

**DATE:** AUGUST 11, 2003

**TO:** PASADENA COMMUNITY DEVELOPMENT COMMISSION

**FROM:** CYNTHIA J. KURTZ, CHIEF EXECUTIVE OFFICER

**SUBJECT:** ADOPTION OF NEGATIVE DECLARATION AND APPROVAL OF OWNER PARTICIPATION, PURCHASE, DEVELOPMENT, LOAN AND LEASE AGREEMENT BETWEEN LOS ANGELES COMMUNITY DESIGN CENTER AND PASADENA COMMUNITY DEVELOPMENT COMMISSION FOR THE ORANGE GROVE GARDENS APARTMENTS DEVELOPMENT AT 252-284 E. ORANGE GROVE BLVD.

**RECOMMENDATION:**

It is recommended that the Pasadena Community Development Commission ("PCDC") take the following actions:

1. Hold a public hearing to consider the proposed Orange Grove Gardens 38-unit apartment development (the "Development") located at 252-284 E. Orange Grove Blvd. in accordance with the terms and provisions of that certain Owner Participation, Purchase, Development, Loan and Lease Agreement (the "Agreement") between the Los Angeles Community Design Center ("Developer") and PCDC as described in this report;
2. Adopt a resolution:
  - a. Finding and determining on the basis of the Initial Study prepared for the Development that there is no substantial evidence that the Development will have a significant effect on the environment nor any potential for adverse effect on wildlife resources; and
  - b. Approving the Negative Declaration and directing the Secretary of the PCDC to concurrently file with the Clerk of Los Angeles County a Certificate of Fee Exemption and Notice of Determination;
  - c. Approving the terms and conditions of the Agreement; and
  - d. Approving a journal voucher appropriating PCDC funds in the amount not to exceed \$1,900,000 from the Housing Opportunities Fund and transferring \$250,000 from the Villa-Parke Redevelopment Project Account (Account No. 8166-804-682222) for PCDC assistance to the Orange Grove Gardens development (Account No. 810-684120-51329); and
3. Authorize the Chief Executive Officer of the PCDC to execute, and the Secretary to attest, the Agreement and to take all actions necessary to implement the Agreement and complete the Development.

8/11/2003  
6.A. 8:00P.M.

### **ADVISORY BODY RECOMMENDATIONS:**

Northwest Commission/Fair Oaks Avenue Project Area Committee -- A special joint meeting of these two advisory bodies was convened on July 22, 2003. The subject recommendation was unanimously recommended by the Northwest Commission. The Fair Oaks Avenue Project Area Committee ("PAC") could not take action due to lack of a quorum. Consequently the PAC convened a special meeting on July 29, 2003 at which the subject recommendation was unanimously recommended. The PAC also requested that viable housing projects currently awaiting Commission assistance not be jeopardized as a result of the Development moving ahead.

Community Development Committee -- The subject recommendation was unanimously recommended by the Community Development Committee at its meeting on July 24, 2003.

### **EXECUTIVE SUMMARY**

The Los Angeles Community Design Center ("Developer") proposes to develop, with PCDC financial assistance, the Orange Grove Gardens apartment complex, consisting of 38 rental units for families, plus a non-residential community building (the "Development") located at 252-284 E. Orange Grove Blvd. (the "Property", see Exhibit "A" Site Map), within the Villa-Parke Redevelopment Project Area and the Fair Oaks/Orange Grove Specific Plan Area. The dwelling units will be affordable to and occupied by very low and low income families for a minimum period of 99 years.

Pursuant to the proposed terms of the Agreement between PCDC and Developer: a) PCDC shall acquire the Property from the Developer for a consideration of \$1,600,000; b) PCDC shall lease back the Property to Developer; c) Developer shall construct, operate and maintain the Development; d) PCDC shall provide loan assistance in the amount not to exceed \$550,000 to Developer for predevelopment, financing, and construction expenses; and e) Developer shall secure all other financing required to construct and complete the Development.

The total cost of the Development is approximately \$10,887,000 towards which PCDC shall invest \$2,150,000 (\$56,600 per unit) -- \$1,600,000 to acquire the Property and an amount not exceed \$550,000 in loan assistance to the Developer.

### **BACKGROUND**

The Developer is a nonprofit housing sponsor based in Los Angeles with a distinguished record of building quality affordable housing developments in Southern California. One such project is Centennial Place, a 144-unit single room occupancy building completed in 1989. This project entailed the adaptive reuse of the historic YMCA building located at 235 E. Holly Street.

In June 2002, the Developer approached the City of Pasadena regarding the prospects of pursuing an affordable multifamily housing development at the Property, the former site of the Hortus Nursery. The proposed development would be consistent with the City Housing Element and seek to address a significant housing need for low and moderate income family housing. The Development will add 38 dwelling units to the city's affordable housing inventory. An indicator of the need for additional housing of this type can be found in the current long waiting lists for existing affordable family housing projects in the city. Additionally, the Development will improve the vacant and underutilized Property with newly constructed affordable multifamily

housing that will relate to and enhance the surrounding neighborhood in architectural quality, scale, and land use.

The Developer closed escrow and acquired the Property on December 30, 2002 at the purchase price of \$1,600,000. The total acquisition cost was \$1,635,074 financed with secured and non-secured loans from the Low Income Investment Fund ("LIHF"), a nonprofit housing lender, totaling \$1,549,750 plus \$85,324 from the Developer's resources. Formal discussions and negotiations on the structure of the transaction, the amount and terms of PCDC financial assistance, and the design and scope of the Development ensued. The key business points of the Agreement are contained in Exhibit "B".

On November 9 and 23, 2002, the Developer conducted community meetings in the immediate neighborhood of the proposed Development site. Residents within 500 feet of the site were mailed announcements of the meetings and approximately 30 people attended. The Developer also made informational presentations on the proposed Development to the Northwest Commission on December 10, 2002 and to the Lincoln Avenue Project Area Committee on July 23, 2003.

#### **ORANGE GROVE GARDENS DEVELOPMENT CONCEPT**

The Development will be located on a 50,879 square foot (1.17 acre) site. The site is zoned FGSP-C3D, which allows commercial as well as medium density residential uses. The Development will consist of three three-story buildings including a first floor community room (approximately 2,240 square feet). A total of 38 dwelling units will be provided as affordable rental housing to very low and low income families. The unit mix consists of 18 two-bedroom units, 20 three-bedroom units. The apartment complex will be serviced with an elevator and will be designed and built in such a manner that provides for amenities suitable for families, including play areas for children. The community room will accommodate recreational and social services and events sponsored by the Development residents. The Development will provide 69 at-grade parking spaces.

The Development will meet all city standards, including the Fair Oaks/Orange Grove Specific Plan. The design and architectural quality of the Development, landscaping, open spaces, and setback areas will be specified in the Agreement's Scope of Development.

The Property will be maintained by the Developer continuously throughout each phase of the project, commencing on or about August 31, 2003 with the execution of a ground lease agreement between PCDC and Developer. It is anticipated that construction will begin by November 2004, with completion by January 2006. The Development will be managed and operated by the Developer's in-house property management division, Design Center Housing Services.

City staff and representatives of the Armory Center for the Arts are discussing the opportunity to utilize the Development site to provide arts programming in Northwest Pasadena during the pre-construction period. Over the past two years, the nonprofit community art center has occupied the City-owned property at 965 N. Fair Oaks Avenue (the location of the former Highland Plastics factory) to operate its art programs.

## DEVELOPMENT COST AND FINANCING

The Development's estimated total cost is \$10,887,000. The proposed permanent financing for the Development is summarized as follows:

\$ 6,018,000	Low Income Housing Tax Credit Proceeds
2,150,000	PCDC Assistance
1,147,000	Conventional Financing
1,295,000	Los Angeles County "City of Industry" Loan
185,000	Federal Home Loan Bank "Affordable Housing Program" Grant
<u>92,000</u>	Other Funding Sources
\$10,887,000	Total

The Developer will apply for Los Angeles County "City of Industry" loan funds in October 2003 and Low Income Housing Tax Credits in Spring 2004. The Developer was successful in securing the Federal Home Loan Bank "Affordable Housing Program" grant (\$185,000).

Keyser Marston Associates, PCDC's economic consultant, performed a financial analysis of the Development -- the "Summary Report" pursuant to Section 33433 of the State Health and Safety Code (attached as Exhibit C) -- and determined that the unmet financing gap for the Development is \$550,000 (the amount of the proposed PCDC loan assistance to the Development), and that the PCDC is providing no more assistance than is warranted by the Development.

The financial feasibility of the Development relies on the Developer's ability to secure other financing sources in a competitive funding environment (e.g., Federal Low Income Housing Tax Credits and County of Los Angeles "City of Industry" Funds). This poses a risk to PCDC in the event that the Developer is unable to secure the required financing and the Development does not proceed. To reduce this risk, the Development is structured with PCDC acquiring the Property from the Developer and leasing it back pursuant to a Ground Lease Agreement, thereby enabling the Developer to construct and operate the Development on the PCDC-owned land. However, in the event that the Developer is unable to move the Development into the construction phase, the Ground Lease Agreement would terminate and PCDC would have a fee simple interest in an asset with the following options: a) identify another entity to develop the Property with affordable housing; or b) sell the Property.

The PCDC Loan is for a term of 55 years and bears 3% interest during the period prior to Development completion and 7% during the period commencing with Development completion through loan maturity. If the Developer is unable to move the Development into the construction phase in accordance with the Agreement, the Developer would not be required to repay the amount of PCDC Loan funds disbursed, but would be required to pay the accrued interest. If, on the other hand, the Development is successfully completed, the accrued interest would be forgiven, the interest rate reduced to 3%, and annual debt service payments from residual receipts would be required.

The PCDC Loan proceeds will be made available in two stages: 1) Up to \$260,000 (for approved predevelopment, financing, architectural, and engineering costs) disbursed prior to the Developer securing a tax credit allocation; and 2) \$290,000 (for approved predevelopment, site clearance, and construction costs) disbursed after the Developer secures a tax credit allocation. The amount of PCDC Loan funds disbursed in the first stage is at risk in the event the Developer is unable to secure a tax credit allocation and move the Development forward.

Annual payments on the PCDC Loan will be made from available residual receipts. Based on a cash flow analysis performed by Keyser Marston Associates, it is projected that the PCDC Loan will be fully repaid within 17 years after the Development is placed into service.

### **INITIAL STUDY AND NEGATIVE DECLARATION**

The Initial Study was undertaken by the PCDC and resulted in a Negative Declaration describing the reasons why the Development will not have a significant impact on the environment.

### **HOUSING IMPACT**

The Development will add 38 dwelling units to the city's affordable housing inventory. An indicator of the need for additional housing of this type can be found in the current long waiting lists for existing affordable family housing projects in the city. Additionally, the Development will improve the vacant and underutilized Property with newly constructed affordable multifamily housing that will relate to and enhance the surrounding neighborhood in architectural quality, scale, and land use. The Development meets the goals and objectives of the PCDC's Five-Year Implementation Plan (1999-2004), the Five-Year Public Housing Plan, the City's General Plan Housing Element, the Villa-Parke Redevelopment Project Plan, and the Fair Oaks/Orange Grove Specific Plan.

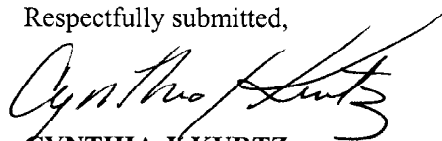
### **FISCAL IMPACT**

Approval of the subject recommendation will authorize PCDC expenditure of \$1,600,000 for its acquisition of the Property, and PCDC provision of not more than \$550,000 in loan assistance to the Developer for development costs. A total of \$2,150,000 in PCDC funds would be appropriated to the Orange Grove Gardens development (Account No. 810-684120-51329), of which \$1,900,000 would be drawn from PCDC's Housing Opportunities Fund (which has a current unencumbered balance of \$6,251,788) and \$250,000 transferred from Villa-Parke Redevelopment Project Account No. 8166-804-682222.

The PCDC loan in the amount of \$550,000 will have a term of 55 years and bear simple interest at 3%. Annual payments on the loan will be made from available residual receipts. Based on a cash flow analysis performed by Keyser Marston Associates, it is projected that the PCDC loan would be fully repaid within 17 years after the Development is placed into service.

PCDC is projected to receive approximately \$16,700 in FY 2003-2004 in tax increment revenues from the Property. It is contemplated that the completed Development will be declared exempt from payment of real property taxes. In this event, pursuant to the terms of the Agreement, the Developer shall make to PCDC a payment in-lieu of property taxes in the amount of \$16,700 per year, subject to annual increases of 2%.

Respectfully submitted,



**CYNTHIA J. KURTZ**  
Chief Executive Officer

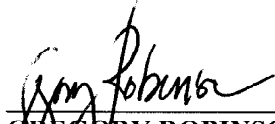
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