

# Agenda Report

March 14, 2016

TO: Honorable Mayor and City Council

THROUGH: Finance Committee

FROM: Housing and Career Services Department

SUBJECT: **APPROVAL OF REPAYMENT TO U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT OF \$112,882.84 IN SUPPORTIVE HOUSING PROGRAM FUNDS AND \$447,889.45 IN HOME INVESTMENT PARTNERSHIP PROGRAM FUNDS**

## **RECOMMENDATION:**

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

- 1) Find that the recommended action is exempt from the California Environmental Quality Act ("CEQA") pursuant to State CEQA Guidelines per Section 15061 (b) (3), the General Rule that CEQA only applies to projects that may have an effect on the environment;
- 2) Appropriate \$560,772.29 from the Inclusionary Housing Trust Fund balance (Fund 619) for the repayment to the U. S. Department of Housing and Urban Development ("HUD") of Supportive Housing Program ("SHP") and HOME Investment Partnership Program ("HOME") funds that were expended on the development of the Nehemiah Court affordable housing project which was canceled in FY 2012; and
- 3) Authorize the Interim City Manager to execute, and the City Clerk to attest, any agreements or documents to effectuate the repayment of \$560,772.29 in federal SHP and HOME funds to HUD in connection with the Nehemiah Court project.

## **BACKGROUND:**

The Nehemiah Court project was conceived as a 12-unit permanent supportive housing project for chronically homeless individuals. Pursuant to the terms of Agreement No. CDC-546-1, dated December 5, 2007, between the Pasadena Community Development

Commission and New Revelation Missionary Baptist Church ("New Revelation"), a total of \$1,504,816 in federal housing funds were committed to the project. The funding consisted of \$778,148 in Supportive Housing Program ("SHP") and \$762,668 in HOME Investment Partnership Program ("HOME") monies. HUD awarded the SHP funds to the City in 2004 of which \$360,000 were to be used for predevelopment expenses related to the new construction and the remainder to be utilized over three years, once the project was built and put into service, for operations; supportive services; and administration. New Revelation undertook the development of the project in partnership with A Community of Friends, a non-profit developer of affordable permanent supportive housing for homeless persons.

Plans for the project were developed and the development partnership began working with the City to get them approved. The first challenge to the project came as a result of the entitlement process, when it was determined that the lot size and City parking requirements would only allow for an eight-unit building to be constructed at the site. The required redesign resulted in a shared housing project in which 12 persons would be housed in six two-bedroom units.

Additional funding was needed to get the project built and support operations. In 2010, successful funding applications were submitted to Los Angeles (LA) County Community Development Commission for City of Industry funds; to the LA County Department of Mental Health for Mental Health Services Act funds; and to the LA County Board of Supervisors for discretionary funding. However, an application to the State of California for Multi-family Housing Program funds was unsuccessful, leaving a \$200,000 gap.

Though the developer and the City investigated other funding options and were successful in value-engineering to reduce costs, the gap remained due to rising construction costs. During this period, an additional redesign became necessary to avoid damaging oak trees along the street fronting the project.

The SHP grant agreement between the City and HUD required that the project be placed in operation by the end of 2011. However, as a result of the delays caused by the funding gap, HUD rescinded the SHP operations and service funding in December, 2011. The loss of this funding made the project infeasible, and it had to be cancelled.

#### **REPAYMENT OF HUD FUNDS:**

The SHP and HOME funds that were committed to this project were subject to the terms and conditions of the respective SHP and HOME grant agreements between the City and HUD. The grant agreements require, among other things, the completion of funded projects within a specified timeframe and obligate the City, as grantee, to repay to HUD any disbursed grant amounts for terminated projects. Grant sub-recipients (such as New Revelation) are not parties to the grant agreements and, therefore, have no obligation to HUD on the repayment of grant funds for terminated projects.

During the development phase of the Nehemiah Court project, costs had been incurred by the developer and reimbursed by the City, totaling approximately \$560,772. These costs included architectural services (\$165,818), environmental review (\$29,176), relocation consultant services (\$24,100), legal services (\$9,474), permits (\$4,177), and other project-related expenses including project management, planning, and preparation of grant applications (\$328,027). The expenditures incurred were in compliance with the "Eligible Use of Commission and McKinney Loan Proceeds" as set forth in Agreement No. CDC-546-1. Housing staff monitored the project expenditures as they were made and reviewed the developer's loan draw requests. Of the \$360,000 in SHP predevelopment funds committed to the project, \$247,117.16 were unspent and returned to HUD in June, 2012. However, \$112,882.84 were expended and must now be returned to HUD using non-Federal funds. Of the \$762,668 in HOME funds that the City committed to the project, \$447,889.45 were disbursed and must be returned to HUD, and \$314,778.55 were subsequently reprogrammed for other affordable housing activities.

The City began discussions with HUD in December 2011 regarding repayment of the funds. Due to changes in HUD staffing and some need for clarification of regulatory requirements, the City was not given final repayment instruction until February, 2016.

The City's Inclusionary Housing Trust funds will be used to repay HUD. The amount of \$112,882.84 will be used for the SHP repayment via wire transfer following the approval of this action by City Council. The amount of \$447,889.45 will be used to repay the HOME program; these funds will be deposited into the City's account in HUD's Integrated Disbursement and Information System and will be available exclusively for City use on HOME-eligible affordable housing activities.

The staff recommendation is consistent with the direction provided by the City Council to Staff on February 6, 2012.

**COUNCIL POLICY CONSIDERATION:**

This proposed action supports the City Council Strategic Planning Three-Year Goals in the areas of: 1) maintaining fiscal responsibility and stability.

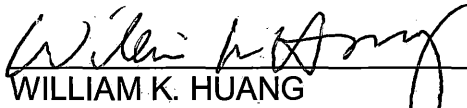
**ENVIRONMENTAL ANALYSIS:**

The action proposed herein is exempt from the California Environmental Quality Act (CEQA), pursuant to State CEQA Guidelines Section 15061 (b)(3), the "General Rule" provision of CEQA which applies to projects which may have the potential for causing a significant effect on the environment. Where it can be seen with certainty that there is no possibility that the activity in question may have a significant effect on the environment, the activity is not subject to CEQA. The repayment of \$560,772.29 to HUD will not have a significant effect on the environment and, hence, is not subject to CEQA.

**FISCAL IMPACT:**

This action will reduce the Inclusionary Housing Trust Fund balance by the amount of \$560,772.29, resulting in a net fund balance of \$1,394,588. Of the \$560,772.29 total expenditure, \$447,889.45 will be used to repay the HOME program; these funds will be deposited into the City's account in HUD's Integrated Disbursement and Information System and will be available exclusively for City use on HOME-eligible affordable housing activities. This \$447,889.45 remains with the City to be used for affordable housing activities. However, HUD requires that the funds be moved from the Inclusionary Housing Trust Fund account to the HOME account.

Respectfully submitted,

  
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