



REPORT TO MAYOR AND CITY COUNCIL

AGENDA ITEM

TO: THE HONORABLE MAYOR
AND CITY COUNCIL

DATE: December 2, 2008

SUBJECT: Donation of Two Spring Lake Housing Lots to the City

Report in Brief

Staff has been actively facilitating the sale of finished lots within the Spring Lake Specific Plan Area currently owned by the E & L Company to Meritage Homes. In the course of facilitating this sale, the sellers and the buyers have requested the City to develop alternatives to meet the Spring Lake Affordable Housing Plan. This discussion has led to a proposal wherein the City would accept and hold two lots that would be dedicated to meeting the affordable housing requirement through a future sale to a qualified affordable housing developer. This solution will allow the transaction to be concluded in a manner that is acceptable to the buyer and the seller despite these very challenging economic conditions.

Staff recommends that the City Council adopt Resolution No. _____ authorizing the City Manager to accept Lots #45A and Lot #45B on behalf of the City and execute the Certificate of Acceptance and all documents necessary for the transaction as described herein.

Background

One of the provisions within the Spring Lake Specific Plan and the Spring Lake Affordable Housing Plan is the “two for one” dedication. This dedication allows developers to donate two lots to affordable housing developers as an alternative for meeting the affordable housing requirements for the Spring Lake Specific Plan Area. Under this provision, the City was only allowed to accept up to five lots for this type of dedication.

The E & L Company (E & L) acquired approximately six acres of what is known as Heidrick Ranch in 2006. The builder had received approval of the subdivision and building plans and had begun construction. However, E & L was severely impacted by the downturn in the regional housing and financial markets and needs to liquidate its assets as quickly as possible. The builder received interest in their property from another developer, Meritage Homes. Meritage expressed interest in acquiring the property in order to construct up to 28 homes on finished lots within Heidrick Ranch. City staff was asked to become involved in the transaction because the sale was contingent upon

several points associated with the conditions of the Spring Lake Specific Plan. One of these conditions is the affordable housing requirement. Given the challenging economics of the housing industry, Meritage concluded that the purchase of the Heidrick Ranch property could not be completed if they were held to the affordable housing requirement. This situation led to discussions between E & L, Meritage, and City staff that generated a proposal that staff believes satisfies the needs of each party.

Discussion

It is proposed that E & L be allowed to remove the affordable housing requirements by donating the designated affordable housing lots to a developer that agrees to build units affordable to households with Very Low Income (VLI), 50% of area median income. Spring Lake developers are allowed to do this and receive a two for one credit in accordance with the Spring Lake Affordable Housing Plan Section entitled "Credits for Land Dedication of Very Low-Income For-Sale Residential Lots." Previously, KB Home donated three lots to Habitat for Humanity. In exchange, KB Home received credit for six affordable units. E & L also received prior approval from City Council on July 17, 2007 to transfer two lots to Habitat for Humanity to receive this two for one credit as well. Due to changes in the credit market, this transfer never occurred and they are now transferring two different lots to Habitat for Humanity to receive their approved two for one credit. The acceptance of the two Habitat for Humanity lots and the two City lots will satisfy their six unit inclusionary housing requirement.

The Spring Lake Affordable Housing Plan limits the donation of lots for homes affordable to VLI households to five. Therefore, only two more lots could be transferred and E & L wanted to receive six credits (requiring three lots). As a compromise the City proposed that E & L donate two lots to Habitat for Humanity and two lots to the City for a total of six credits. This means the City is allowing E & L to donate one more lot than the Spring Lake Plan allows. Given the extraordinary economic conditions both developers are facing, staff concluded that this was an acceptable alternative.

If approved, the lots will be transferred to the City free and clear. The seller and its lenders will pay all past due property taxes, including Spring Lake Community Facilities District (CFD) and Lighting and Landscape District (LLD) fees, transfer fees, title insurance, escrow fees, document stamps and recording fees. Once the transfer has been made, the City will be responsible to continue paying future CFD and LLD fees, and maintain the lots, just as any property owner would be. For this site in Spring Lake, maintenance requires only that the weeds need to be controlled. A cost efficient way to do this would be to have the existing Spring Lake landscape contractor include these two lots in the existing contract. The annual total costs for CFD/LLD fees and weed control is estimated at \$4,000 for each lot. Staff would charge these costs to the Spring Lake Housing Trust Fund and would then reimburse the fund when the lots are sold to an affordable housing developer.

In the future, when the housing market improves, Redevelopment /Housing staff will propose a plan for two new affordable homes and sell them through the inclusionary housing program. Before that is started, staff will return to the City Council with a development and financing plan. It would be

the City's intent to hold these lots for the shortest possible time in order to limit the annual costs and commit the lots to meeting the goals of the Spring Lake Affordable Housing Plan.

If the proposed acceptance of these affordable housing lots is not approved, the sale of the Heidrick Ranch property will likely not occur. If the sale does not occur, the E & L Company will face significant financial impacts and Meritage's proposed construction of 28 residential homes will be eliminated.

Fiscal Impact

Acceptance of the two lots will require the City to fund annual CFD/LLD fees and weed control estimated at \$4,000 per lot for a total of \$8,000. Staff would charge these costs to the Spring Lake Affordable Housing Trust Fund and then would repay the Trust Fund upon the sale of the lots to an affordable housing developer. There would be no impact on the General Fund.

If the proposed transaction is approved and Meritage proceeds with their plans to construct 28 for sale residential units in Spring Lake, it is estimated that the City would collect a minimum of \$1.4 million in City-wide and Spring Lake development impact fees. This estimate is based on reduced fees that are being reviewed by the City Council Spring Lake Financial Subcommittee.

Public Contact

Posting of the City Council agenda. A copy of the agenda and report were provided to the E & L Company and Meritage Homes.

Alternative Courses of Action

1. Adopt Resolution No. _____ authorizing the City Manager to accept Lots #45A and Lot #45B on behalf of the City and execute the Certificate of Acceptance and all documents necessary for the transaction as described herein.
2. Cease further consideration of the proposed acceptance of the residential lots.

Recommendation for Action

Staff recommends that the City Council approve Alternative No. 1.

Prepared by: Cynthia Shallit
Redevelopment/
Housing Manager

Reviewed by: Barry Munowitch, AICP
Assistant City Manager

Mark G. Deven
City Manager

Attachment: Resolution

CITY COUNCIL RESOLUTION NO. _____

**A RESOLUTION OF THE CITY COUNCIL OF
THE CITY OF WOODLAND AUTHORIZING THE ACCEPTANCE OF TWO
LOTS IN SPRING LAKE**

WHEREAS, it is the City Council’s desire to assist development in the Spring Lake housing area,

WHEREAS, the City Council’s goal is to allow for the inclusion of affordable housing in Spring Lake; and

WHEREAS, E & L LLC, a builder and property owner at Spring Lake wishes to dedicate two lots to the City of Woodland for future development of affordable housing units

NOW THEREFORE BE IT RESOLVED THAT the City Council authorizes the City Manager to:

1. Accept Lots #45A and Lot #45B on behalf of the City; and
2. Execute the Certificate of Acceptance and all documents necessary for the transaction

PASSED AND ADOPTED by the City Council of the City of Woodland this 2nd day of December, 2008, by the following vote:

AYES:
NOES:
ABSENT:
ABSTAIN:

Marlin H. “Skip” Davies, Mayor

ATTEST:

Sue Vannucci, City Clerk