

Agenda Report

September 9, 2019

TO: HONORABLE MAYOR AND CITY COUNCIL

THROUGH: ECONOMIC DEVELOPMENT AND TECHNOLOGY COMMITTEE
(July 16, 2019)

FROM: William K. Huang, Director of Housing

SUBJECT: ADOPTION OF MANAGEMENT POLICIES FOR CITY-OWNED RENTAL HOUSING

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 proposed action is exempt from the California Environmental Quality Act ("CEQA") in accordance with State CEQA Guidelines Section 15061(b)(3), the "general rule" that CEQA only applies to projects that may have an effect on the environment; and
- 2) Authorize the City Manager to adopt policies for the management of City-owned rental housing properties as set forth in this Agenda Report, and as such policies may be modified by City Council.

BACKGROUND

The City currently owns ten (10) residential properties in Pasadena which are operated as affordable rental housing for very low income persons who receive rent subsidies under the federal "Section 8" housing program. These properties are condominium units located at 64 N. Mar Vista Avenue, Units 104, 124, 125, 128, 232; 333 N. Hill Avenue, Unit 303; 125 N. Allen Avenue, Unit 317; 2386 E. Del Mar Boulevard, Unit 124; and 217 S. Marengo Avenue, Units 109 and 206. These properties are managed under City contract by Fertig and Gordon Companies, Inc., a professional property management company.

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The City Council has expressed a desire to establish formal policies for the management of existing City-owned rental housing, and under which any newly acquired rental housing is managed.

While the City is considered a "public housing agency" by the U. S. Department of Housing and Urban Development ("HUD") in connection with administering federal rent subsidy programs (e.g., Section 8 and VASH), the existing inventory of City-owned rental housing properties do not constitute what is commonly referred to as "public housing." The acquisition and operation of public housing projects are subsidized through and are dependent on federal public housing funds. Moreover, public housing projects are subject to federal or state public housing program requirements, procedures, processes and restrictions. These factors are not applicable to the existing City-owned rental housing inventory.

Furthermore, the City's acquisition and operation of the properties in the existing rental housing inventory do not fall under the role as a "Housing Authority", which is defined as a corporate and politic public body organized in accordance with state Health and Safety Code Section 34310 et seq., to "carry out, acquire, lease, and operate housing projects for persons of low income..." In 1989 the Pasadena Community Development Commission ("PCDC"), as the legal successor in interest to the Pasadena Redevelopment Agency, was restructured and granted the powers, duties and responsibilities of a Housing Authority. When the PCDC was dissolved in 2011 in accordance with state redevelopment dissolution law, no action was taken by the City to establish a new Housing Authority. Hence, the City-owned inventory of rental units are not subject to State requirements that may pertain to a Housing Authority. For example, a tenant in one of the existing properties who violated their lease could be evicted without administrative appeal to the City.

The proposed policies include provisions for the City acquisition of units for operation as rental housing; this will enable the City to increase the supply of affordable rental housing in Pasadena, and quickly and cost-effectively provide housing for difficult to house persons. The City's rental assistance programs (e.g., Section 8) would be strengthened by reducing reliance on the declining number of participating landlords. Finally, the proposed policies support the City's affordable housing mission through the acquisition and operation of rental housing in a manner which minimizes the burden and liability on the City from day-to-day operational activities and property management functions.

RENTAL HOUSING MANAGEMENT POLICIES

As proposed, formal policies would be established to manage the existing inventory of ten (10) residential properties owned by the City and operated as affordable rental housing (the "Rental Housing Inventory"). Such policies would also govern additional properties which might be acquired by the City and added to the inventory of affordable rental housing. Based on the City's past track record of right-of-first refusal acquisitions and additional opportunities that may arise, the Department anticipates that

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approximately four to six units may be acquired annually over the next five years under these policies.

The following policy points are proposed for adoption:

- 1) Ownership of properties in the Rental Housing Inventory will be held by the City.
- 2) City will contract with a third party professional property management company to manage the Rental Housing Inventory.
- 3) The Rental Housing Inventory will carry property and liability insurance coverage.
- 4) Vacancies in the Rental Housing Inventory will be marketed through www.PasadenaHousingSearch.com and the Section 8 properties listing.
- 5) The selection of tenants will be subject to the City's local preference and priorities policy.
- 6) The acquisition of additional properties for the Rental Housing Inventory shall be subject to the following parameters:
 - a) Properties shall be limited to individual condominiums, single-family residences, and multifamily rental properties not exceeding 20 units;
 - b) Properties shall consist primarily of studio and one-bedroom units;
- 7) Each property acquisition transaction will be subject to approval by City Council.
- 8) Acquisition prices will not exceed appraised value.
- 9) An appropriate amount of replacement/operating reserve funds will be set aside for each property.
- 10) With City Council approval, surplus cash flow from the operation of the units may be used for Department of Housing administrative costs to reduce the Department's dependence on the City General Fund.
- 11) When the Rental Housing Inventory reaches a total of 36 units, staff will bring a recommendation to City Council for the City's issuance of a Request for Proposals to select a qualified affordable housing sponsor that would acquire the properties for operation as affordable rental assistance housing (e.g., Section 8) for a minimum period of 55 years. This policy is to ensure that the City-owned rental housing portfolio does not exceed a moderate number of housing units, thereby limiting the City's liability as a property owner. Attachment "A" of this report is a financial analysis for a hypothetical 36-unit portfolio, indicating, among other things, the annual net operating income, the assumed acquisition price, and the maximum conventional loan amount that a housing sponsor can borrow to acquire the portfolio.

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ENVIRONMENTAL ANALYSIS

The proposed action has been determined to be exempt from CEQA pursuant to State CEQA Guidelines Section 15061(b)(3), the "general rule" that CEQA applies only to projects that have the potential for causing a significant effect on the environment. Where it can be seen with certainty that there is no possibility that an activity in question may have a significant effect on the environment, the activity is not subject to CEQA. The adoption of program guidelines for the Rental Assistance Acquisition Program will not have the potential for significant effect on the environment, particularly as the City is not committing itself to any particular property acquisition transaction at this time.

However, prior to the first discretionary action for any proposed property acquisition under the Program, either a CEQA review will be undertaken to analyze the potential effects of the project on the environment, or the appropriate finding of a CEQA exemption will be made. It is anticipated that the latter will be applicable in most cases as such projects generally qualify for CEQA exemption as "Existing Facilities" (Title 14, Ch 3, Art 19, Class 1, Section 15301).

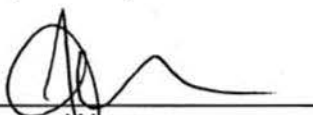
FISCAL IMPACT

Approval of the subject recommendations will have no direct fiscal impact. Any property to be acquired under the Program will be brought to City Council for approval, including approval of budget authority to fund the transaction.

Respectfully submitted,


WILLIAM K. HUANG
Director of Housing

Prepared by:


James Wong
Senior Project Manager

Approved by:


STEVE MERMELL
City Manager

Attachment: Financial Analysis for 36-Unit Portfolio