

# Agenda Report

December 17, 2018

**TO:** Honorable Mayor and City Council

**FROM:** Housing Department

**SUBJECT: APPROVAL OF THE KEY BUSINESS TERMS OF A DISPOSITION, DEVELOPMENT AND LOAN AGREEMENT WITH PASADENA RHF HOUSING, INC. FOR THE REFINANCING, SALE, AND RENOVATION OF THE CONCORD SENIOR HOUSING PROJECT AT 275 E. CORDOVA STREET**

## **RECOMMENDATION:**

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

1. Find that the refinancing and renovation of the 150-unit Concord senior housing project at 275 E. Cordova Street (the "Project") does not have the potential to cause a significant effect on the environment and is categorically exempt under Class 1 (Existing Facilities) of the State California Environmental Quality Act ("CEQA"), and, specifically, Section 15301 of the State CEQA Guidelines, there are no features that distinguish this project from others in the exempt class and, therefore, there are no unusual circumstances;
2. Approve the key business terms of the Disposition, Development and Loan Agreement ("DDLA"), as described in this agenda report, between the City and Pasadena Retirement Housing Foundation; and
3. Authorize the City Manager to execute, and the City Clerk to attest to such execution, the DDLA and any other documents required to effectuate the Project.

## **BACKGROUND**

The Concord is a 14-story, 150-unit low income senior citizen rental housing complex totaling 87,738 square feet, constructed in 1966 and located on a 1.2 acre site at 275 East Cordova Street. The Concord housing is comprised of 149 units that are age-, income-, and rent-restricted, and one (1) resident manager's unit. The construction of the project was financed by the U.S. Department of Housing and Urban Development (HUD) under the Section 202 program. In 1987 the City commenced efforts to preserve the long-term affordability of the Concord. This resulted in the City's purchase of the

property from then-owner Pasadena RHF Housing, Inc. ("RHF") in July 1989, and entering into a 42-year ground lease with RHF as tenant and operator of the Concord. The City's purchase of the Concord was funded from set-aside monies from the 1989 Discretionary Contribution Fund to the Fire and Police Retirement System ("FPRS") to serve the dual public purpose of securing low income senior housing for the residents of the City, while also providing an asset for the benefit of FPRS. At the time of the Board of Director's approval of the ground lease agreement in 1989, the Board of Directors authorized the assignment to FPRS of a 93% beneficial interest in the Concord property, in lieu of the City contributing Discretionary Contribution Funds to FPRS (the remaining 7% interest in the Concord would be assigned to the City). Furthermore, pursuant to the Board action, FPRS would be entitled to receive 100% of all positive cash flow owed to the City from the lease, rental, or operation of the Concord during the ground lease period July 31, 1989 through August 1, 2031. The outstanding amount of accrued rent and interest owed as of July 31, 2018 is \$6,435,110.

The 52-year old apartment complex is in need of renovation to extend the building's useful life. The Concord has not undergone any significant renovation since its completion in 1966 with the exception of the installation of a fire sprinkler system in 1993 which RHF financed with a HUD "Flex Subsidy" program loan.

### **PROPOSED TRANSACTION**

Discussions on the restructuring of the Concord were initiated in May 2015 with RHF's submittal to the City of a project proposal. With contract services provided by financial consultant David Rosen & Associates, City staff have negotiated a transaction that would financially restructure, substantially renovate, and preserve the affordability of the Concord senior housing project. Staff have kept the FPRS Board apprised throughout the course of the negotiations and Board members have expressed support of the proposed transaction. If the transaction were to move forward as proposed, and the project were to be successfully completed, FPRS would receive an estimated amount of at least \$21.16 million.

The proposed transaction is summarized as follows:

- The City will sell to RHF the Concord property, less the surface parking area designated as the "Surface Parking Lot" parcel depicted in "Site Map", Attachment "A". The sale of the property to RHF is subject to City approval of a parcel map application that is currently in progress. The preliminary estimate of the sale price for the Concord property is \$44.28 million. This amount is subject to an appraisal which will be performed after HUD approves RHF's application for renewal of project-based Section 8 rent subsidy. The Surface Parking Lot parcel will be held and maintained by the City for future disposition and development.
- RHF will pay an estimated amount of \$22.27 million of the sale proceeds in cash to the City over three installments: 1) \$15.19 million when escrow closes on all necessary project financing and the City transfers Concord property title to RHF ("Project Closing"); 2) \$6.32 million when the construction financing converts to a

permanent loan (approximately one year after construction completion); and 3) \$0.76 million when RHF files its first-year tax return and IRS Form 8069. Of the total \$22.27 million in sale proceeds paid by RHF, FPRS would receive an estimated \$21.16 million comprised of: a) \$6.44 million in accrued rent and interest (as of 7/31/18); and b) \$14.72 million from the FPRS 93% beneficial interest on the remaining sale proceeds (\$15.83 million).

- For the project to achieve financial feasibility, the City, as seller, will carry back a note in the estimated amount of \$20.91 million (“City Seller Note”), secured by a trust deed recorded against the Concord property. The City Seller Note has a term of 55 years, with annual payments from residual receipts. Based on current estimates, it is projected that the City Seller Note will be paid off in 35 years (please see “Cash Flow Analysis”, Attachment “B”). However, as such payments would be from residual receipts, there is no guarantee. FPRS will receive its 93% beneficial share of any annual loan payments on the City Seller Note.
- Approximately \$1.1 million of the sale proceeds will be utilized to pay off the existing HUD Flex loan at Project Closing.

To summarize the allocation of the total sale proceeds:

Amount	Use
\$22.27 million	Paid in cash to the FPRS/City over three (3) installments
\$20.91 million	City Seller Note, payments from Concord residual receipts
\$ 1.10 million	Retire HUD Flex loan at Project Closing
<b>\$44.28 million</b>	<b>TOTAL</b>

- RHF will agree to make a Basic Services Offset Payment in the amount of \$200,000 to the City at Project Closing. The purpose of this negotiated, voluntary payment is to offset the cost to the City of providing basic services (e.g., police, fire) to higher-density multifamily developments. This one-time payment would be deposited into the City General Fund.
- RHF will perform a substantial renovation of the Concord complex, bringing it up to market standards, and extending the useful life of the building. The Concord complex has not undergone significant renovations apart from the installation of a fire sprinkler system in 1992. Renovation of resident units includes: replacing kitchen and bathroom cabinets and countertops, plumbing fixtures and appliances; adding new light fixtures; new flooring and window coverings; replacing 50% of all doors; providing heating and cooling units; modifications to comply with current ADA standards. Renovation of common areas and corridors includes: Replacing doors, flooring and lighting; remodeling/upgrading the lobby, recreation room, kitchen, and laundry facilities. Renovation of mechanical/building systems includes: Replacing hot water heaters, boilers, piping, exhaust fans, generator, fire alarm system; upgrading elevator systems; replacing fire alarm system; installing new security camera system. Renovation

of sitework includes: Add new parking areas; modify existing parking areas; add outdoor common area; install new fencing; upgrade irrigation and landscaping; install new site lighting and furnishings. Renovation of building exterior includes: Replacing balcony railings; providing new energy efficient windows; repainting; providing new lighting.

- The estimated total project cost is \$67.52 million (please see "Development Budget", Attachment "C"). To finance the transaction, RHF will apply to the State for 4% tax credits and tax-exempt bond financing, and also apply to HUD for renewal of project-based Section 8 rent subsidy under a 20-year Housing Assistance Payment contract.

All figures stated above for the sale price, sale proceeds, and City Seller Note are preliminary estimates which are subject to adjustment based on several factors including HUD modifications to RHF's proposed Concord rents; appraised value of the Concord property and the Existing Parking parcel; tax credit pricing fluctuation; and changes to project cost line items prior to construction closing.

#### **KEY BUSINESS TERMS OF DISPOSITION, DEVELOPMENT AND LOAN AGREEMENT**

The proposed Disposition, Development and Loan Agreement (the "DDLA") between the City and RHF includes the following key business terms:

- a) City shall sell to RHF the Concord property, less the surface parking area designated as the "Existing Parking" parcel depicted in "Site Map", Attachment "A". The preliminary estimate of the sale price for the Concord property is \$44.28 million.
- b) RHF shall pay property sale proceeds to the City totaling an estimated amount of \$22.27 million over three installments: 1) \$15.19 million when escrow closes on all necessary project financing and the City transfers Concord property title to RHF ("Project Closing"); 2) \$6.32 million when the construction financing converts to a permanent loan (approximately one year after construction completion); and 3) \$0.76 million when RHF files its first-year tax return and IRS Form 8069.
- c) City shall provide seller carryback financing to RHF, as evidenced by a promissory note (the "City Seller Note"), in the estimated amount of \$20.91 million. The City loan shall: 1) be secured by a trust deed recorded on Concord property title; 2) have a term of 55 years; 3) bear simple, fixed interest at the rate of 2.5% per annum; and 4) upon project completion, convert to permanent financing and be repaid through annual residual receipts payments.
- d) A scope of work which includes substantial renovation of the resident units (including compliance with current ADA standards), mechanical/building systems, common areas and corridors, building exterior, landscaping, and parking.

- e) A schedule of performance with project completion in September 2021.
- f) Affordable housing restrictions binding on the Concord pursuant to a recorded regulatory agreement with a term of 55 years, in favor of the City.
- g) RHF compliance with all applicable City ordinances, policies and regulations including insurance and indemnity requirements, the First Source Hiring ordinance, and the Minimum Wage Ordinance.

### **PROJECT SCHEDULE**

February 2019	RHF submits project-based Section 8 application to HUD.
May 2019	HUD approves Section 8 application.
July 2019	RHF applies to State for 4% non-competitive low income housing tax credits and bond financing.
September 2019	State approves RHF's project financing applications.
December 2019	Project Closing. City sells Concord property to RHF. RHF pays first installment of sale proceeds to FPRS and City. RHF commences rehabilitation of Concord.
September 2021	RHF completes project rehabilitation.
March 2022	Construction financing converts to permanent loan. RHF pays second installment of sale proceeds to FPRS and City.
March 2023	RHF files first-year tax return and IRS Form 8609. RHF pays third (and final) installment of sale proceeds to FPRS and City.

### **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 refinancing and rehabilitation of the Concord senior apartments does not have the potential to cause a significant effect on the environment and is categorically exempt under Class 1 (Existing Facilities) of the State California Environmental Quality Act ("CEQA"), and, specifically, Section 15301 of the State CEQA Guidelines. Class 1 specifically exempts from further CEQA review the repair, maintenance or minor alteration of existing structures where there is negligible or no expansion of the use. The repair, maintenance, and minor alterations of the type contemplated under the Project are specifically contemplated under Class 1. Hence, the proposed rehabilitation of the Concord senior apartments qualifies the project under the Class 1 Categorical Exemption. Further, there are no features that distinguish this project from others in the exempt class and, therefore, there are no unusual circumstances that would cause this exemption not to apply.

**FISCAL IMPACT**

Approval of the subject recommendation and implementation of the Project will generate an estimated \$22.27 million in cash proceeds from the sale of the Concord property to RHF. Of this total, \$21.16 million will be paid to FPRS and the balance of \$1.11 million will be deposited into the City's Housing Successor Fund. Based upon the FPRS actuarial valuation as of June 30, 2018, the \$21.16 million in proceeds should increase the actuarial value of assets to a level where an additional City contribution is not required until Fiscal Year 2027. The initial Project Closing payment to the FPRS as outlined below should increase the actuarial value of assets to approximately 87%.

The distribution of the \$22.27 million cash proceeds to be paid by RHF is as follows:

Cash Proceeds Payment Event	Total Amount	To FPRS	To City Housing Successor
Project Closing	\$15.19 M	\$14.57 M	\$0.62 M
Perm Loan Conversion	\$6.32 M	\$5.88 M	\$0.44 M
1 <sup>st</sup> Year IRS Tax Filing	\$0.76M	\$0.71 M	\$0.05M
<b>TOTAL</b>	<b>\$22.27</b>	<b>\$21.16 M</b>	<b>\$1.11 M</b>

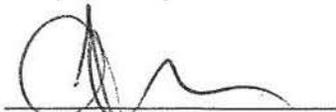
In addition, the City will be the beneficiary of a seller carryback trust deed note secured by the Concord property in the estimated amount of \$20.91 million with a 55-year term. Based on current cash flow estimates, this note is expected to be paid off in 35 years. Any funds received from the payment of the note would be allocated in accordance with the 93% FPRS beneficial interest and would likely extend any City requirements for additional contributions to FPRS beyond Fiscal Year 2027.

Respectfully submitted



WILLIAM K. HUANG  
Director of Housing and Career Services

Prepared by:



James Wong  
Senior Project Manager

Approved by:



STEVE MERMELL  
City Manager

Attachments:

- Attachment A: Site Map
- Attachment B: Cash Flow Analysis
- Attachment C: Development Budget