

DATE: JUNE 3, 2002

TO: PASADENA COMMUNITY DEVELOPMENT COMMISSION

FROM: CYNTHIA J. KURTZ, CHIEF EXECUTIVE OFFICER

SUBJECT: APPROVAL OF OWNER PARTICIPATION AND LOAN AGREEMENT BETWEEN THE PASADENA COMMUNITY DEVELOPMENT COMMISSION AND VILLA APARTMENTS HOUSING FOUNDATION FOR THE REHABILITATION OF PROPERTY AT 2089 E. VILLA STREET AS AFFORDABLE RENTAL HOUSING FOR DEVELOPMENTALLY AND PHYSICALLY DISABLED ADULTS

RECOMMENDATION:

It is recommended that the Pasadena Community Development Commission ("Commission") adopt a resolution:

1. Finding and determining that the rehabilitation of the Villa Apartments ("Project") described in the proposed Owner Participation Loan Agreement ("OPLA") is categorically exempt under the California Environmental Quality Act ("CEQA") and, specifically, under Section 15301 of the State CEQA Guidelines, and authorizing the Secretary of the Commission to file with the County Clerk a Notice of Exemption for the Project pursuant to Section 15301 of the State CEQA Guidelines;
2. Approving the terms and provisions of the OPLA between the Commission and Villa Apartments Housing Foundation ("Developer"), including the provision of a Commission loan to the Developer in the amount of \$250,000 drawn from the Federal National Mortgage Association (Fannie Mae) American Communities Fund Credit Facility Loan funds for the rehabilitation of the Project;
3. Authorizing the Chief Executive Officer of the Commission to execute, and the Secretary to attest, the OPLA and any and all documents necessary to effectuate the terms and provisions of the OPLA; and
4. Approving a journal voucher entry appropriating to the Villa Apartments project \$250,000 from the Commission's Fannie Mae American Fund Credit Facility Loan account (Account No. 221-684110-52307).

ADVISORY BODIES:

The Housing Sub-Committee of the Community Development Committee reviewed this item on March 7, 2002 and supported the proposed action; no changes were suggested to the proposed project and Commission financing terms.

The Community Development Committee reviewed the subject recommendation on May 23, 2002. The Committee recommended approval of the proposed Project.

BACKGROUND:

On August 13, 2001, the Commission conditionally approved financial assistance in the amount of \$250,000 to the Developer for the Project. Subsequent to this action, the Commission and Developer entered into an Exclusive Negotiation Agreement (“ENA”) for preparation of an Owner Participation and Loan Agreement (“OPLA”).

Villa Esperanza (House of Hope), parent company of Villa Apartments Housing Foundation, was founded in 1961. Today, Villa Esperanza is an educational, vocational, residential and social services center for infants through seniors. Serving the San Gabriel, San Fernando and Conejo Valleys, Villa Esperanza owns and manages 13 adult residential projects and provides services for 136 disabled persons. Programs include a day school for infants through 14 years of age, work placement, adult day programs, an Adult Health Care Center, the Care Management Outreach Collaboration Program, and a ranch in Agoura. Villa Esperanza believes in providing programs to fit the needs of the individual by encouraging each to reach an appropriate level of independence and by creating a support system for families and siblings.

Supportive services for the residents are paid by the Lanterman Regional Center. On-site services include physical therapy, occupational therapy, psychological therapy, audiology services, communication skills, social nutritional speech, hygienic training, vocational skills, and independent living training. Supportive services, such as recreation and habilitation (socialization skills), are conducted mostly off-site. Each resident receives at least 40 hours per week of supportive services, individually and collectively with fellow residents.

OPLA KEY TERMS AND PROVISIONS:

The OPLA provides for a Commission Loan in the amount of \$250,000 to assist in the rehabilitation of a five-unit bungalow complex located at 2089 E. Villa Street as affordable rental housing for ten developmentally disabled, very-low-income adults. The affordability and use restrictions are covenanted for 40 years.

The Project rehabilitation work as specified in the OPLA Scope of Development is extensive, including a total reconstruction of the interior of the dwelling units. The Project improvements will allow the property to accommodate disabled clients and include the following: 1) seismic upgrading, 2) new roofing, 3) handicapped accessibility in bathrooms, doorways, 4) new plumbing and fixtures, 5) new heating, air conditioning,

6) new carpeting and flooring, 7) new windows and doors, 8) new kitchen cabinets and appliances, and 9) site improvements with new lawns and plants.

The total Project development cost is \$1,207,100. Project development financing sources include a \$446,100 HUD Section 811 capital grant and a \$511,000 County of Los Angeles "City of Industry" loan, and a \$250,000 Commission loan. The HUD grant is secured by a first lien deed of trust and Regulatory Agreement recorded against the Project site to ensure that the Project remains affordable for a 40-year term. The County of Los Angeles loan is secured by a second trust deed. The HUD financing was scheduled to close on May 31, 2002. The County of Los Angeles financing has already closed.

The Commission Loan will be drawn from the Fannie Mae American Communities Credit Facility Fund Loan program account, and will be secured by a third deed of trust against the property, junior to the HUD and County of Los Angeles loans. The Commission Loan shall bear interest at 2% per annum over a 40-year term. Payments on the Commission Loan are due annually but only to the extent that Project net cash flow is available. The HUD Section 811 program requires that the Project operate as very-low income affordable housing for disabled adults at rents not exceeding 30% of each resident's income. Due to this rent structure, the Project is not expected to generate any net operating income from which annual payments could be made on the Commission and County of Los Angeles loans.

HUD has the authority to approve junior lienholder documents and requires them to use residual receipt notes. Both the Commission and County of Los Angeles loans are secured by residual receipt notes and recorded deeds of trust. As subordinate lienholders, should the Project produce annual net income, each agency would equally share in 50% of the net proceeds. The liens are recorded in the event developers default on their loans and/or sell the property. Lienholders then have the capacity to receive the accrued interest in addition to the original loan proceeds.

At the end of the 40-year term, the outstanding balance on the Commission Loan (principal plus accrued interest at 2% per annum) will be due and payable in full. If the Developer is unable to repay the Commission Loan at maturity, the Commission may extend the maturity date and the affordability restrictions by an additional 20 years with the same terms.

In addition to the capital grant, the HUD Section 811 program provides an operating subsidy to ensure Project feasibility and housing affordability at the very-low income level. The subsidy -- provided as a payment in the amount of \$16,300 annually during the first five years of Project operation through a Project Rental Assistance Contract ("PRAC") -- covers the cost of repairs, maintenance, utilities, insurance, gardening, and other miscellaneous expenses. It is anticipated that the PRAC will be renewed by HUD upon expiration of the initial five-year subsidy period.

Keyser Marston Associates Inc. ("KMA") reviewed the Project development cost and 10-year proforma of income and operating expenses and determined the amount and terms of the proposed Commission financial assistance were warranted. Given the very-low

income rent levels mandated by the federal HUD Section 811 program, the Project is not expected to generate annual net income. Consequently, the present value of the projected repayment stream on the Commission Loan is zero (\$0), resulting in a Commission net cost or subsidy to the Project in the amount of \$250,000.

ENVIRONMENTAL FINDING:

This Project has been determined to be Categorically Exempt under Section 15301 of the California Environmental Quality Act ("CEQA") for protection of the environment.

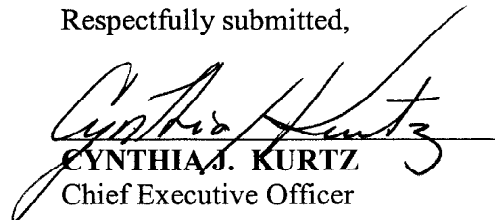
HOUSING IMPACT:

Approval of the subject recommendation will result in the rehabilitation and provision of affordable rental housing serving the special needs of 10 very low income persons with disabilities. This affordable housing activity is consistent with the goals and objectives of the Commission's Implementation Plan 1999-2004, the Commission's Priority Work Program, the City of Pasadena's General Plan (Housing Element), and the City's Consolidated Plan 2000-2005.

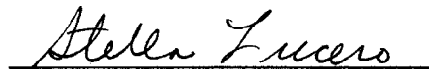
FISCAL IMPACT:

Due to the very-low-income levels mandated by the HUD Section 811 program, the expectation is that annual net income will be insufficient to repay the Commission's Loan as described more thoroughly in the Project Financing section above. Therefore, it is expected that the Commission subsidy necessary to facilitate the Project is \$250,000. Fannie Mae American Communities Fund Credit Facility Loan funds in the amount of \$250,000 are currently available in Account No. 221-684110-52307 to fund the Commission Loan for the Project.


Respectfully submitted,


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