



Agenda Report

October 28, 2019

TO: Honorable Mayor and City Council

THROUGH: Economic Development and Technology Committee (October 24, 2019)

FROM: Department of Housing

SUBJECT: **APPROVAL OF THE KEY BUSINESS TERMS OF AN AFFORDABLE HOUSING LOAN AGREEMENT WITH CNS LA VILLA LAKE, LLC AND A BUDGET AMENDMENT FOR FUNDING IN AN AMOUNT NOT TO EXCEED \$580,000 FOR THE REHABILITATION OF THE LA VILLA LAKE PROJECT AT 1070 N. LAKE AVENUE**

RECOMMENDATION:

It is recommended that the City Council:

- 1) Find that the proposed rehabilitation of the La Villa Lake project at 1070 N. Lake Avenue does not have a significant effect on the environment and has been determined to be categorically exempt under Class 1 (Existing Facilities) of the State California Environmental Quality Act ("CEQA"), and, specifically, Section 15301 of the State CEQA Guidelines; and
- 2) Approve a budget amendment appropriating \$580,000 from the Inclusionary Housing Trust Fund unappropriated fund balance to the Housing Department's FY 2020 Operating Budget for the La Villa Lake Rehabilitation Project; and
- 3) Approve the key business terms of an Affordable Housing Loan Agreement with CNS La Villa Lake, LLC for the rehabilitation of the La Villa Lake project at 1070 N. Lake Avenue, 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.

ADVISORY BODY RECOMMENDATION:

The proposed transaction was brought to the Northwest Commission for consideration at its regular meeting of October 8, 2019. The Commission recommended approval of

the staff recommendation with the modification that all 114 units at La Villa Lake be restricted with a mix of Very Low and Low Income units (at 50% and 80% Area Median Income, respectively ("AMI"). Under the staff recommendation, all project units would be restricted at the Low Income level.

BACKGROUND:

La Villa Lake is a 114-unit apartment complex located at 1070 N. Lake Avenue, Pasadena ("Property"). The current owner is CNS La Villa Lake, LLC ("Owner"). La Villa Lake was constructed in 1970, financed and subsidized by the United States Department of Housing and Urban Development ("HUD"). The project was operated as affordable rental housing for low income senior citizens until 2014 when the Owner acquired La Villa Lake and elected, as allowed by federal regulations, to opt out of the HUD funding program. While this resulted in the conversion of the project to market rate housing, displacement of residents was mitigated by HUD's provision to the City of Section 8 rental subsidy vouchers which were utilized to assist tenants with replacement rental housing. Of the total 114 residents currently residing at La Villa Lake, 37 are seniors who were original tenants prior to the ownership change in 2014.

In 2017 a dispute arose between the City and Owner regarding senior housing use restrictions arising from the development approvals granted by the City in 1970. A key issue is that the senior housing development was entitled with a reduced parking requirement of 71 spaces. The Owner maintains that operation of La Villa Lake as senior housing would be financially infeasible under the use restrictions. The Owner engaged developer Affordable Housing Access, Inc. (the "Developer") and sought assistance to resolve the matter. The Developer is a nonprofit that was founded in 1999 with a mission to "create and preserve quality affordable housing and empower economically challenged individuals and neighborhoods through social services and community building." The Developer's portfolio includes ownership of 145 affordable housing communities totaling nearly 19,000 units, mostly in California.

In early-August 2019, the Developer, on behalf of Owner, submitted a proposal to the City which is comprised of the following basic implementation components:

1. Perform capital and accessibility improvements at La Villa Lake, funded with City loan assistance in the amount of \$580,000 and Owner equity in the amount of \$105,320 (see Project Budget, Attachment "A"). In connection with the City funding would be senior low income housing deed restrictions in favor of the City for a duration of 55 years.
2. Transfer ownership of La Villa Lake from (current) Owner to a new, to-be-formed limited partnership, CNS La Villa Lake, LP (the "LP"). This would occur by the end of calendar year 2019.
3. Refinance and restructure La Villa Lake as a low income housing tax credit project. The LP would apply to the state for tax credits and bond financing in

2024, which is the earliest this can occur in conformance with the "10-year ownership rule" under tax credit regulations.

Staff evaluated the proposal and determined that it is a cost-effective way to both resolve the outstanding use restriction matter and to preserve the City's affordable housing stock. Implementation of the proposal would accomplish the following:

- Preserve 114 units of high-quality senior housing for persons age 55 and older.
- Ensure long-term affordability with restricted rents for the next 55 years.
- Create an opportunity for housing stability for current and future senior residents.

The proposal was also reviewed by the Internal Housing Loan Committee, which serves the Housing & Career Services Department and is comprised of staff in the City Manager, Housing, Human Services, and Public Works departments. The committee's functions include the review of department modifications to City homebuyer loans, as well as the review of department recommendations which require City Manager or City Council approval, including housing loan transactions.

KEY BUSINESS TERMS OF THE AFFORDABLE HOUSING LOAN AGREEMENT:

For the reasons indicated in the preceding section of the agenda report, the staff recommendation is for the City to enter into the proposed Affordable Housing Loan Agreement (the "Loan Agreement") which includes the following key business terms:

- 1) Subject property: 1070 N. Lake Avenue, Pasadena. Existing improvements consist of a 114-unit multifamily apartment building constructed in 1970.
- 2) Owner: CNS La Villa Lake, LLC. It is anticipated that the ownership of the Property will be transferred to CNS La Villa Lake, LP (to be formed), as successor-in-interest, in connection with the proposed financial restructuring with tax credit and bond financing in 2024.
- 3) Developer: Affordable Housing Access, a non-profit California corporation.
- 4) City funding: City funding shall not exceed \$580,000 in the form of a loan ("City Loan"), to be drawn from the Inclusionary Housing Trust Fund. The City Loan shall bear interest at the fixed rate of 3.00% per annum, with a 55-year term.
- 5) Use of City Loan funds; Project Budget; Owner Equity: The City Loan funds shall be used to pay rehabilitation costs associated primarily with accessibility and capital improvements (to be described in detail in the Scope of Work), and a lender assumption fee in connection with the anticipated assumption by CNS La Villa Lake, LP of the existing PNC Bank first mortgage. The total cost of the project is approximately \$685,320. Owner shall contribute equity toward the project in an amount not less than \$105,320.

- 6) Schedule: Owner shall rehabilitate the project in accordance with a Schedule of Performance which presently anticipates a 4-month period.
- 7) City Loan payment: Owner shall make annual payments on the City Loan from Net Cash Flow (the cash flow remaining after project operating costs, reserves, permanent senior debt service). The estimated annual payment on the City Loan will be \$21,546.60. In the event that Owner completes the anticipated tax credit financial restructuring (scheduled for 2024), the Owner's obligation to make payments on the City Loan shall be based on available residual receipts.
- 8) City Loan security: The City Loan shall be secured with a deed of trust recorded against the Property, in a second lien position subordinate to the existing PNC Bank mortgage.
- 9) Assignment: It is anticipated that by 12/1/19, ownership of the Property will be transferred to CNS La Villa Lake, LP, a new limited partnership to be formed (the "LP"), of which Developer will be the General Managing Partner. In this event, City, Owner, and LP shall enter into an agreement pursuant to which LP will assume the obligations under the Loan Agreement from Owner.
- 10) Deed restrictions: Owner shall comply with Low income (80% Area Median Income) affordable rental housing deed restrictions in favor of the City for a term of 55 years ("Regulatory Agreement"), which shall be recorded against the Property. Upon the conversion of the Property to a Low Income Housing Tax Credit project (anticipated to occur no earlier than 2024), the affordable rental housing restrictions pertaining to income and rent shall comport with the standards set forth by the California Tax Credit Allocation Committee. City and Owner acknowledge that a number of the existing units are leased to tenants who are non-qualified as Low Income seniors. The Regulatory Agreement shall not be interpreted to cause the displacement of such tenants. Instead, upon turn over vacancy, such units shall be leased to qualified Low Income seniors.
- 11) City policies: Owner 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.
- 12) Reporting: Owner shall provide the City with 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 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 rehabilitation of the La Villa Lake senior apartments building at 1070 N. Lake Avenue (the "Project") does not have a significant effect on the environment and has been determined to be 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. Interior or exterior repair and alteration of the type contemplated under the Project are specifically contemplated under Class 1.

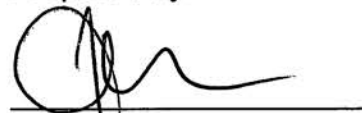
FISCAL IMPACT:

Approval of the subject recommendation will increase the Department's FY 2020 Operating Budget by an amount not to exceed \$580,000 by transferring \$580,000 from the Inclusionary Housing Trust Fund unappropriated fund balance to the La Villa Lake Rehabilitation Project (Account No. 23916003-817200-51214). The City funding for the Project will be in the form of a loan secured by a trust deed. The annual debt service on the City loan is \$21,546.60. Should La Villa Lake be restructured as a tax credit project, as proposed, the City loan debt service payment will be from the Project's residual receipts, which are not guaranteed.

Respectfully submitted,


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Attachment A: Project Budget