

City of Calistoga

Staff Report

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TO Honorable Mayor and City Council
FROM Lynn Goldberg, Planning and Building Director
DATE December 15, 2015
SUBJECT Option to Purchase Affordable Housing Unit at 1807 Aurora Drive

APPROVAL FOR FORWARDING



Michael T. Kirn, Acting City Manager

1 **ISSUE:** Whether the City Council should direct the Acting City Manager to exercise the
2 City's option to purchase the affordable housing unit at 1807 Aurora Drive

3 **RECOMMENDATION:** Direct staff to notify the owner of 1807 Aurora Drive that the City
4 of Calistoga 1) does intend to exercise its option to purchase the residence or 2) does
5 not intend to exercise its option

6 **BACKGROUND:** The City's inclusionary housing program requires that, in
7 developments with five or more dwelling units, a share of the project's units be sold to
8 and occupied by low- or moderate-income households. The Emerald Oaks subdivision,
9 which was developed in the mid-1990's, was subject to these provisions and provided
10 three homes at reduced sales prices, including the residence at 1807 Aurora Drive. The
11 developer provided the City a second deed of trust for each unit equal to the difference
12 between its fair market value and its affordable purchase price.

13 The affordable housing agreement executed between the developer and the City
14 provided the City with a purchase option that gives it the right, upon receiving a
15 notification of intent to sell by the property owner, to acquire the property at market rate.
16 By doing so, the City can resell the property with restrictions in place, thereby insuring
17 the continued affordability of the unit and maintenance of the City's affordable housing
18 stock.

19 In 2001, the City purchased the 1807 Aurora residence from the original owner pursuant
20 to this option and, through a lottery system, selected a moderate-income family to
21 purchase the home. The purchasers entered into a Resale Restriction Agreement
22 (attached) whereby the City provided a second mortgage of \$100,000¹ (approximately
23 31% of the value of the home) in order to lower the home's price to an affordable level.

¹ At a cost of \$70,875 due to the second mortgage payoff of \$29,125

24 The current owner has recently advised the City of her intent to sell the property (see
25 attached letter). This notice requires the City to consider exercising the purchase option
26 contained in the Resale Restriction Agreement.

27 **DISCUSSION:** Since 2004, the City has allowed three of four restricted properties for
28 which it had a purchase option to be sold at a market-rate price and collected the
29 second mortgage to pursue other affordable housing opportunities. The attached
30 summary compiled by the Housing Authority of the City of Napa provides an estimated
31 fair market value of \$525,000 for the 1807 Aurora Drive property, based on recent
32 listings and sales. Based on this price, the estimated loan pay-off that the City would
33 receive if it allows the home to be sold would be approximately \$124,000 (based on the
34 City's second mortgage (\$100,000) and its 31% equity share (assumed to be
35 approximately \$24,000).

36 The Council has in recent similar cases determined that greater benefit would be gained
37 from the collection of outstanding loan funds for future leveraged use in the production
38 of affordable multi-family housing (such as the property at 611 Washington Street,
39 which the City is purchasing for the development of 30 affordable senior apartments)
40 rather than continue to provide a single home that benefits one family. A \$150,000
41 advance from the General Fund to the City's affordable housing fund was needed to
42 accomplish the apartment project site's purchase, and the \$124,000 that the City would
43 receive from the market-rate sale of 1807 Aurora Drive would help repay this loan.

44 The City has opted in several cases to exercise its purchase option, which was done
45 with the subject property in 2001. Should the Council choose to exercise the purchase
46 option instead of allowing the home to be sold, an appraisal would be used to establish
47 a fair market price and the City could purchase the property at 94% of the appraised
48 value. The home would be re-sold to a first-time, moderate-income household. Given
49 that the maximum price such a household could afford is approximately \$389,000
50 (based on a household size of four), the City would need to provide a subsidy to the
51 purchaser of approximately \$104,500 (assuming the property is sold for \$525,000).

52 Direction from the Council regarding which action should be pursued is required so that
53 staff may respond to Ms. Mewhorter and move forward accordingly.

54 **FISCAL IMPACT:** Allowing the home at 1807 Aurora Drive to be sold at a market-rate
55 price would contribute approximately \$124,000 to the City's affordable housing fund. If
56 the City decides to purchase the home and provided a subsidy to a moderate-income
57 purchaser in the form of a second mortgage, an advance from the General Fund would
58 be required to fund the acquisition. This advance would be reimbursed upon the sale of
59 the property. The City would also incur typical real estate transfer costs; however, these
60 costs would be recouped through the sale of the property to a qualified household.

61 **CONSISTENCY WITH COUNCIL GOALS AND OBJECTIVES:** The following City
62 Council goals and objectives for FY 2015-16 apply to this matter:

63 *Goal 7: Address the community's housing needs.*

64 Objectives

65 2. *Expand housing opportunities, including workforce housing.*

66 Priority Projects

67 2. *Identify feasible sites and funding that could be used to land bank*
68 *properties for needed housing development, including workforce*
69 *housing.*

70 **ATTACHMENTS**

- 71 1. December 2, 2015 letter of intent to sell notice from Cynthia Mewhorter
72 2. Financial analysis from City of Napa Housing Authority
73 3. Mewhorter Resale Restriction Agreement and Option to Purchase

Cynthia Mewhorter
1807 Aurora Dr.
Calistoga, CA 94515
707-339-0405

City of Calistoga
1322 Washington St.
Calistoga, CA 94515
Attention: City Manager

December 2, 2015

Richard Spitler or to whom this concerns,

I am writing this letter to give you notice for my intent to sell my home at 1807 Aurora Dr. in Calistoga.

To my understanding, you will contact me to let me know if you will buy it back or if I should list it with a realtor.

Thank you,



Cynthia Mewhorter

City of Calistoga
City Manager

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