

DATE: JULY 19, 1999

TO: PASADENA COMMUNITY DEVELOPMENT COMMISSION

FROM: CYNTHIA J. KURTZ, CHIEF EXECUTIVE OFFICER

SUBJECT: MODIFICATION AGREEMENT TO DISPOSITION AND DEVELOPMENT AGREEMENT WITH CFE/AHC FOR 30 W. MOUNTAIN STREET OFFICE PROJECT

RECOMMENDATION:

It is recommended that the Pasadena Community Development Commission take the following actions:

1. Approve the terms and conditions of the Modification Agreement to Disposition and Development Agreement No. CDC-262 ("Modification Agreement"); and
2. Authorize the Chief Executive Officer to approve, and the Secretary to attest, any and all agreements and related documents necessary to effectuate the proposed Modification Agreement.

BACKGROUND

On March 24, 1997 the Pasadena Community Development Commission and CFE/AHC, a Partnership ("Developer") entered into that certain Disposition and Development Agreement (Agreement No. CDC-262) ("DDA") to redevelop City-owned property at 30 W. Mountain Street ("Property"). Temporarily situated on blocks on the Property, pursuant to a License Agreement with the City of Pasadena (Agreement No. 15735), is a vacant Victorian-style structure owned by the Developer. In accordance with the DDA, the City would convey the Property to the Commission for subsequent resale to the Developer at a reuse value purchase price of \$21,600. The Developer would rehabilitate the structure for reuse as incubator office space and support services for small start-up businesses at specified below-market rents. In addition, AHC would provide housing/credit counseling and related informational services to the community at no cost. This housing services component of the completed project is subject to a seven (7)-year covenant agreement that would be recorded against the Property.

The total project cost is approximately \$260,300. The DDA specifies that as a condition precedent to the Commission's sale of the Property to Developer, the Developer would be required to provide satisfactory evidence that it had obtained financing sufficient to pay all development costs necessary to complete the project. In 1998 the Commission awarded to the Developer funds from its Community Development Block Grant program ("CDBG") in the amount of \$100,000 for project rehabilitation costs. Therefore, a total project cost balance in the amount of \$160,300 would still have to be secured by the Developer from conventional lending sources.

However, according to the Developer, its efforts as an independent non-profit entity to secure a conventional construction loan have not been successful, due primarily to the "usual difficulties in obtaining direct institutional bank financing for small construction projects". Consequently, the Developer has looked to its board members to raise the required financing.

Specifically, Jerome Johnson, an AHC board member, has agreed to serve as the initial borrower for the required \$160,300 mortgage financing to be provided by First Magnus, a conventional lender ("Lender"). The Lender requires that Mr. Johnson be on title to the Property. The proposed transaction would proceed as follows:

1. The Commission will sell the Property to Mr. Johnson, who would be subject to all of the DDA requirements. The First Magnus loan proceeds will be used to cover the purchase price (\$21,600).
2. Immediately following the Property sale, the Developer will be added to the title. Pursuant to a written agreement to be entered into between Mr. Johnson and the Developer, the remaining proceeds of the loan (\$138,700) and the Commission's CDGB funds (\$100,000) will be utilized by the Developer towards completion of the Project in accordance with the DDA.
3. Upon completion of the Project, leasing, and a stabilized tenancy holding period, it is anticipated that the Developer will be in a position to conventionally refinance the Property, without the assistance of an affiliated party, at which time AHC and CFE will be the sole parties holding title to the Property.

The mechanics of the transaction under the Developer's proposed financing format, were not anticipated under the DDA and, therefore, a modification of the DDA is required. Commission approval of the Modification Agreement will enable the Developer to secure the conventional private financing needed for Project acquisition and rehabilitation costs. Upon approval of the Modification Agreement and submittal by Developer of all required documentation, staff will open a purchase escrow. It is anticipated that Project construction will begin by mid-August 1999, with completion to occur within six (6) months.

TERMS AND CONDITIONS OF MODIFICATION AGREEMENT

The Modification Agreement revises the Disposition and Development Agreement by providing for the following:

1. A third party, Jerome Johnson, to serve as borrower for the purpose of securing the required conventional financing on behalf of Developer for the Project;
2. The Commission's sale of Property to Mr. Johnson, who shall be permitted to be on title, subject to the requirements of the DDA;
3. The addition of Developer to title, immediately upon Commission sale of Property to Mr. Johnson;

4. A written agreement between Mr. Johnson and Developer, stipulating that the proceeds of the conventional financing (net of property acquisition costs) shall be utilized by Developer strictly towards completion of the Project in accordance with DDA;
5. Submittal to the Commission of documentation satisfactory to Commission General Counsel evidencing that the Lender, First Magnus, approves the transaction.
6. Project timeline adjustments to DDA Schedule of Performance. The revised Schedule will commence upon Commission approval of the Modification Agreement.

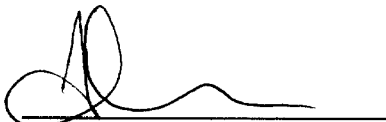
FISCAL IMPACT

Approval of the recommendation will enable the proposed project to move forward, enabling, among other things, the conveyance of the City-owned Property to the Commission, which in turn will sell the Property to Developer at the reuse value of \$21,600. The City will receive the \$21,600 in sale proceeds, which funds would be deposited into the General Fund.

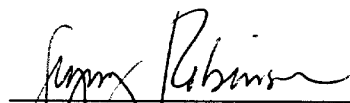
Respectfully submitted,


Cynthia J. Kurtz
Chief Executive Officer

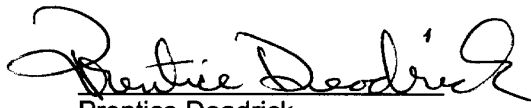
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