

Agenda Report

DATE: NOVEMBER 5, 2007

TO: CITY COUNCIL

FROM: CYNTHIA J. KURTZ, CITY MANAGER

SUBJECT: APPROVAL OF OWNER PARTICIPATION AND LOAN AGREEMENT BETWEEN COMMUNITY BUILDERS GROUP AND CITY OF PASADENA FOR THE CLASSICS AT LAMANDA PARK DEVELOPMENT AT 2490 EAST MOHAWK STREET AND 97 - 105 SOUTH ALTADENA DRIVE.

RECOMMENDATION:

It is recommended the City Council (the "City") take the following actions:

1. Consider a proposed 18-unit mixed-income rental development (the "Development") located at 2490 East Mohawk Street and 97 - 105 South Altadena Drive (the "Property") in accordance with the terms and provisions of that certain Owner Participation Loan Agreement, (the "OPLA") between the Community Builders Group ("Developer") and the City as described in this report;
2. Adopt a resolution:
 - a. Finding and determining that the proposed Development is exempt from the California Environmental Quality Act (CEQA) pursuant to Article 19, § 15332: Class 32; Infill Development. The proposed Development will not result in a significant effect on the environment; and
 - b. Approving the Key Terms and Conditions of the OPLA (Attachment "A"); and
3. Approve a journal voucher transferring funds in the amount of \$3,000,000 (the "City Loan") from the Housing Opportunity Fund to project 51406, The Classics at Lamanda Park Development.

4. Authorize the City Manager to execute, and the City Clerk to attest, the OPLA and to take all actions necessary to implement the OPLA and complete the Development.

ADVISORY BODY RECOMMENDATIONS:

On October 30, 2007, the Community Development Committee (the "Committee") at its regular meeting considered proposed Key Terms and Conditions for an OPLA regarding the proposed Development. Upon deliberation the Committee unanimously approved the proposed Key Terms and Conditions and recommendations for an OPLA.

EXECUTIVE SUMMARY

The Developer proposes to construct, own and manage with City financial assistance 18 rental units as affordable to very low-income and Workforce-income households. Very low-income affordable units will be financed by City Loan. Workforce units will be financed by Developer, Tax Exempt Bond Financing and 4% Tax Credits. The property is located at 2490 Mohawk Street and 97-105 South Altadena Drive (Attachment "B" Site Plan). Architectural design would follow a craftsman theme, have open space for passive and active recreational use and provide thirty-one stalls of subterranean parking. All units would remain as affordable to the respective income target population for a period of 55 years.

Pursuant to the proposed Key Terms and Conditions of the OPLA, the City would provide loan assistance in the amount \$3,000,000 or \$166,666 per unit. The total estimated development cost is approximately \$9,549,710. Other primary Development funding sources include: 1) California Debt Limit Allocation Committee - Tax Exempt Bond Financing; 2) California Tax Credit Allocation Committee - 4% Tax Credit Financing, and 4) California Department of Housing and Community Development - Multifamily Housing Program. In the event any of the primary funding sources prove inaccessible, back-up sources would include: Los Angeles County - "City of Industry Loan Program" and the Federal Home Loan Bank - Affordable Housing Program.

BACKGROUND

On October 12, 2006, the locally based Developer submitted a City of Pasadena Housing Development Funding Application proposing a mixed-income multifamily rental housing development on the Property. Subsequently the unit mix was amended to also include Workforce-income housing enabling the Development to achieve fiscal feasibility.

On January 8, 2007 the City Council approved entering into an Exclusive Negotiation Agreement (the "ENA") with the Developer to negotiate the Key Terms and Conditions for an OPLA. Springsted Inc., economic consultant for the City was retained to analyze the Development's economic feasibility (Attachment "C"). Key Terms and Conditions for an OPLA was used in part to guide the economic consultant's analysis is depicted in Attachment "A".

The Development is located in a General Plan Land Use Category identified as medium high density residential. The proposed Development will be consistent with the Pasadena Community Development Commission's Implementation Plan, City's Green Building Program, Zoning Code and the Housing Element of the General Plan. The Development will consist of 18 dwelling units, 15 of which are designated for very low-income households, at 50% of Area Median Income (AMI) and 3 units designated for Workforce-income households at 121% to 150% of AMI. 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. The Development is also responsive to the City Council's policy to support housing for Workforce-income households.

LAMANDA PARK DEVELOPMENT CONCEPT

The Property is located on a 21,414 square foot parcel of land and has 3 vacant residential and 2 accessory structures. Zoned RM-32, the Property has an entitled base density for 16 residential units. A Density Bonus provision under the authority of Pasadena Municipal Code Chapter 17.43 will be sought to increase density by 2 units. Floor plans will consist of twelve 2-bedroom and six 3-bedroom units, all with two bathrooms. The units will range in size from 683 to 1,128 square feet.

Development architect Birba Group will follow "craftsman" style for the four detached buildings which comprise the complex. The Development will comply with the City of Gardens ordinance, including landscaping and open space for passive and active recreational use and provide 31 stalls of subterranean parking. The OPLA's Scope of Development will specifically address the design elements in sufficient detail to assure quality control by the City.

The surrounding land uses are compatible with and support the Development. Tenants will benefit from close proximity to major services (grocery, pharmacy, general retailing, banking, etc.), parks, schools (elementary, secondary and college), public transportation (Colorado Blvd 1 block, Gold Line 3/4 mile), Boys and Girls Club and a public library. A site map and basic concept drawings are attached as Attachment "B".

The Development will be owned/operated by the Developer through all phases of financing, construction and occupancy commencing on or about December, 2007 with the signing of the OPLA. It is anticipated construction will begin by December 2008, with completion scheduled for June of 2010.

A number of affordable housing goals identified in the Housing Element of the General Plan will be achieved in the Development as follows:

1. Preserve Pasadena's character, scale, and quality of established residential neighborhoods.
2. Maintain the quality of rental housing by ensuring compliance with housing and property maintenance standards.
3. Encourage production of housing appropriate to all economic segments of the population, including lower-

moderate- and upper-income housing to maintain a balanced community.

4. Direct new development along transit corridors, close to employment and activity centers; and encourage mixed-use development.
5. Encourage multifamily-residential projects to incorporate energy conservation features.
6. Encourage dispersal of new affordable housing to expand choice and avoid an over-concentration in any one residential area.
7. Facilitate the development of affordable housing through regulatory incentives and concessions, density bonuses, an inclusionary housing program, and other means.

DEVELOPMENT COST AND FINANCING

The Development's estimated total cost is \$9,514,710. The proposed permanent financing of the Development is summarized as follows:

City of Pasadena Loan	\$3,000,000
Tax Credit Equity 4%	\$2,313,742
Tax-Exempt Housing Revenue Bonds	\$1,468,459
State MHP Loan	\$1,333,509
General Partner Contribution	\$ 865,000
Deferred Developer Fee	\$ 368,000
City of Pasadena "Green" Incentives (est.)	\$ 100,000
Fee Waivers	<u>\$ 66,000</u>
Total	\$9,514,710

City Loan amount shall not exceed \$3,000,000 (Inclusionary Housing Trust Fund - \$1,750,000; State Local Housing Trust Fund Program - \$1,250,000) and may be reduced if Developer is able to obtain other below market-rate financing and/or grants. More specifically City Loan proceeds will be disbursed for costs related to the Development as follows:

City Loan proceeds shall be applied for certain costs incurred by Developer in connection with the Development. Key provisions of the City Loan include the following:

- 1) An amount not to exceed \$1.6 million ("Acquisition Portion") may be expended to enable Developer to purchase the interest in the Subject Property currently owned by a third party, so as to enable the Developer to be sole owner of the Subject Property, and to pay Developer and its investor for equity invested and its return on equity for the Subject Property. This portion would be disbursed shortly after execution of the OPLA, upon satisfaction of conditions precedent of:
 - i. submission of documentation reasonably acceptable to the, detailing the actual purchase price of the Subject Property

when acquired in 2005, actual holding costs incurred since acquisition and the remainder as profit, along with the parties to whom such amounts are paid;

- ii. execution of the promissory note, and execution and recordation of the deed of trust and covenant agreement;
 - iii. receipt by City of a commitment for a lender's policy of title insurance showing Developer as the sole owner of fee title to the Subject Property and the City's covenant agreement and deed of trust in first and second position, respectively; and
 - iv. any other conditions precedent mutually acceptable to the parties.
- 2) An amount not to exceed \$1.4 million ("Construction Portion") may be disbursed for construction expenses. These funds shall be disbursed after the Developer secures all other required funding for the Development, upon satisfaction of the City's typical conditions precedent for disbursement of financial assistance. These proceeds shall be disbursed to Developer upon City receipt and approval of invoices for specified eligible expenses associated with the Scope of Development.
- 3) City Loan proceeds shall not be applied towards developer fees and general, administrative, or other "overhead" costs.

The City Loan shall be evidenced by a Promissory Note and First Deed of Trust. For the period commencing with the first application for financing from sources other than City, through the rental of the dwelling units, City Loan shall bear simple interest at a fixed rate of 3%, and no payments shall be required. The accrued interest shall be forgiven if the Project is completed in accordance with the OPLA. The OPLA also establishes a disbursement schedule for the City Loan to ensure the Developer complies with the Schedule of Performance.

More specifically, the financial feasibility of the Development relies on the Developer's ability to secure other financing sources (e.g., Tax Exempt Bonds, Tax Credit Financing, California Multifamily Housing Program, and/or other affordable housing programs deemed appropriate). Technical assistance from the Office of the City Manager – Housing & Community Development will be provided to the Developer in securing these funding sources. The City shall condition the draw of additional loan funds on the Developer's ability to secure other key sources of financing. Specifically, the City would not release the remaining loan funds until the Developer receives funding awards from sources cited herein.

If the Development does not proceed, either due to the inability of the Developer to obtain the necessary financing, the OPLA would provide for the Developer to assign the right to take possession of the property through transfer of fee simple

title to the City in lieu of foreclosure. Developer also retains the option to repay the City all loan proceeds provided.

Springsted Inc, City's economic consultant, performed a financial analysis of the Development (Attachment "C") and determined that the unmet financing gap for the Development is \$1,333,509. The gap is proposed to be filled by funding from the California Multifamily Housing Program, and that City providing no more assistance than is warranted by the Development.

The City Loan term is 55 years and accrue 3% simple interest. In the event Developer has completed its obligations under the OPLA in accordance with the Schedule of Performance and in compliance with all OPLA terms, and has maintained and operated the Development in accordance with the OPLA for a period of 10 years following Certificate of Completion, repayment of any accrued interest on the City Loan shall be forgiven on that date. At that point, the remaining principal balance of the City Loan shall again commence to accrue 3% interest. If Developer has continued to operate and maintain the Development in accordance with the OPLA all related conditions, the accrued interest outstanding as of the maturity date shall be forgiven.

CALIFORNIA ENVIRONMENTAL QUALITY ACT COMPLIANCE

The Property has 3 abandoned existing residential structures and 2 accessory buildings scheduled to be demolished. The Planning Division reviewed the structures and determined the following: 1) the structures are not eligible as local landmarks; 2) the structures are not eligible to be listed on the National Register of Historic Places; 3) the structures are not contributing buildings to a potential landmark district; 4) the structures lack connection to a significant architect, other person, or event; and 5) the structures lack sufficient similarity to structures in the vicinity to establish a landmark district.

It was determined by the Planning Division, the Development is exempt from the California Environmental Quality Act (Article 19, § 15332: Class 32; Infill Development Structures) because: 1) the Development is consistent with the General Plan and all applicable General Plan policies; 2) the Property is less than five acres in size and is surrounded by urban uses; 3) the Property has no value as a wildlife or plant habitat; 4) existing structures to be demolished were not identified as having historic or architectural significance; and 5) the Development will not result in any significant effects relating to traffic, noise, air quality, or water quality.

HOUSING IMPACT

The Development will add 18 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 underutilized property and remove substandard structures 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

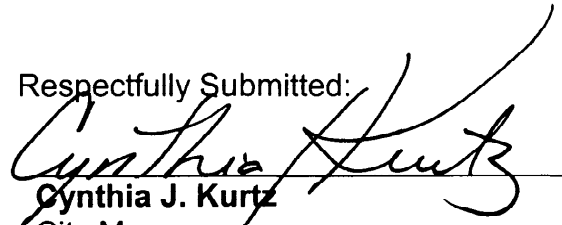
and objectives of the Community Development Commission's Implementation Plan, City's Green Building Program, Zoning Code and the Housing Element of the General Plan.

FISCAL IMPACT

Approval of the subject recommendations will result in the draw down of \$3,000,000 million from the Housing Opportunity Fund for the proposed City Loan consisting of \$1.75 million from the Inclusionary Housing Trust Fund (# 619-684120-55-51406) and \$1.25 million from the State Local Housing Trust Fund Program (# 810-684120-55-51406).

The City Loan 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 and any remaining balance at the end of the term as identified in the OPLA will be due and payable.

Respectfully Submitted:


Cynthia J. Kurtz
City Manager

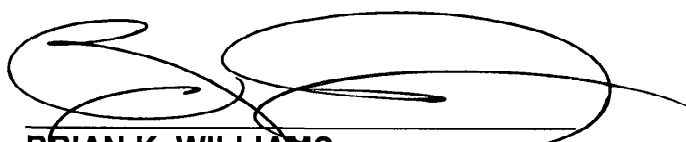
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