

DATE: DECEMBER 19, 2005

TO: PASADENA COMMUNITY DEVELOPMENT COMMISSION

FROM: CYNTHIA J. KURTZ, CHIEF EXECUTIVE OFFICER

SUBJECT: APPROVAL OF PASADENA COMMUNITY DEVELOPMENT COMMISSION LOAN AGREEMENT WITH HPP DFO, LLC; AFFORDABLE HOUSING AGREEMENT WITH HHP INVESTMENT, LLC WITH AND ADDENDUM TO MITIGATED NEGATIVE DECLARATION FOR THE FAIR OAKS COURT DEVELOPMENT (6-46 PEORIA STREET AND FROM 584-612 NORTH FAIR OAKS AVENUE, 171 CARLTON AVENUE AND 504-506 CYPRESS AVENUE)

RECOMMENDATIONS:

It is recommended that the Pasadena Community Development Commission (Commission) adopt a resolution:

1. Terminating the Owner Participation and Loan Agreement (CDC-529), Affordable Housing Agreement (CDC-480); and Acquisition and Rehabilitation Agreements (CDC-484 & CDC-507) with Heritage Housing Partners
2. Finding and determining on the basis of the Addendum to the Mitigated Negative Declaration prepared for the Fair Oaks Court Development ("the Project"), that there is no significant effect on the environment nor any potential for adverse effect on wildlife resources based on the proposed amendment to the Project;
3. Finding and determining that the Project: (i) is consistent with the City of Pasadena General Plan, Villa-Parke Redevelopment Plan and the Fair Oaks/Orange Grove Specific Plan; (ii) will assist in the elimination of blight and provide housing for low and moderate-income households; (iii) is consistent with the Commission's Five-Year Implementation Plan;
4. Approving the terms and conditions of the Loan Agreement with HHP Investment, LLC and the Affordable Housing Agreement with HHP-DFO, LLC;
5. Approving a journal voucher appropriating Commission funds in an amount not to exceed \$4,174,000 from the Housing Opportunity Fund (Low and Moderate-Income Housing Trust Fund) for the Project;
6. Approving the provision of State of California BEGIN Program funds in an amount not to exceed \$930,000 for eligible first time homebuyers purchasing affordable housing units in the Project; and

7. Authorizing the Chief Executive Officer to execute, the Secretary to attest, the Loan Agreement, Affordable Housing Agreement, Intercreditor Agreement, etc. and take the necessary actions to complete the Project.

ADVISORY BODIES

On November 6, 2005, the Project and transaction were presented as an information item to the Fair Oaks Project Area Committee (PAC). After review of this matter, the PAC unanimously recommended Commission approve the Project and New Market Tax Credits transaction.

On November 8, 2004, staff recommendations were presented to Northwest Commission and Community Development Committee (CDC). After review, the Northwest Commission and CDC, by separate vote, unanimously recommended the Commission approve the staff recommendations.

EXECUTIVE SUMMARY

On April 15, 2002, the City Council/Commission approved an Affordable Housing Agreement (CDC-480) with Heritage Housing Partners, a local California non-profit public benefit corporation, for the provision of 15 affordable ownership housing units on scattered parcels throughout Northwest Pasadena. Subsequently, on March 29, 2004, the City Council/Commission approved an Owner Participation and Loan Agreement (OPLA) (CDC-529) with Heritage Housing Partners for the Fair Oaks Court Development, a 44-unit mixed-income affordable ownership housing development at the southwest corner of Fair Oaks Avenue and Peoria Street. The OPLA also stipulated the Fair Oaks Court Development would provide nine units towards the affordable housing unit requirements of Agreement CDC-480 and utilize New Market Tax Credits financing.

Presently, based on the legal requirements to obtain New Market Tax Credits including the associated equity investment and increased development costs, it is recommended the two projects be combined, the respective agreements terminated and a new Affordable Housing Agreement with HHP- DFO, LLC ("Developer") and Loan Agreement with HHP Investment, LLC ("Equity Investor") be approved. The proposed Fair Oaks Court Development will include the properties located at 6-46 Peoria Street and 584-612 North Fair Oaks Avenue and two noncontiguous properties located at 171 Carlton Avenue and 504 Cypress Avenue ("the Property"). The proposed project will consists of the development of the 1.76 acre Fair Oaks site with the construction of thirty-one new townhomes, rehabilitation of eight existing single-family structures, landscaped open space, an eighty-six space subterranean parking garage and 1,150 square feet of commercial office space, as well as, rehabilitation and construction of four single-family residences at 171 Carlton Avenue and 504 Cypress Avenue (two units, respectively) ("the Project"). Thirty-seven units in the Project will be sold as affordable housing to low-income (eight units) and moderate-income (29 units) households with restrictive covenants for 45 years, two units will be sold to workforce-income households with restrictive covenants for 15 years and four units will be sold at market rate. The key business points (Exhibit A) are attached.

Total estimated development cost is approximately \$19,474,936, towards which the Commission will provide a loan in the amount of \$4,174,000 or approximately \$113,000 per affordable unit. Additionally, pursuant to the Commission's receipt of the State of California BEGIN Program funds, an additional \$930,000 will be provided to eligible homebuyers at the time of unit purchase.

Collectively, the Commission assistance will total \$5,104,000 or an average of \$137,500 per affordable unit. Other Project funding includes: Los Angeles County "City of Industry" Loan Program (\$1,200,000), Commercial Capital Bank (\$6,266,000) and a conventional construction loan (\$4,649,936).

In addition, to facilitate the receipt of the New Market Tax Credits equity investment, the City of Glendale Housing Authority shall enter into agreement with HHP Investment, LLC and the Developer to provide a loan in the amount of \$3,240,000 for the Doran Street Housing Project (35 housing units - 24 moderate-income; 11 market rate) in Glendale. The Commission and the Glendale Authority shall enter into an Intercreditor Agreement relating to the Commission Loan, the Glendale Loan and the associated equity interest in HHP Investment, LLC and NMTC-CDE- 9 ("the Qualified Community Development Entity").

BACKGROUND

On the last day of its 2000 session, Congress enacted the New Markets Tax Credit program, as part of the Community Renewal Tax Relief Act of 2000, to encourage investment in low-income communities. The program was designed to generate \$15 billion in new private sector investments in low-income communities. The first allocation of New Market Tax Credits was released in March, 2003.

Essentially, Qualified Community Development Entities apply to the Treasury Department Community Development Financial Investment Fund for an award of New Market Tax Credits. The Community Development Entity then seeks taxpayers to make qualifying equity investments in the Community Development Entity. The Community Development Entity in turn is required to use substantially all of the qualifying equity investments to make qualified low-income community investments in/to qualified active low-income businesses including non-profit corporations, located or doing business in low-income communities. The taxpayers will be eligible to claim a tax credit equal to 5% of its equity investment in the Community Development Entity for each of the first three years and a 6 % tax credit for each of the next four years (39 percent in total).

On April 15, 2002, the City Council/Commission approved an Affordable Housing Agreement (CDC-480) with Heritage Housing Partners, a California non-profit public benefit corporation, in the amount of \$1,070,000 for the provision of 15 affordable ownership housing units throughout Northwest Pasadena. To date, the Developer has completed and sold two affordable ownership units (one low & one moderate-income) and four units are in the predevelopment stage pursuant to Agreement CDC-480. Commission assistance in the amount of \$142,000 was expended for the two completed units and \$282,789.89 has been expended for the four units in predevelopment. The projected fund balance is \$645,210.11.

On March 24, 2004, the City Council/Commission approved the Fair Oaks Court Development OPLA (CDC-529) with Heritage Housing Partners in the amount of \$3,876,000 (\$3,246,000 new allocation and \$630,000 to be reallocated from CDC-480) for the provision of a 44-unit mixed-income affordable ownership housing development. To date, the Developer has expended Commission Loan assistance in the amount of \$1,845,429.94 for predevelopment cost including land acquisition, architectural & engineering, environmental analysis, entitlement fees, relocation consultant services, and project management. The current fund balance is \$1,400,570.06

Presently, based on the increased development costs, the legal requirements necessary to obtain New Market Tax Credits including the associated equity investment, Heritage Housing Partners and city staff recommend that the Project be reconstituted and the Commission enter into an Affordable Housing Agreement with HHP – DFO, LLC (Developer) and a Loan Agreement with HHP Investment, LLC (Equity Investor) in the amount of \$4,174,000. All funds previously expended (\$2,128,219.83) for the Project by Heritage Housing Partners shall be repaid to the Commission upon close of the New Market Tax Credits' escrow. The proposed Fair Oaks Court Development will now include the properties located at Peoria Street and North Fair Oaks Avenue and two noncontiguous properties located at 171 Carlton Avenue and 504 Cypress Avenue ("the Property"). The proposed Project will consist of 43 housing units, 1,150 s.f. commercial office, 90 parking stalls and landscaped open space.

The Heritage Housing Partners has conducted several meetings with the immediate neighborhood associations, local residents and the households currently residing at the Fair Oaks site. All groups were given explanations of the Project's design, Financing Plan, Relocation Plan and Homeownership opportunities. In connection with the approval of the Affordable Housing Agreement and Loan Agreement, a number of supporting documents were also prepared: 1) Initial Study, Mitigated Negative Declaration and Addendum to the Mitigated Negative Declaration; 2) Relocation Plan (in English and Spanish) distributed to the residents currently residing on the Property; 3) Replacement Housing Plan and 4) Financial Analysis.

FAIR OAKS COURT DEVELOPMENT CONCEPT

The Property consist of those properties, owned by Heritage Housing Partners, located from 6-46 Peoria Street and 584-612 North Fair Oaks Avenue, a 1.76 acre parcel with 14 existing residential structures comprising 18 dwelling units, and the parcels at 171 Carlton Avenue and 502 Cypress Avenue. The Fair Oaks site is zoned FGSP-C-3A, with base density of 40 dwelling units per acre, permitting 70 units to be constructed on-site. The Carlton and Cypress properties are both zoned RM-12. The proposed Project consists of the following:

Fair Oaks Site

1. Demolition of 7 existing deteriorated dwelling units and relocation of 1 unit off-site;
2. Rehabilitation of 8 existing single-family dwellings;
3. New construction of 31 townhomes;
4. New construction of an 86 space subterranean parking garage;
5. Landscaped open space (approximately 15,000 square feet) and two additional interior courtyards adjacent to the newly constructed townhomes;
6. New construction of 1,150 square foot professional office space.

171 Carlton Avenue

1. Relocation/rehabilitation of existing single-family dwelling (Fair Oaks to Cypress);
2. New construction of 1 single-family dwelling and 2 garages;
3. Landscaped open space pursuant to the Multi-family Residential Standards - City of Gardens.

504 Cypress Avenue

1. New construction of 2 single-family dwellings including garages;
2. Landscaped open space pursuant to the Multi-family Residential Standards - City of Gardens

The proposed Project is consistent with the standards of the General Plan - Housing Element, Villa-Parke Redevelopment Plan and the Fair Oaks/Orange Grove Specific Plan with respect to land use, density, scale and architectural design. The Project will improve the immediate neighborhoods by removing blighting influences. Consideration of a potential historic district within the Villa Parke area is also preserved through the retention and rehabilitation of existing dwellings as historic contributors. Eight contributing structures (eight dwelling units) to the proposed historic district will be rehabilitated on-site in accordance with Design Commission standards. The Project has received Design Commission approval for the new construction units and is currently undergoing review for the single-family rehabilitation component. No additional entitlements are required (i.e., variance, use permits, etc.). The Developer is also currently in negotiations with A & W Builders for the construction contract and will utilize the services of the Assistant City Manager's Office to ensure compliance with the First Source Hiring Ordinance.

The surrounding land uses are compatible with and support the proposed mixed-income Project. Prospective homebuyers will benefit from the Project's close proximity to major services (grocery, pharmacy, banking, public transportation, health care, etc.) available at Renaissance Plaza, Pasadena Community Health Center, Jackie Robinson Park & Center and Villa-Parke Center. Project site maps and concept drawings are attached (Exhibit B).

REPLACEMENT HOUSING PLAN AND RELOCATION PLAN

Pursuant to the State of California Health and Safety Code § 33413 the Commission set forth a plan on March 29, 2004 for the replacement of dwelling units removed from the low and moderate-income housing market (the "Replacement Housing Plan") as a result of the proposed Project. The Project, as revised, will entail the construction and/or rehabilitation of 37 units for low and moderate-income households to offset the seven units scheduled for demolition.

Pursuant to the State of California Code of Regulations § 6038 the Commission set forth a plan on March 29, 2004 for the provision of relocation services and assistance for eligible property owners and tenants (the "Relocation Plan") displaced as a result of the proposed Project. Twenty-eight tenant households were identified to be in occupancy of the 18 rental dwellings existing on the Property. Each household was interviewed and a Relocation Plan (in English and Spanish) was prepared and distributed to all eligible tenants 30 days prior to the scheduled public hearing of March 29, 2004. As noted in the Relocation Plan, each household will be entitled to the appropriate relocation benefits and the Developer will to the best of its ability assist in qualifying existing residents for homeownership opportunities associated with the Project. Presently, 11 units have been identified at the Commission-assisted Orange Grove Gardens Development for qualified households displaced by the Project.

DEVELOPMENT COST AND FINANCING

The Project's estimated total cost is \$19,474,936. The Project's proposed financing includes:

\$	4,174,000	Commission Loan (Housing Opportunities Fund)
	930,000	Commission Loan (State of California BEGIN Program)
	1,200,000	City of Industry Loan (Los Angeles County)
	6,266,000	Equity Investment (New Market Tax Credits)
	4,649,936	Conventional Construction Financing
	<u>2,255,000</u>	Sales Revenues (Market Rate Units)
\$	19,474,936	Total

The Commission Loan shall be evidenced by a Promissory Note and secured by a pledge of all HHP Investment, LLC's ownership interests in NMTC-CDE-9. For the period commencing with the close of the New Market Tax Credits' escrow until December 31, 2012, collateral for the Commission Loan shall be provided through a 100% equity share in HHP Investment, LLC and 99.99% equity interest in NMTC-CDC-9.

The financial feasibility of the Project has relied on the Developer's ability to secure other financing sources (e.g., New Market Tax Credits, LA County City of Industry Program, and State BEGIN Program funds). The Commission continues to incur a risk in the event the Developer, after securing the other financing, is unable to proceed with construction of the Project. To help mitigate this risk, the Commission shall receive notice from NMTC-CDC-9 on the release of all funds for the Project. Specifically, the Commission via assigned Housing and Community Development staff will monitor the Developer's progress with the Project pursuant to the Affordable Housing Agreement's Schedule of Performance. If the Project does not proceed timely due to the inability of the Developer to perform, the Loan Agreement and Affordable Housing Agreement provide for HHP Investment, LLC or NMTC-CDE-9 to assign the Developer's interest in the Project to another party.

The Project's estimated Sales Revenues are \$10,095,000 (\$7,024,000 Affordable Units; \$816,000 Workforce Units; \$2,255,000 Market Rate Units). The Net Sales Revenues after payment of all housing-related costs is estimated at \$950,000. Upon sale of the affordable units, the Commission's financial assistance will be recast as second trust deed loans for eligible low and moderate-income homebuyers for a 45 year term @ 3-6% interest rate, subject to the buyer's household income. Repayment of the homebuyer loans will be in accordance with the Commission's Homeownership Opportunities Program, as amended. The City shall receive a 15 year restrictive covenants for the two workforce housing units, respectively. Upon the maturity of the New Market Tax Credits on December 31, 2012, the trust deed loans in the amount of \$5,104,000 will be assigned to the Commission along with the payment of an amount not to exceed \$100,000, if available, towards costs attributable to the 1,150 s.f. office space.

Based on the requirements for New Market Tax Credits and the State of California Labor Code, the Commission shall not participate in net sales revenues from the Fair Oaks Court Development. Any funds in excess of the Developer's profit shall be utilized by the Developer for implementation of the remaining projects required by the New Market Tax Credits transaction. Attached is a Financial Analysis (Exhibit D) of the Project prepared by Keyser Marston Associates (KMA) which indicates

the limited likelihood of significant Developer profits given recent increases in construction costs and interest rates as well as the leveling of home sale prices.

INITIAL STUDY AND MITIGATED NEGATIVE DECLARATION

On March 29, 2004, City Council of Pasadena took action on a number of recommendations on the Fair Oaks Court Development to provide financial assistance for affordable ownership housing units culminating in an Owner Participation and Loan Agreement with Heritage Housing Partners. City Council action also included approval of a Mitigated Negative Declaration and Mitigation Monitoring Program for the Project.

Subsequent to the March 29, 2004 City Council action, changes to the project description were made due to increased construction costs. Development activities that were affected include: total unit count, parking stall count; affordable unit production for low and moderate-income households, introduction of work-force housing units, delineation of units slated for demolition/rehabilitation/new construction, and development of two off-site infill lots.

As required by the California Environmental Quality Act (CEQA) an Addendum to the Mitigated Negative Declaration (Exhibit E) was prepared pursuant to an Environmental Assessment of the proposed amendment to the Project Description for the Fair Oaks Court Development. On the basis of the Initial Study for the Project and the adopted mitigation measures to the project design, it has been determined on the basis of the proposed changes to the project description cited herein and the mitigation measures adopted by City Council action on March 29, 2004, that the Project does not have a potential for a significant effect upon the environment. And, the proposed off-site infill lots at 171 Carlton Avenue and 504/06 Cypress Avenue, pursuant to the environmental analysis under CEQA regulations, would be categorically exempt if they were stand alone projects given the lots are small and meet all code requirements. Thus, there are no environmental impacts from the addition of these lots to the Fair Oaks Court Development.

HOUSING IMPACT

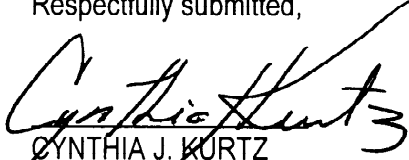
The Project will add thirty-seven low and moderate-income dwelling units and two workforce units to the City's affordable homeownership housing inventory. The Project meets the goals and objectives of the Commission's Five-Year Implementation Plan (1999-2004); City's General Plan Housing Element; Five-Year Consolidated Plan; Northwest Pasadena Community Plan; Fair Oaks/Orange Grove Specific Plan; and Villa-Parke Redevelopment Plan.

FISCAL IMPACT

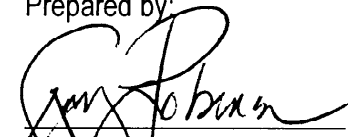
Approval of the subject recommendations will provide Commission Loan assistance totaling \$5,104,000 for the Fair Oaks Court Development. The Commission Loan assistance to the Project is comprised of the following sources: a) \$4,174,000 from the Housing Opportunities Fund (Low and Moderate Income Housing Trust Fund - Account No. 810-684120) and b) \$930,000 (State of California BEGIN Program funds). Prior expenditures in the amount of \$2,128,219.83 will be repaid to the Commission.

Upon completion of the Project and sale of the dwelling units, the Commission Loan assistance will be recast as second trust deed loans for eligible low and moderate-income homebuyers consistent with the Commission's Homeownership Opportunities Program (i.e., 45-year term, 3-6% interest rate based on buyer's household income), as amended. Subsequently, on maturity of the New Market Tax Credits on December 31, 2012, the Commission shall receive assignment of the 2nd trust deeds plus payment of an amount not to exceed \$100,000.


Respectfully submitted,


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