

Agenda Report

June 13, 2011

TO: Honorable Mayor and City Council

FROM: Housing Department

SUBJECT: **APPROVAL OF KEY BUSINESS TERMS OF DEVELOPMENT AND LOAN AGREEMENT WITH HERITAGE HOUSING PARTNERS FOR REHABILITATION/CONSTRUCTION OF THE HERKIMER GARDENS AFFORDABLE HOMEOWNERSHIP PROJECT AT 411-415 N. RAYMOND AVENUE; \$850,000 CITY HOUSING FUND ASSISTANCE**

RECOMMENDATION:

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

- 1) Find that the action proposed herein was subject to CEQA review as part of the Mitigated Negative Declaration adopted by the Hearing Officer on February 18, 2009, and is consistent with the approved project. There are no changed circumstances or new information, which would trigger additional environmental review;
- 2) Approve key business terms of a Development and Loan Agreement, as set forth in this agenda report, with Heritage Housing Partners for the development of an affordable homeownership project located at 411-415 N. Raymond Avenue (the "Herkimer Gardens" or "Project"); and
- 3) Approve a journal voucher appropriating \$200,000 in City Inclusionary Housing Trust Funds, \$410,000 in federal HOME entitlement funds, and \$240,000 in State Calhome funds for the Herkimer Gardens project.

ADVISORY BODY RECOMMENDATION

The subject recommendation was unanimously approved by the Northwest Commission at its regular meeting of May 12, 2011 and by the Community Development Committee ("CDC") at its regular meeting of May 26, 2011.

BACKGROUND

The Herkimer Gardens is a four-unit affordable for-sale project to be developed by

Heritage Housing Partners (the "Developer"). It was originally undertaken as a market rate homeownership development, but because of the downturn in the housing real estate market the Developer converted it to an affordable homeownership project. It is located in the Villa-Parke redevelopment project area and consists of three separate buildings: a) the Herkimer Apartments, a Greene & Greene historic structure that was relocated off of the Fuller Seminary campus and which will be rehabilitated into two four-bedroom flats; b) the Hammond House, a large historic Victorian structure which will be rehabilitated into a five-bedroom house; and c) a new parking garage which will have a second story new one-bedroom unit. A Project site plan is provided in Exhibit "A" and a photo rendering of how the Herkimer structure might look like after rehabilitation (street view) is shown in Exhibit "B".

The Developer is a local non-profit with very successful affordable housing experience. Since its incorporation in 1998, Heritage Housing Partners has completed eight housing development projects in Pasadena totaling 49 affordable units. A notable recent achievement was the completion in 2008 of the award-winning Fair Oaks Court affordable for-sale housing project, the first of its kind in the nation to utilize New Market Tax Credit financing. Also in development in Glendale is the Doran Gardens, a 60-unit project consisting of 57 Craftsmen-style, attached condominium homes that will be sold to moderate income homebuyers.

The Herkimer Gardens project is notable as an affordable housing project for the following reasons:

- The Project includes four- and five-bedroom units, which provides housing opportunities for larger-sized families.
- The Project is targeted for low-income affordability. Typical affordable homeownership projects are restricted to the moderate income level.
- The Project involves the preservation of historic buildings.
- The Developer is uniquely qualified in the area of historic rehabilitation and has a strong track record of selecting Pasadena buyers and buyers who appreciate their historic homes.

A meeting of neighborhood residents, Developer and City staff to discuss the Project was convened on Saturday, February 12, 2011. The Developer presentation of the Project was favorably received. Included in Exhibit "C" are emails received by the Housing Department from neighborhood residents expressing support for the Project.

The Developer commenced construction of the Project in February 2011, and completion is anticipated before the end of calendar year 2011.

KEY BUSINESS TERMS OF DEVELOPMENT AND LOAN AGREEMENT

- The Herkimer Gardens project shall consist of the development by Heritage Housing Partners of a four-unit for-sale housing project as more fully described in the Scope of Work. The purchase of the units in the Project will be restricted to low income buyers.

- The construction period cost for the Project totals approximately \$3.0 million. The development financing sources for the Project is expected to consist of a conventional construction loan in the amount of \$1.8 million; developer equity in the amount of \$357,500; City loan assistance in the amount of \$610,000 ("City Construction Loan") utilizing City Inclusionary Housing Trust Funds and federal HOME funds; and other private sources totaling \$232,500.
- If the Project is completed in satisfaction of the terms of the Development and Loan Agreement (including the Scope of Work and Schedule of Performance) accrued interest on the City Construction Loan will be forgiven and the outstanding principal balance will be recast as subordinate trust deed loans to be assumed by the home purchasers.
- The City will also provide additional homebuyer loan assistance in an amount not to exceed \$240,000 consisting of State funds allocated to the City in 2008 under the Calhome program.
- The Agreement shall be contingent on State award to the City of BEGIN program funds in an amount of \$586,075 for the Project (which the City had applied for in May 2010). In the event this contingency is not satisfied the Developer shall obtain other county, state or federal or private financing to meet any funding shortfall.
- Upon Project completion, City shall receive any sales proceeds in excess of confirmed development expenditures. Within 30 days after the sale of the final Project unit to a qualified buyer, City staff will evaluate the Developer's financial documents and records to confirm Project close-out costs and revenues. Any revenue amount in excess of costs shall be returned to the City housing fund balance.
- Pursuant to a recorded regulatory agreement with a 45-year term, affordability of each Project unit will be maintained by the City having the right of first refusal to purchase upon a resale.
- The Project will be designed to include water- and energy-saving features.
- Other City policies and regulations will apply to the Project including the First Source local hiring ordinance and the Local Priorities and Preference policy with respect to the selection of eligible homebuyers.

COUNCIL POLICY CONSIDERATION

The proposed Project will provide four units of affordable ownership housing for low income families. The Project units will be credited towards the Regional Housing Needs Assessment (RHNA) housing production goal for Pasadena. The Project is consistent with the City's General Plan - Housing Element and the Five-Year Consolidated Plan.

The proposed action also supports and promotes the quality of life and the local economy -- a goal of the City Council's Strategic Objectives.

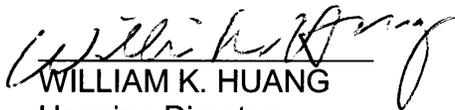
ENVIRONMENTAL ANALYSIS

In accordance with the provisions of the California Environmental Quality Act (CEQA), an Initial Study was prepared for the construction of the Herkimer Gardens project. The Initial Study determined that the project would have a less than significant environmental impact with the incorporation of mitigation measures. A Mitigated Negative Declaration was prepared and adopted for the project by the Hearing Officer on February 18, 2009. The action proposed herein is approval of key terms for the development agreement required for the project. This activity is consistent with the project analyzed under the adopted CEQA document and in compliance with Section 15162 there are no changed circumstances or new information which would require additional environmental review.

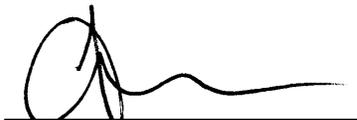
FISCAL IMPACT

Approval of the recommended City housing fund appropriation totaling \$850,000 for Herkimer Gardens will reduce the amount of City housing funds to \$2.1 million that would be available for commitments to new housing projects (excluding projects currently in the development pipeline with either committed or earmarked funding). The City's funding for the Project will consist of Inclusionary Housing Trust Funds (\$200,000), federal entitlement HOME funds (\$410,000), and Calhome program funds awarded by the State in 2008 (\$240,000).

Respectfully submitted,


WILLIAM K. HUANG
Housing Director

Prepared by:


JAMES WONG
Senior Project Manager

Approved by:


MICHAEL J. BECK
City Manager

EXHIBIT "A" -- HERKIMER GARDENS SITE PLAN



EXHIBIT "B" -- PHOTO RENDERING OF HERKIMER ARMS BUILDING



EXHIBIT "C" -- CORRESPONDENCE FROM THE PUBLIC

The following pages contain two emails received by the Housing Department from two neighborhood residents expressing support for the Herkimer Gardens project.

Wong, Jim

From: Marcia Sola <marcia.sola@us.ibm.com>
Sent: Friday, May 27, 2011 9:32 PM
To: Huang, William
Subject: RE: Funding for Herkimer Arms

Mr. Huang

My name is Marcia Sola, and I reside at 436 N. Raymond Avenue. My residence is a couple of doors away from the site of the Herkimer Gardens project. I am writing in support of the proposed funding of \$850,000 of affordable housing funds by the City of Pasadena for this project.

I hosted a neighborhood meeting to discuss this project a few months ago. My neighbors and I are in support of rehabbing the Herkimer and Hammond House structures, and selling those units as affordable for-sale housing. As a current member of the City's Historic Preservation Commission, I am particularly supportive of the preservation of Herkimer Arms, and I am pleased that HHP was willing to take on this project.

I strongly support the proposed funding by the City of Pasadena to enable the preservation of the Herkimer Arms and Hammond House structures and their conversion to affordable ownership housing.

Thank you

Marcia Sola

Wong, Jim

From: Deborah Lee Thomson <deborahleethomson@hotmail.com>
Sent: Monday, May 30, 2011 4:06 PM
To: Huang, William
Subject: 407 N. Raymond Avenue - Hammond/Herkimer

Mr. Huang,

I understand Heritage Housing Partners is meeting with your department this Wednesday regarding 407 N. Raymond Ave. (Herkimer Arms and Hammond House).

This exciting project is next door to my home (399 N. Raymond Ave.). I feel this is not only important to the City of Pasadena but also for our northwest neighborhood.

The Herkimer, which faces N. Raymond will be among other noteworthy architectural styles on our block (Mission, Bungalow, Mediterranean, and Victorian).

The charming details of the Hammond is also a very important part of Pasadena's history.

I have seen other Heritage Housing projects and am impressed with the respect they have for the original designs, and how it blends with the neighborhoods.

The prospective buyer's "affordable cost" along with the subsidy appears to maintain our neighborhood's property values. As a property owner, this is appreciated.

Thank you for considering this Heritage Housing project to be another step in keeping Pasadena beautiful.