of Santa Barbara (Housing Authority) to work jointly in pursuit of a workforce housing project on the City's Carrillo Commuter Parking Lot (Carrillo Lot). The Council established the objectives for the project and executed a memorandum of understanding (MOU) with the Housing Authority. Since that time, City staff and Housing Authority staff have been working to develop a project agreement for Council consideration and approval. The proposed agreement establishes the terms for:

- Development by the Housing Authority of the project plans, schedule, and budget; CEQA processing and land use approvals; access to the property for purposes of project development;
- Transfer of the Carrillo Lot from the City to the Housing Authority subject to specified use and affordability covenants, conditions, and restrictions; transfer of the lot from the Housing Authority to a third-party owner entity, for financing, development, construction, operation, and maintenance of the project;
- The City's option to repurchase the project.

A copy of the proposed agreement (Project Agreement), is attached to this report.

## **DISCUSSION:**

### Background

The Housing Authority appeared before City Council on May 7, 2019, requesting that Council allow it to pursue an affordable housing development (Project) on the City's Carrillo Lot, which is located on the northwest corner of Carrillo and Castillo Streets. City staff in both the Public Works Department and Community Development Department have acknowledged the potential community benefits of such a proposal, particularly after the state's dissolution in 2011 of the City Redevelopment Agency, which had been an important source of funding for affordable housing. Council directed staff to develop project objectives with the Housing Authority, which were presented to Council and approved on December 10, 2019. The two parties signed an MOU regarding the property on April 20, 2020, after which City staff worked with the Housing Authority to draft a project agreement ("Project Agreement") for Council's consideration.

### Carrillo Commuter Parking Lot

The Carrillo Lot currently provides 140 parking spaces used by Downtown area commuters. In 2019, the Carrillo Lot had an average of 152 monthly subscribers each paying 40\$/mo. Permit sales for the Carrillo Lot generate approximately \$72,960 in gross revenue each year. In other City lots, permit subscriptions are usually oversold, but with permit holders nearly equal to the number of parking spaces, the Carrillo Lot has historically underperformed. This is likely due to its distance to State Street. The Carrillo Lot is also home to New Beginnings' overnight parking program, which houses 12 family units in cars and RVs overnight, as well as two family units during the day.

The Carrillo Lot was originally purchased by the Redevelopment Agency and has been transferred to the City, through a State agreement, to be used for "government purposes." The City Attorney's Office has determined that this property can be used for housing for the purpose of fulfilling City plans and policies. Additionally, creating Downtown-oriented workforce housing fulfills the same purpose as commuter parking: providing employees with increased access to Downtown.

### Housing Authority

The Housing Authority is the most qualified entity to manage a project of this nature and in this location. In addition to being the City's trusted partner for affordable housing construction and management for 50 years, the Housing Authority is uniquely qualified to manage this project because of its access to funding and its legal capabilities in managing tenant parking and vehicle ownership. This has been demonstrated through its management of two adjacent housing projects at Casa de Las Fuentes and El Carrillo.

### Project Objectives

At the December 10, 2019 hearing, Councilmembers approved the following project objectives for a housing project at this location:

1. Prioritize the project for Moderate-Income households earning 80 to 120 percent of Area Median Income (AMI), for people who want to work and play within the City Limit.
2. Maximize community benefit housing density and provide smaller units.
3. Consider reduced parking for the housing units while being sensitive to the adjacent neighborhood.
4. Structure transaction so that City retains rights to long term ownership so that revenues can be revisited for additional Downtown priorities.
5. Set the building back from and create a buffer for Mission Creek. Retain a portion of the buffer for parking opportunities and preservation of existing mature trees.
6. Actively engage the neighborhood for project design and feedback, and Residential Parking Permit availability.
7. Prioritize housing for public employees, non-profit employees, and New Beginnings clients.
8. Incorporate design standards to address air quality for development near Highway 101.

### Project Purpose

The Project is intended to provide approximately 60 units of rental housing for residents earning 80 to 160 percent AMI. It is anticipated that some of the residential units will be rented to Moderate-Income households with incomes in the 80 to 120 percent AMI range, the exact number to be agreed upon and specified in the affordability covenant to be recorded on the property. The balance of the units may be rented to Middle-Income households with incomes in the 120 to 160 percent AMI range. The Project will offer affordable rents to households with incomes within the target AMI range at a ratio to achieve a target yield of 5 percent for the Project's outside investor, using several affordability range housing options, including alternatives of (i) 100 percent Middle Income households; or (ii) 100 percent Low-Income households (in that order of priority), if the investor yield cannot be met with the preferred housing mix of Moderate-Income households and Middle-Income households.

### Environmental Review

The Project Agreement is not a project subject to CEQA. It is intended solely to establish roles and responsibilities for potential use of the Carrillo Lot for affordable housing. It does not result in any irrevocable commitment for approval of the housing development. The Project Agreement requires the Housing Authority to process the development plans under CEQA and the City's Municipal Code. The Project Agreement does not impact the City's review and approval authority or entitle the Housing Authority to any permit or other

City approval for development or construction. City expressly reserves all discretionary approval authority with respect to the development.

#### Implementing Documents

The Project Agreement requires the preparation of implementation documents including: a purchase and sale agreement for the transfer of the Carrillo Lot from the City to the Housing Authority; covenants, conditions, and restrictions to assure rental of the project units at affordable rents to persons meeting the target income qualifications, and an option for the City to repurchase the property. Council's action to approve the Project Agreement includes authorization for the Community Development Director to execute implementation documents in a form approved by the City Attorney.

#### **BUDGET/FINANCIAL INFORMATION:**

The Downtown Parking Fund operating budget includes estimated revenues attributable to the Carrillo Lot, with permit sales generating approximately \$72,960 in gross revenue each year. Upon commencement of construction, the Project will eliminate the City's present revenue stream generated by monthly parking fees charged to commuters. The current estimated City net income from parking fees after expenses is approximately \$26,000/year. To compensate the City for lost revenue, the Project will pay to the City a minimum \$15,000 per year during the time when the Project net cash flow is less than the cumulative investor yield. When the cash flow exceeds the cumulative investor yield, the Project will pay to the City an amount up to \$30,000 per year from net cash flow, adjusted annually for inflation. This fee will be known as the In-Lieu Parking Income Fee. It is recognized that during the construction and initial lease-up period, there will be no net cash flow from the Project available to pay the Fee; therefore, during the construction period, the Fee will be capitalized into the Project's cost based on \$30,000/year. After lease-up is complete, the payment will then be treated as an operating expense.

**ATTACHMENT:** Project Agreement

**PREPARED BY:** Lucy Graham, Housing Project Planner

**SUBMITTED BY:** Elias Isaacson, Community Development Director

**APPROVED BY:** City Administrator's Office