

Agenda Report

February 27, 2017

TO: Honorable Mayor and City Council

FROM: Housing and Career Services Department

SUBJECT: APPROVAL OF HOUSING ACQUISITION LOAN AGREEMENT WITH HERITAGE HOUSING PARTNERS TO PROVIDE PURCHASE MONEY FINANCING IN AN AMOUNT NOT TO EXCEED \$977,000 TO ACQUIRE AND RESELL THREE (3) AFFORDABLE HOMEOWNERSHIP UNITS WITHIN THE FAIR OAKS COURT DEVELOPMENT

RECOMMENDATION:

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

- 1) Find that the proposed housing financing and acquisition activity, as described in this agenda report, does not have a significant effect on the environment and has been determined to be categorically exempt under Class 26 (Acquisition of Housing) of the State California Environmental Quality Act ("CEQA") and, specifically, Section 15326 of the State CEQA Guidelines;
- 2) Approve a budget amendment and a journal voucher appropriating \$977,000 from the Inclusionary Housing Fund Balance to the Housing Department's FY 2017 operating budget Account No. 23916003-816700-51213 for the HHP Housing Acquisition Project;
- 3) Approve certain key business terms, as described in this agenda report, of the proposed Housing Acquisition Loan Agreement with Heritage Housing Partners; and
- 4) Authorize the City Manager to execute any and all documents necessary to effectuate the staff recommendation.

BACKGROUND:

Fair Oaks Court is a 43-unit homeownership project located at 588-608 N. Fair Oaks Avenue that was developed by nonprofit Heritage Housing Partners ("HHP") in 2008 with City financial assistance. Thirty-seven (37) of the units are affordable housing for low and moderate income families. The affordable units have "silent" second trust deed

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homebuyer assistance loans that were originated by HHP to the homebuyers, which loans were originally recast from the City's development financing for the project. The City also provided assistance to the original homebuyers with trust deed loans funded from "BEGIN" and "Calhome" program monies provided by the state. The affordable units are deed restricted and grant the Right Of First Refusal ("ROFR") to HHP and the City to purchase the property when the homeowner decides to resell. If the lenders decline to exercise the ROFR, the owner may resell the property at market rate and the deed restrictions on the property are extinguished, resulting in the loss of an affordable unit.

Recently, owners of three (3) Fair Oaks Court affordable units provided written notification of intent to resell their homes.

Address	Unit Size	Income Restriction	Owner's Resale Reason	HHP Acq Loan
602 N Fair Oaks Ave #119	2-BR	Moderate	Relocate to Florida	\$292,000
608 N Fair Oaks Ave #130	3-BR	Moderate	Relocate to Korea	\$342,500
608 N Fair Oaks Ave #131	3-BR	Moderate	Moving in with elderly parents to manage their health issues	\$342,500

In January 2017, HHP submitted an acquisition financing request in the amount of \$977,000 to the City. Department staff evaluated the request and recommends that the City enter into a Housing Acquisition Loan Agreement with HHP pursuant to which the City would extend purchase money financing in the amount of \$977,000 for HHP's acquisition of the subject properties and subsequent resale to moderate income families.

Since 2012, under previous housing acquisition loan agreements with the City, HHP has successfully exercised the ROFR to acquire eight (8) Fair Oaks Court homes and resell them to qualified first-time homebuyers. The acquisition financing extended by the City to HHP have been fully repaid from the proceeds of the resale transactions. HHP is an experienced housing organization with a strong track record in developing, marketing and selling affordable ownership housing. HHP projects in Pasadena include Haskett Court, Fair Oaks Court, and Herkimer Gardens. HHP's qualifications include:

- Full-time sales and marketing staff devoted to finding income-qualified first-time homebuyers and helping them get a good mortgage.
- An interest list of over 1,350 income-eligible households that have indicated a desire to own a home in Pasadena.
- Projects in Pasadena with 77% of homeowners who previously lived and/or worked in Pasadena. Pursuant to City policy, priority is provided to applicants who live and/or work in Pasadena.
- Experience working with income-qualified first-time homebuyers with credit issues, and familiarity with mortgage programs designed for these buyers.

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The Internal Housing Loan Committee, at its meeting of January 19, 2017, reviewed and approved the proposed transaction. The staff recommendation was agendaized for the February 21, 2017 regular meeting of the Economic Development and Technology Committee, but that meeting was canceled.

KEY BUSINESS TERMS OF HOUSING ACQUISITION LOAN AGREEMENT

The City's provision of purchase money financing to HHP shall be made in accordance with a Housing Acquisition Loan Agreement (the "Agreement"). The key terms of the Agreement are as follows:

- 1) The total amount of the City acquisition financing shall not exceed \$977,000.
- 2) HHP shall utilize the City financing to acquire the three (3) deed-restricted affordable homeownership units located at 602 N. Fair Oaks Avenue, #119; 608 N. Fair Oaks Avenue, #130; and 608 N. Fair Oaks Avenue, #131.
- 3) The acquisition loans shall be evidenced by a promissory note naming the City as beneficiary and secured by a first trust deed on the acquired property.
- 4) The term of each acquisition loan shall not exceed six (6) months, which term may be extended by a cumulative period not to exceed three (3) months, if necessary, at the discretion of the City's Housing and Career Services Director.
- 5) The City loan interest will be 0% to minimize the cost of the acquisitions.
- 6) HHP shall acquire each property at an affordable sales price as determined by the City's Housing and Career Services Department ("Housing Department").
- 7) HHP shall re-sell the properties in accordance with the affordable housing deed restrictions on the properties, and the City's local preference policy.
- 8) Estimated transaction costs to be incurred by HHP on each property (e.g., escrow, title, property taxes, HOA dues) will be reviewed by the Housing Department prior to closing. Such costs are not expected to exceed 4.00% of the sales price. However, the Housing Director may approve costs up to 6.00% if the transaction is determined to involve greater than normal expenses (e.g. repairs).
- 9) The Housing Acquisition Loan Agreement shall expire on September 30, 2017.

COUNCIL POLICY CONSIDERATION:

The proposed action is consistent with the City's General Plan - Housing Element and the Five-Year Consolidated Plan. It also supports and promotes the quality of life and the local economy -- a goal of the City Council's Strategic Plan.

ENVIRONMENTAL ANALYSIS:

The implementation of the staff recommendation to provide financing for the purchase of the subject property does not have a significant effect on the environment and has been determined to be categorically exempt under Class 26 (Acquisition of Housing) of the State California Environmental Quality Act ("CEQA"), and, specifically, Section 15326 of the State CEQA Guidelines. No further CEQA review is required for this activity.

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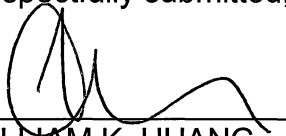
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FISCAL IMPACT:

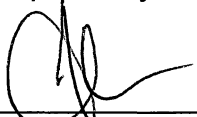
If the staff recommendation is approved, the proposed City financing in the amount of \$977,000 to implement HHP's acquisition of the subject properties will be drawn from Inclusionary Housing Trust Fund (Account No. 23916003-816700-51213). This action will reduce the Inclusionary Fund balance to approximately \$1.53 million in non-earmarked funds available for new project commitments. In accordance with the proposed terms of the Agreement, HHP shall repay the City financing from resale proceeds when the subject property is purchased by qualified homebuyers.

Respectfully submitted,


for WILLIAM K. HUANG

Director of Housing and Career Services

Prepared by:



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Approved by:



STEVE MERMELL
City Manager