

Agenda Report

DATE: JUNE 22, 2009

TO: CITY COUNCIL

FROM: MICHAEL J. BECK, CITY MANAGER

SUBJECT: APPROVAL OF KEY BUSINESS TERMS OF AMENDED PREDEVELOPMENT LOAN AGREEMENT AND ACQUISITION, DISPOSITION, DEVELOPMENT AND LOAN AGREEMENT WITH ABODE COMMUNITIES FOR A PROPOSED 45-UNIT AFFORDABLE SENIOR RENTAL HOUSING PROJECT AT 1267 N. HUDSON AVENUE (HUDSON OAKS PROJECT); APPROPRIATION OF \$4,312,115 IN CITY HOUSING FUNDS

RECOMMENDATION:

It is recommended that the City Council take the following actions:

1. Approve key business terms of an Amended Predevelopment Loan Agreement as set forth in this agenda report;
2. Approve key business terms of an Acquisition, Disposition and Development Agreement as set forth in this agenda report;
3. Approve a journal voucher appropriating \$3,207,292 from the Inclusionary Housing fund balance and \$1,104,823 from the HOME fund balance, for a total not to exceed \$4,312,115 for the Hudson Oaks Project; and
4. Authorize the City Manager to approve any documents necessary to implement the Hudson Oaks Project.

ADVISORY BODY RECOMMENDATIONS

The Northwest Commission, at its regular meeting of May 28, 2009, unanimously approved the staff recommendation.

The Community Development Committee, at its regular meeting of June 11, 2009, unanimously approved the staff recommendation.

BACKGROUND

On February 9, 2009 the City Council approved the terms and conditions of a Predevelopment Loan Agreement (Agreement No. 19,729) with Abode Communities (the "Developer"). The Developer (formerly the Los Angeles Community Design Center) is a non-profit organization which has a successful 40-year track record of developing more than 50 affordable housing projects totaling over 3,000 units. Under the Predevelopment Loan Agreement, which provided loan assistance in the amount of \$144,235 in federal HOME funds, the Developer was able to undertake the acquisition of property located at 1267 N. Hudson Avenue (the "Property"; see Exhibit "A" Site and Aerial Maps) for the purpose of rehabilitating the existing improvements for operation as a high quality, 45-unit affordable rental housing complex for low and very low income seniors (the "Project").

The Property currently consists of a 3-story 46-unit apartment building constructed in 1971 (see Exhibit "B" Site Photos). It sustained serious damage from a fire in 2005 resulting in the evacuation and relocation of the residents and the building's closing. The condition of the vacant Property has further deteriorated due to deferred maintenance over the past four years. In July 2007 the Developer commenced negotiations with the Property owner to acquire the Project site. The purchase transaction closed successfully in early-March 2009 and the Developer moved the Project forward for City entitlement processing in early-May 2009. Project construction is anticipated to commence in February 2010 with completion in April 2011.

The Developer's proposed rehabilitation program includes bringing the building into conformance with current code (including seismic, American Disabilities Act, and energy efficiency); replacement of major systems (electrical, plumbing, mechanical); replacement of the majority of the building framing; replacement of drywall, ceiling materials and flooring; replacement of wood sheathing and roof; installation of a central HV/AC system; and exterior upgrades including façade improvements (see Exhibit "C" Front Elevation). The completed Project will also include 35 at-grade parking spaces, on-site manager's office, resident services, a community room, laundry facilities, private balconies, and landscaped courtyards. In addition, the building will be designed to be compliant with LEED For Homes guidelines, resulting in a housing project which uses less energy and resources.

PROJECT COST AND FINANCING

The development cost for the Project is estimated to total approximately \$18,047,550 which is comprised of \$4,670,930 acquisition costs; \$9,268,760 hard costs; and \$4,107,860 soft costs.

Over \$13 million (72%) of the development cost will be financed with a combination of owner equity, tax credit gap funding, conventional permanent financing, and deferral of developer fee. The Developer has received recent conditional financing commitments from Wells Fargo (construction loan) and the California Community Reinvestment Corporation (permanent loans), and is currently in discussions with potential tax credit investors who have indicated interest in the Project.

The balance of the development costs (approximately \$5 million) is proposed to be financed primarily with City housing funds totaling \$4,456,350 (a combination of Inclusionary and HOME funds), plus assistance from the Federal Home Loan Bank Affordable Housing Program. The Project will also require Section 8 Project-Based rental subsidy certificates (for 44 units) from the Pasadena Community Development Commission. It is anticipated that a Request For Proposals for Section 8 Project-Based rental certificates will be released in early-July 2009. In addition, the Developer will also attempt to utilize the City's financing commitment to leverage funding from the County of Los Angeles "City of Industry" program. Under this scenario, if the Developer receives an award from the County, the City's funding amount to the Project would be reduced. The following table summarizes the financing sources under both scenarios:

	Scenario #1 No City of Industry Funds		Scenario #2 With City of Industry Funds	
SOURCES:				
Conventional Financing	\$1,996,600	11%	1,996,600	11%
Tax Credit Equity	10,173,600	56%	10,173,600	56%
Federal Home Loan Bank	440,000	2%	440,000	2%
City of Industry	0	0%	1,369,000	8%
City of Pasadena	4,456,350	25%	3,087,350	17%
Energy Rebate (solar panels)	120,100	1%	120,100	1%
Deferred Developer Fee	860,900	5%	860,900	5%
Total	\$18,047,550	100%	\$18,047,550	100%

Publicly-assisted rental housing projects such as Hudson Oaks, in which the majority of the units are restricted as to affordability, typically do not generate significant amounts of net income. The City financing as proposed would be repaid from annual residual receipts (basically, the amount of cash flow remaining after payment of operating expenses, conventional debt, partnership fees, and deferred developer fees). Any outstanding amounts of principal and accrued interest owed on the City financing would be due and payable upon loan maturity.

KEY BUSINESS TERMS OF AMENDED PREDEVELOPMENT LOAN AGREEMENT

The proposed key business terms of the Amended Predevelopment Loan Agreement are as follows:

- The City Predevelopment Loan will be increased to an amount not to exceed \$2,600,000, which proceeds will be utilized by Developer to retire previous owner carry-back financing (\$800,000) and cover project predevelopment expenses subject to approval of the Housing Director.
- Disbursement of City loan funds will be in accordance with a Schedule of Performance for the period June 2009 through February 2010 which sets forth the timeframe for Developer to secure required financing, obtain City project entitlements, and commencement of construction.

- As per the current provisions of the Predevelopment Loan Agreement, the amended City Predevelopment Loan will bear simple interest at a fixed rate of three percent (3%) per annum over a term of five years; payments on the loan will be deferred until loan maturity; and the loan will be secured by a second trust deed recorded against the property, junior to the Developer's purchase money loan with Century Housing.

KEY BUSINESS TERMS OF ACQUISITION, DISPOSITION AND DEVELOPMENT AND LOAN AGREEMENT

- The City's total funding commitment to the Project will not exceed \$4,456,350 (assuming no City of Industry funds are obtained by Developer); this amount is comprised of a maximum of \$2,731,350 for predevelopment and development costs, and approximately \$1,725,000 for City acquisition of Project site (land).
- Approximately \$1,725,000 (current estimate) of the Developer's obligation to repay the \$2.6 million predevelopment loan will be satisfied after the amount is re-cast as credit towards the City's purchase of the land from the Developer.
- All amounts of City funding not utilized for land acquisition will be structured in the form of a secured trust deed loan which will have a term of 55 years and bear simple interest at the rate of three percent (3%). Payments on the City loan will be determined by analysis of annual residual receipts cash flow of the Project after it is placed in service.
- The land will be acquired from the Developer by the City at fair market value (as determined by an independent appraisal) and leased back to Developer pursuant to a 99-year ground lease and land lease note payable from residual receipts.
- Pursuant to a recorded regulatory agreement, Developer will be obligated to develop, manage and operate the Hudson Oaks project as affordable senior rental housing for the full term of the ground lease.
- The City's subsidy to the Project may also include Section 8 Project-Based rental vouchers for 44 of the project units. This is subject to the Developer successfully competing for these federal rent subsidies through a Request For Proposals that the Housing Department is planning to issue in early-July 2009.
- The Developer will meet or exceed City 'green' standards in the design and operation of the Project.
- Other standard City provisions will apply, including First Source construction contract hiring and Local Priorities and Preference in the selection of tenants.

HOUSING IMPACT

The proposed Hudson Oaks project will provide 44 units of affordable rental housing for very low and low income senior citizens. These units will be credited towards the Regional Housing Needs Assessment (RHNA) housing production targets in Pasadena for very low and low income units. The project is consistent with the City's General Plan Housing Element and the Five-Year Consolidated Plan.

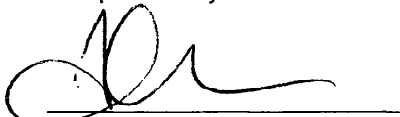
FISCAL IMPACT

Approval of the staff recommendation will result in the draw of \$4,312,115 from City housing funds (\$3,207,292 in Inclusionary Funds and \$1,104,823 in HOME funds) to assist the development of the Hudson Oaks project.

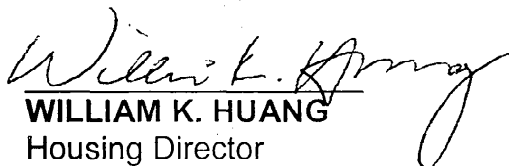
Respectfully Submitted


For **MICHAEL J. BECK**
City Manager

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Approved by:


WILLIAM K. HUANG
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