



# Agenda Report

November 25, 2019

**TO:** Honorable Mayor and City Council

**THROUGH:** Economic, Development and Technology Committee (November 19, 2019)

**FROM:** Department of Housing

**SUBJECT:** **APPROVAL OF THE KEY BUSINESS TERMS OF AN AFFORDABLE HOUSING LOAN AGREEMENT WITH THE SALVATION ARMY AND A BUDGET AMENDMENT FOR FUNDING IN AN AMOUNT NOT TO EXCEED \$1,000,000 FOR THE DEVELOPMENT OF A 66-UNIT PERMANENT SUPPORTIVE HOUSING PROJECT AT 1000 E. WALNUT STREET**

## **RECOMMENDATION:**

It is recommended that the City Council:

- 1) Find that the recommended actions do not constitute a "project" subject to the California Environmental Quality Act (CEQA) pursuant to Section 21065 of CEQA and Sections 15004(b)(4) and 15378 of the State CEQA Guidelines and, as such, no environmental document pursuant to CEQA is required; and
- 2) Approve a budget amendment appropriating \$1,000,000 from the Housing Successor Low Income Housing Asset Fund unappropriated fund balance to fund the proposed City loan through the Housing Department's FY 2020 Operating Budget for The Salvation Army Hope Center project; and
- 3) Approve the key business terms of an Affordable Housing Loan Agreement with the Salvation Army for the potential development of The Salvation Army Hope Center project at 1000 E. Walnut Street, as described in this agenda report; and
- 4) Authorize the City Manager to execute, and the City Clerk to attest, any and all documents necessary to effectuate the staff recommendation.

**BACKGROUND:**

The staff recommendations pertain to the proposed development by The Salvation Army ("Developer") of a permanent supportive housing ("PSH") component of the Hope Center, a four-story complex proposed on Developer-owned land located at 1000 E. Walnut Street, Pasadena. The project site is immediately adjacent to The Salvation Army Pasadena Tabernacle Corps Community Center and half a block from the 75-unit Salvation Army Pasadena Silvercrest Residence, an affordable housing project for very low income elderly people. The site is currently improved with a two-story office building built in 1964, which is proposed to be demolished. The existing building is currently operated by the Developer to provide social services for primarily homeless and low-income/at-risk persons.

As envisioned, PSH units would comprise the second, third and fourth floors of the proposed Hope Center, with the ground floor being operated as an expanded social services center for PSH residents and low/moderate income people in the community who are currently served by the Salvation Army. The target population of the PSH apartments would be single adults with incomes at or below 30% and 40% of area median income (40 units and 25 units, respectively) and who meet the U. S. Department of Housing and Urban Development definition of homeless. Furthermore, certain units would be restricted to VA service-eligible homeless veterans.

In September 2019, the Developer submitted a proposal to the City requesting \$1,000,000 in funding assistance towards the development of the PSH component of the Hope Center project. The requested assistance is in the form of a loan which would be repaid out of the Project's annual residual receipts which are not guaranteed.

**Project Cost and Funding**

The estimated total development cost of the Hope Center is approximately \$31.8M of which \$7.0M is attributed to the first floor social services center and \$24.8M to the PSH component (see Project Budget, Attachment "A"). Development of the first floor social services center would be funded exclusively by The Salvation Army, primarily through a capital fundraising campaign. No City funding would be used for the development of the social services center. As proposed, the PSH component would be developed primarily as a tax credit project, with the following funding sources:

\$18,458,654 Tax Credit Equity (CTCAC 9% Low Income Housing Tax Credit program)  
\$ 4,480,000 County of Los Angeles  
\$ 1,000,000 City of Pasadena  
\$ 910,000 FHLB Affordable Housing Program  
\$ \_\_\_\_\_ 200 General Partner Capital Contribution  
\$24,848,854 Total

All income-restricted units would be rent subsidized with project-based vouchers (PBVs). The units restricted to VA service-eligible homeless veterans would be subsidized with PBVs under the federal VASH program. The Developer intends to

apply for an allocation of PBVs from the City through a competitive Request For Proposals (RFP), which is anticipated to be issued by January 2020.

### **Supportive Services**

An array of supportive services would be available to the PSH residents including case management, food, health care, legal, employment, job training, and education. These services would be provided directly by The Salvation Army or coordinated with other service providers such as Community Health Alliance of Pasadena, Pacific Clinics, Neighborhood Legal Services of Los Angeles County, Foothill Workforce Development Board, Pasadena Community Job Center, Pasadena City College, Pasadena Unified School District, and the U. S. Department of Veterans Affairs.

### **Operations, Property Management**

The ground floor of the proposed Social Services Center will provide expanded space for a food pantry and the delivery of social services to low- and moderate-income people in the community. The physical space and operation of the Center will be designed and programmed such that clients will receive services entirely within the interior of the Center, thereby eliminating the need for clients to queue up outside the building. Also, the close proximity of the proposed HOPE Center to the immediately adjacent Salvation Army Pasadena Tabernacle Corps Community Center, and to the Salvation Army Pasadena Silvercrest Residence senior apartments, will contribute to efficiencies of management and close oversight by The Salvation Army.

The Developer will engage an appropriately experienced property management firm to screen residents, execute leases, collect rent, and resolve tenancy issues with residents of the PSH, as well as to oversee the maintenance of the property and compliance with development financing requirements and reporting, and to perform other functions of a property management firm in supportive housing projects. Although a property management firm has not yet been selected for the Hope Center, The Salvation Army uses The John Stewart Company (JSCo) for its three existing low income housing tax credit financed projects in Los Angeles County, and JSCo will confer with The Salvation Army during pre-development of the Hope Center.

### **Salvation Army Development Team and Track Record**

The Salvation Army is an experienced developer. Within the past five (5) years, The Salvation Army has successfully completed five (5) capital improvement projects including the 64-unit Bell Oasis Apartments permanent supportive housing project, located in the city of Bell, California, and completed in July, 2018. The development of the Hope Center is coordinated by consultant Hill, Devine & Gong under the supervision of the Developer. Hill, Devine & Gong has served as development and financing consultants for four of the five Salvation Army low income housing tax credit projects in California. The Project architect is the firm of Carde Ten Architects which has designed over 4,000 units of housing, including projects for the homeless, veterans, emancipated youth, single parent households, and individuals with physical and development disabilities. The firm has worked with The Salvation Army successfully on past projects, as well as on other projects in the City.

Staff evaluated the Developer's proposal and determined that it is a feasible and cost-effective way to address the City's critical affordable housing shortage. The City's direct funding subsidy would be \$15,384 per unit (e.g., the City's direct funding subsidy for the 70-unit Heritage Square senior apartments development was \$23,214). Accordingly, staff recommends that the City enter into an Affordable Housing Loan Agreement with the Developer for the potential development of the PSH component of the Hope Center, assisted with City loan funding in an amount not to exceed \$1,000,000.

The proposal was also reviewed by the Internal Housing Loan Committee, which serves the Housing Department and is comprised of staff in the City Manager, Housing, Human Services, Public Works, and Finance departments.

Councilmember Victor Gordo hosted a community meeting on October 23, 2019 to notify the community of the proposed project and to solicit comments from the community concerning the project. Representatives from the Housing Department, developer and architectural firm were present. There were 21 community attendees who submitted 13 written comments, 12 of which were supportive of the project. Separate smaller meetings were held with a committee of the Playhouse District and with representatives from the homeowners association from the nearby Lake at Walnut condominiums. Feedback from the smaller meetings were ranged from supportive to neutral concerning the proposed project.

#### **KEY BUSINESS TERMS OF THE AFFORDABLE HOUSING LOAN AGREEMENT:**

The proposed Affordable Housing Loan Agreement includes the following key terms:

- 1) Environmental Review: The Affordable Housing Loan Agreement is conditioned on compliance with the California Environmental Quality Act (CEQA). The Affordable Housing Loan Agreement does not bind any party, or commit to any definite course of action, prior to CEQA compliance; does not restrict the lead agency (City) from considering any feasible mitigation measures and alternatives, including the "no project" alternative; and does not restrict the lead agency from denying the project.
- 2) Subject property: 1000 E. Walnut Street, Pasadena. Existing improvements consist of a two-story office building built in 1964, which would be demolished.
- 3) Owner: The current owner of the subject property is The Salvation Army, a non-profit California corporation.
- 4) Developer: The Salvation Army, a non-profit California corporation.
- 5) Project Budget: The estimated total development cost of the PSH component of the HOPE Center is \$24,848,854.
- 6) City Loan: City funding shall not exceed \$1,000,000 in the form of a loan ("City



Loan") drawn from the Housing Successor Low Income Housing Asset Fund. The City Loan shall bear interest at the fixed rate of 3.00% per annum, compounded annually, with a 55-year term. City Loan funds shall be used to pay for predevelopment and construction costs associated with the Project, but not Developer fee. No more than \$250,000 of the City Loan may be expended and disbursed on predevelopment expenses prior to Developer securing all required financing for the Project. Disbursement of the City Loan is conditioned on compliance with the California Environmental Quality Act (CEQA).

- 7) City Loan payment: The scheduled annual, amortized payment on the City Loan shall be \$37,149.24. Developer shall make annual payments on the City Loan from the Project's residual receipts to the extent available (the cash flow remaining after project operating costs, replacement reserves, permanent senior debt service, LP/GP asset management fees, and owner distributions are paid).
- 8) City Loan security: The City Loan shall be secured with a deed of trust recorded against the Property, in subordinate lien position the conventional construction loan (during the construction period) and to the conventional permanent mortgage (when the Project is placed in service).
- 9) Basic Services Offset Payment: Developer and City shall agree to enter into an agreement pursuant to which Developer make a Basic Services Offset Payment ("BSOP") to City on an annual, voluntary basis in an amount not to exceed \$25,000 for a term of 55 years.
- 10) Assignment and Assumption: Contingent upon CEQA compliance and acquiring all necessary entitlements, it is anticipated that, in connection with the proposed tax credit financing, a limited partnership will be formed to develop and own the project, consisting of a secular, tax exempt Salvation Army corporation as the managing general partner and a tax credit investor as limited partner. In this event, City, Developer, and the LP shall enter into an agreement pursuant to which Developer shall assign to LP, and LP will assume from Developer the obligations under the Loan Agreement.
- 11) Scope of Work: Development and construction of the Project shall be in accordance with a Scope of Work.
- 12) Schedule of Performance: Contingent upon CEQA compliance and acquiring all necessary entitlements, the Project shall be developed in accordance with a Schedule of Performance.
- 13) Regulatory Agreement: Developer shall comply with affordable rental housing deed restrictions in favor of the City for a term of 55 years ("Regulatory Agreement"). Under the recorded Regulatory Agreement, 32 rental units (49% of the total affordable units) shall be restricted for occupancy by persons of very low income at 50% AMI, in compliance with State Article 34 requirements. However,

all 65 affordable units in the project will be restricted at the Extremely Low income level (40 units at 30% AMI and 25 units at 35% AMI) pursuant to a 55-year regulatory agreement under the California Tax Credit Allocation Committee.

- 14) Property Management Plan: Developer shall submit to the City for approval a Property Management Plan to screen residents, resolve tenancy issues, oversee property maintenance, comply with regulatory requirements, and to perform other functions in permanent supportive housing projects. Developer shall submit to the City for monitoring purposes an annual report to document compliance with property management plan requirements, identify any related issues that should be addressed, and provide status on the resolution of previously identified issues.
- 15) City policies: Developer shall comply with all applicable City ordinances Regulations and policies including but not limited to City Minimum Wage standards, "First Source" local hiring requirements, and insurance and indemnification requirements.
- 16) Reporting: Developer shall submit to the City the following reports: a) during the Scope of Work period: monthly status reports on compliance with the City's First Source local hiring and Minimum Wage ordinances; b) during the City Loan term: annual operating budget and audited financial statements; c) during the Regulatory Agreement term: annual affordable housing and property management compliance reports.

#### **COUNCIL POLICY CONSIDERATION:**

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


#### **ENVIRONMENTAL ANALYSIS:**

The proposed actions to appropriate funding and to approve key business terms of an Affordable Housing Loan Agreement with the Salvation Army do not constitute project approval. These recommended actions do not bind any party or commit to any definite course of action, do not restrict the City from considering any feasible mitigation measures and alternatives, and do not restrict the City from denying the project, and, therefore, do not constitute a project subject to the California Environmental Quality Act (CEQA) pursuant to Section 21065 of CEQA and Sections 15004(b)(4) and 15378 of the State CEQA Guidelines and, as such, no environmental document pursuant to CEQA is required. Disbursement of funds for any physical improvements is fully contingent on compliance with CEQA. Furthermore, The Hope Center Project requires approval of discretionary land use entitlements and applications for such entitlements have not been prepared or submitted to the City to date. It is anticipated that The Hope Center Project's CEQA review will occur concurrent with the processing of entitlement applications and must be completed prior to granting of any such entitlements.

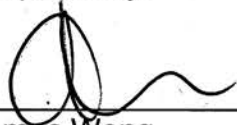
**FISCAL IMPACT:**

Approval of the subject recommendation will increase the Department's FY 2020 Operating Budget by an amount not to exceed \$1,000,000 by transferring \$1,000,000 from the Housing Successor Low Income Housing Asset Fund unappropriated fund balance to The Salvation Army Hope Center Project. Approval of this action will leave an unappropriated balance of approximately \$4,665,052. The City funding for the Project will be in the form of a loan secured by a trust deed. The scheduled annual debt service on the City loan is \$37,149.24. However, the debt service would be paid from the Project's annual residual receipts which are not guaranteed.


Respectfully submitted,

  
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Attachment A: Project Budget