

Agenda Report

October 7, 2019

TO: HONORABLE MAYOR AND CITY COUNCIL

THROUGH: ECONOMIC DEVELOPMENT AND TECHNOLOGY COMMITTEE
(September 17, 2019)

FROM: William K. Huang, Director of Housing

**SUBJECT: APPROVAL OF KEY BUSINESS TERMS OF DISPOSITION,
DEVELOPMENT AND LOAN AGREEMENT WITH SAN GABRIEL
VALLEY HABITAT FOR HUMANITY FOR THE DEVELOPMENT OF
136-138 W. HOWARD STREET AS A TWO-UNIT AFFORDABLE
HOMEOWNERSHIP PROJECT**

RECOMMENDATION:

It is recommended that the Economic Development and Technology Committee recommend to the City Council that it take the following actions:

- 1) Find that the City provision of loan assistance to San Gabriel Valley Habitat for Humanity ("SGV Habitat") for the acquisition of City-owned property at 136-138 W. Howard Street ("Property") and the construction of two housing units do not have a significant effect on the environment and has been determined to be categorically exempt under Class 3 (New Construction or Conversion of Small Structures) of the State California Environmental Quality Act ("CEQA") and, specifically, Section 15303 of the State CEQA Guidelines; and
- 2) Approve key business terms of the Disposition, Development and Loan Agreement, as set forth in this agenda report, with SGV Habitat for the development of an affordable two-unit homeownership project on the Property.

ADVISORY BODY RECOMMENDATION:

At its regular meeting of September 10, 2019, the Northwest Commission considered the subject matter and unanimously recommended City Council approval of the staff recommendation.

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BACKGROUND:

The subject property, located at 136-138 W. Howard Street, is a City-owned vacant lot with a site area of approximately 6,590 square feet (the "Property"). The Property is zoned RM-12 with an allowable density of two (2) units. It was acquired by the City in February 2008 as an affordable housing development site. However, in response to community desires, the City entered into a license agreement with the Harambee Christian Family Center in April 2011 to utilize and maintain the Property as a community garden. The Harambee Center planned to raise funds with the expectation of acquiring the Property from the City. However, after six years, the organization was unable to achieve this objective and, in October 2017, the license agreement was terminated and the City took back possession of the Property.

On April 17, 2019, the City released a Request For Proposals ("RFP") to solicit developer proposals for the acquisition of the Property and development of two (2) housing units which would be sold to eligible low income families. Two (2) developers responded to the RFP by the May 2, 2019 deadline: Golden Sun Firm & Company and San Gabriel Valley Habitat for Humanity ("SGV Habitat"), a 501(c)(3) nonprofit Public Benefit Corporation and affiliate of the national Habitat for Humanity organization. A committee consisting of two (2) Housing Department staff and Northwest Commissioner Beverly Sims convened on June 13, 2019 to review and rate the two proposals. The proposal submitted by SGV Habitat was rated the highest with a score of 77 points (compared to Golden Sun with 6 points); accordingly SGV Habitat was recommended by the committee to negotiate and enter into a Disposition, Development and Loan Agreement with the City.

Since its incorporation in 1990, SGV Habitat has developed 14 homeownership projects in the San Gabriel Valley region totaling 77 affordable units. To date, no homeowner in any project built by SGV Habitat has ever had a mortgage default or resold their home. Currently, SGV Habitat has a project under construction at 750-752 Manzanita Avenue. Scheduled for completion by the end of September 2019, the project will provide two (2) affordable homeownership units for low income families. SGV Habitat is a licensed California contractor and employs a licensed Responsible Managing Employee who will supervise construction and ensure that quality homes are built.

Disposition of the Property is anticipated to occur by November 2019, with construction to commence by early January 2020. The estimated construction period for the Howard/Navarro project is 12 months.

KEY TERMS OF DISPOSITION, DEVELOPMENT AND LOAN AGREEMENT

- 1) San Gabriel Valley Habitat for Humanity ("Developer") shall acquire the City-owned property located at 136 and 138 W. Howard Street (the "Property") and construct on it two (2) single-family housing units (the "Project") to be marketed and sold to low income families at affordable housing cost.

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- 2) The predevelopment, construction, marketing, and sales cost of the Project is estimated to be \$1,321,046. Developer shall be responsible for raising all funds for predevelopment, construction, marketing and sales of the new homes (the "Residences").
- 3) To assist Developer's acquisition of the Property, City shall carry back a seller loan (the "City Seller Loan") for the full purchase price which is currently estimated at \$375,000. The price will be subject to the City's appraisal of the Property.
- 4) The City Seller Loan shall be evidenced by a promissory note and secured by deed of trust recorded against the Property. The City Seller Loan shall bear simple interest at the fixed rate of three percent (3%) per annum.
- 5) If the Project is completed satisfactorily in accordance with the terms of the DDLA (including the Scope of Work and Schedule of Performance), the accrued interest on the City Seller Loan will be forgiven and the outstanding principal balance will be recast as subordinate purchase financing loans to be assumed by qualified homebuyers of the Residences. Each of these loans will be in the estimated amount of \$187,500 and will be originated under the City's Homeownership Opportunities Program ("HOP").
- 6) Each HOP Loan shall be evidenced by a promissory note and secured by a deed of trust, in third lien position behind: a) the first mortgage to be originated and funded by Developer; and b) a "Calhome" loan in the second lien position (see #7, below). The HOP Loan shall bear no interest, have a term of 55 years, and will be "silent" with payment deferred for the full term. If the original homebuyer remains in the Residence for the full 55-year term, the HOP Loan will be forgiven.
- 7) The City shall commit an amount not to exceed \$120,000 from its available balance of State "Calhome" program funds to provide additional loan assistance for the homebuyers. Each Calhome loan shall be in the principal amount of \$60,000, evidenced by a promissory note and secured by a deed of trust, in second lien position behind the first mortgage. The Calhome Loan shall bear simple interest at a below-market fixed rate not to exceed 3.00%, have a term of 30 years, and will be "silent" with payment deferred for the full term.
- 8) Homebuyer applicants must meet threshold eligibility criteria: a) Low income (i.e., not to exceed 80% of Los Angeles County Area Median Income); b) Living in substandard, overcrowded, and/or rent-burdened conditions; c) Household income is sufficient to pay a zero percent (0%) interest mortgage that will be originated and held by Developer; d) Contribute at least 300 hours of sweat equity (per buyer household) in building their own home and the home of their neighbors
- 9) Affordable Housing Cost: Homebuyers shall pay no more than 33% of their gross household income on housing costs (payment on the SGV Habitat first mortgage, property tax, HOA fee, and utilities).

- 10) Restrictive covenants (“Covenants”) in favor of the City shall be recorded against each Residence and remain in effect for a term of 55-years. The Covenants require, among other things, that the Residence be used solely as owner-occupied housing and be subject to resale restrictions. If the homeowner desires to resell the Residence during the 55-year covenant period, Developer shall have first right of refusal to purchase the Residence, qualify a new low-income home buyer, and resell the Residence to the new homebuyer. A new Covenant with a 55-year term shall be recorded against the Residence. In the event of a proposed resale of the Residence in which Developer is the beneficiary under an existing first mortgage and Developer elects not to exercise its first right of refusal to purchase the Residence, the City would have the option to purchase the Residence from the homeowner at the prevailing affordable sales price as calculated by the City.

- 11) Other City policies and regulations will apply to the Project including insurance requirements, the Local Hiring Agreement which requires that 15% of the construction related to payroll be satisfied by Pasadena residents, and the Local Priorities and Preference policy in regards the selection of eligible homebuyers.

COUNCIL POLICY CONSIDERATION:

The proposed Project will provide two 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.

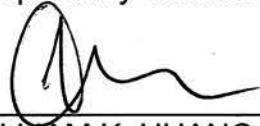
ENVIRONMENTAL ANALYSIS:

The City financing of SGV Habitat’s acquisition of the Property in an existing residential area with no unusual environmental circumstances, and the construction on Property of a two-unit housing development, does not have a significant effect on the environment and has been determined to be categorically exempt under Class 3 (New Construction or Conversion of Small Structures) of the State California Environmental Quality Act (“CEQA”), and, specifically, Section 15303 of the State CEQA Guidelines.

FISCAL IMPACT:

Approval of the subject recommendations will have no direct fiscal impact on the Department's FY 2020 operating budget. As proposed, an amount not to exceed \$120,000 will be set aside from the City's available balance of State "Calhome" program funds (Housing Fund 238) to provide loan assistance for homebuyers of the project. These funds will not be deployed until completion of the project in FY 2021; at that time, staff will bring forward a recommendation to amend the Department budget and appropriate these funds.

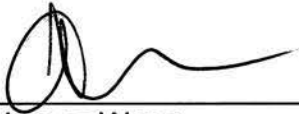
Respectfully submitted,



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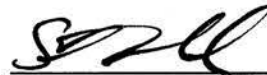
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