

# Agenda Report

**DATE:** MARCH 29, 2004

**TO:** CITY COUNCIL & PASADENA COMMUNITY DEVELOPMENT COMMISSION

**FROM:** CYNTHIA J. KURTZ, CITY MANAGER/CHIEF EXECUTIVE OFFICER

**SUBJECT:** JOINT PUBLIC HEARING: APPROVAL OF OWNER PARTICIPATION AND LOAN AGREEMENT BETWEEN HERITAGE HOUSING PARTNERS AND PASADENA COMMUNITY DEVELOPMENT COMMISSION FOR THE FAIR OAKS COURT DEVELOPMENT FROM 6-46 PEORIA STREET AND FROM 584-612 NORTH FAIR OAKS AVENUE; REPLACEMENT HOUSING PLAN; RELOCATION PLAN; AMENDMENT TO AFFORDABLE HOUSING AGREEMENT NO. CDC-480 AND INITIAL STUDY

## RECOMMENDATIONS:

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

1. The City Council and the Pasadena Community Development Commission ("Commission") hold a joint public hearing to consider the proposed Fair Oaks Court Development (the "Project") in accordance with the terms and provisions of the Owner Participation and Loan Agreement ("OPLA") between Heritage Housing Partners (the "Developer") and the Commission.
2. The Commission adopt a resolution:
  - a. Finding and determining on the basis of the Initial Study prepared for the Project, that there is no substantial evidence that the Project will have a significant effect on the environment nor any potential for adverse effect on wildlife resources if certain mitigation measures are implemented;
  - b. Approving the Mitigated Negative Declaration and directing the Secretary of the Commission to concurrently file with the Clerk of Los Angeles County a Certificate of Fee Exemption and a Notice of Determination;
  - c. Finding and determining that the Project: (i) is consistent with the City of Pasadena General Plan, Villa-Parke Redevelopment Plan and the Fair Oaks/Orange Grove Specific Plan; (ii) will assist in the elimination of blight and provide housing for low and moderate-income households; (iii) is consistent with the Commission's Five-Year Implementation Plan;
  - d. Approving the terms and conditions of the OPLA;

- e. Approving the Replacement Housing Plan and the Relocation Plan;
  - f. Approving an amendment of certain terms and conditions of the existing Affordable Housing Agreement (CDC-480) and related documents;
  - g. Approving a journal voucher appropriating Commission funds in an amount not to exceed \$3,196,000 from the Housing Opportunity Fund for the Project; and
  - h. Authorizing the Chief Executive Officer to take the necessary actions to complete the Project.
3. The City Council adopt a resolution:
- a. Finding and determining on the basis of the Initial Study prepared for the Project, that there is no substantial evidence that the Project will have a significant effect on the environment nor any potential for adverse effect on wildlife resources if certain mitigation measures are implemented;
  - b. Approving the Mitigated Negative Declaration;
  - c. Authorizing the Commission to enter into the OPLA;
  - d. Authorizing transfer of the BEGIN Program grant award (\$930,000) to the Commission for down payment assistance loans to eligible first time homebuyers of the Project; and
  - e. Authorizing the City Manager to take the necessary actions to complete the Project.

**ADVISORY BODIES**

On March 23, 2004, the staff recommendations were presented to the Northwest Commission. After review of this matter, the Northwest Commission voted unanimously to recommend the Council/Commission approval of the staff recommendations.

On March 25, 2004, at the Community Development Committee's (CDC) regular meeting, the staff recommendations were presented. A written report will be provided to Council/Commission of the actions taken by the CDC on this item.

**EXECUTIVE SUMMARY**

Heritage Housing Partners (the "Developer"), a local California non-profit public benefit corporation, proposes to develop 44 units of mixed-income affordable ownership housing for low and moderate-income households. The Fair Oaks Court Development (the "Project") is located from 6-46 Peoria Street and from 584-612 North Fair Oaks Avenue (the "Property") within both the Villa-Parke Redevelopment Plan Area and the Fair Oaks/Orange Grove Specific Plan Area. The proposed Project consists of the development of a 1.76 acre site with the new construction of 31 townhomes, rehabilitation of 11 existing residential structures both on and off-site, landscaped open space, 82 space subterranean parking garage and 1,450 square feet of commercial space. Forty of the dwelling units in the Project will be sold as affordable housing to low and moderate-income households with restrictive covenants applied for 45 years. Four units will be sold at market rate.

On September 8, 2003, the Commission approved: a) a Predevelopment Loan Agreement ("PDLA") with the Developer for the provision of predevelopment assistance in the amount of \$50,000 and b) an Exclusive Negotiation Agreement ("ENA") authorizing Commission staff to negotiate with the Developer the terms and conditions of an Owner Participation and Loan Agreement ("OPLA"). The key business points of the OPLA are attached hereto as Exhibit "A".

Total estimated development cost is approximately \$15,746,000 towards which the Commission will provide a loan in the amount of \$3,876,000 or \$96,900 per affordable unit. Other Project funding include: Los Angeles County "City of Industry Loan Program", Enterprise Foundation Loan, State BEGIN Program, New Market Tax Credits and public/ private financing sources.

## **BACKGROUND**

The Developer is a California non-profit public benefit corporation based in Pasadena with a record of rehabilitating quality affordable housing projects in both Pasadena and South Pasadena. To date, the Developer has completed and sold 4 affordable homeownership units (2 low and 2 moderate-income). Two units are under construction and 4 units are in the pre-construction phase. Developer has entered into an Escrow Agreement with the owner of the subject property for \$2,675,000 with escrow scheduled to close April 15, 2004.

On September 8, 2003 the Commission approved both an ENA and PDLA (\$50,000) with the Developer to negotiate the terms and conditions of an OPLA. Commission and Developer retained Keyser Marston Associates to perform a financial analysis, Overland Pacific & Cutler, Inc. to determine relocation costs & prepare a Relocation Plan and Xarax Environmental & Engineering Solutions, Inc. to perform Phase I Environmental Assessment. Negotiations on the OPLA terms & conditions have been completed. Key business points are outlined in Exhibit "A".

In connection with the approval of the OPLA a number of supporting documents have also been prepared: 1) Initial Study with a finding of a Mitigated Negative Declaration; 2) Relocation Plan (in English and Spanish) distributed to the residents currently residing on the Property; 3) Replacement Housing Plan and 4) the 33433 Summary Report.

The Developer conducted 3 meetings with the immediate neighborhood and 3 meetings with the households currently residing on the Property. Both groups were given explanations of the Project's design, financing plan, Relocation Plan and home ownership opportunities.

## **FAIR OAKS COURT DEVELOPMENT CONCEPT**

The Property site, located from 6-46 Peoria Street and 584-612 North Fair Oaks Avenue, is a 1.76 acre parcel with 14 existing residential structures comprising 18 dwelling units. The Property is zoned FGSP-C-3A, with base density of 40 dwelling units per acre, permitting 70 units to be constructed on-site. The proposed Project consists of the following:

1. Demolition of 3 existing dwelling units;
2. Relocation/rehabilitation of 9 existing dwelling units (3 on-site, 6 off-site);
3. Rehabilitation of 4 existing dwelling units on-site;
4. New construction of 31 townhomes on-site;
5. New construction of 82 space subterranean parking garage;
6. Landscaped open space (approximately 15,000 square feet) and two additional interior courtyards adjacent to the newly constructed townhomes;
7. New construction of 1,450 square foot professional office space.

The proposed Project is consistent with standards of the General Plan - Housing Element, Villa-Parke Redevelopment Plan and the Fair Oaks/Orange Grove Specific Plan with respect to land use, density, scale and architectural design. The Project will improve the immediate neighborhood by removing blighting influences. Consideration of a potential historic district is also preserved through the retention and rehabilitation of the existing units as historic contributors. The eleven contributing structures (13 dwelling units) to the proposed historic district, either on or off-site, will be rehabilitated in accord with Design Commission standards.

The surrounding land uses are compatible with and support the proposed mixed income Project. Residents will also benefit from the Project's close proximity to all major services (grocery, pharmacy, banking, public transportation, health care, etc.) available at the Renaissance Plaza, Pasadena Community Health Care, Jackie Robinson Park & Center and Villa-Parke Center. The Project site map and basic concept drawings are attached as Exhibit "B".

### **REPLACEMENT HOUSING PLAN, RELOCATION PLAN AND SUMMARY REPORT**

The State of California Health and Safety Code § 33413 requires that the Commission set forth a plan for the replacement of dwelling units removed from the low and moderate-income housing market (the "Replacement Housing Plan") as a result of the proposed Project. Three units will be demolished. As specified in the Replacement Housing Plan, the Project will entail the construction and/or rehabilitation of 40 units for low and moderate-income households to offset the three units scheduled for demolition.

State of California Code of Regulations § 6038 requires that the Commission set forth a plan for the provision of relocation services and assistance for eligible property owners and tenants (the "Relocation Plan") displaced as a result of the proposed Project. Twenty-eight tenant households were identified to be in occupancy of the 18 rental dwellings existing on the Property. Each household was interviewed and a Relocation Plan (in English and Spanish) was prepared and distributed to all eligible tenants 30 days prior to the scheduled public hearing of March 29, 2004. As noted in the Relocation Plan, each household will be entitled to the appropriate relocation benefits and the Developer will to the best of its ability assist in qualifying existing residents for homeownership opportunities associated with the Project.

A Summary Report was also prepared by Keyser Marston Associates (KMA) for the Commission pursuant to Health and Safety Code § 33433 (Exhibit "D"). The report includes, among, other things: a) Commission's responsibilities, b) Developers responsibilities, c) the cost of the OPLA to the Commission and d) an explanation of why the acquisition of real property by Developer will assist in the elimination of blight and provide affordable ownership housing for low and moderate-income households.

### **DEVELOPMENT COST AND FINANCING**

The Project's estimated total cost is \$15,746,000. The Project's proposed financing includes:

\$	3,876,000	Commission Loan
	1,800,000	Los Angeles County "City of Industry Loan"
	1,725,000	Enterprise Foundation Loan
	930,000	BEGIN Program (Calf. Dept. Housing and Community Dev.)
	812,000	BLOCK Program Interest Rate Savings (CalHFA)
	261,000	New Market Tax Credits Construction Interest Savings
	<u>6,342,000</u>	Construction Financing
\$	15,746,000	Total

The Commission Loan consists of \$3,196,000 from the Housing Opportunity Fund and \$680,000 from previously allocated funding to the Developer. More specifically:

- a. On May 11, 2002 the Commission entered into the Affordable Housing Agreement (CDC-480) with the Developer, providing Commission financial assistance totaling \$1,070,000 to assist the acquisition and construction of homes for resale as affordable ownership housing to 15 low and moderate-income families. As proposed, the Affordable Housing Agreement and related documents would be amended to allocate \$630,000 to the Fair Oaks Court Development, for 11 dwelling units to be applied towards the 15-unit goal. Key changes to the Affordable Housing Agreement are contained in Exhibit "C".
- b. On September 8, 2003 the Commission entered into a Predevelopment Loan Agreement (CDC-518) with the Developer, providing Commission loan funds totaling \$50,000 to be utilized by the Developer for predevelopment expenses in connection with the Project.

The Commission Loan shall be evidenced by a Promissory Note, Deed of Trust and Affordable Housing Covenant. For the period commencing with the close of escrow through the sale of the dwelling units to qualified buyers, the Developer shall provide collateral for the Commission Loan. During this period the Commission Loan shall bear simple interest at a fixed rate of 7%, and no payments shall be required. The accrued interest shall be forgiven if the Project is completed in accordance with the OPLA. The OPLA also establishes a disbursement schedule for the Commission Loan to ensure the Developer complies with the Schedule of Performance.

More specifically, the financial feasibility of the Project relies on the Developer's ability to secure other financing sources (e.g., New Market Tax Credits, the County's "City of Industry" Program, and State Programs funding). Technical assistance from the Planning and Development Department will be provided to the Developer in securing these funding sources. However, the Commission incurs a risk in the event the Developer, after acquiring the Property with \$1,040,000 in Commission funds, is unable to assemble the required financing and the Project does not proceed. To mitigate this risk, the Commission shall condition the draw of additional loan funds on the Developer's ability to secure other key sources of financing. Specifically, the Commission would not release the remaining loan funds until the Developer receives funding awards from the State BEGIN Program and the Los Angeles County "City of Industry" Program.

If the Project does not proceed, either due to the inability of the Developer to close escrow or obtain the necessary financing, the OPLA provides for the Developer to assign the right to purchase the Property pursuant to the Escrow Agreement or after purchase of the Property, to transfer fee simple title to the Commission in lieu of foreclosure. Commission Loan funds and/or funds borrowed from the Enterprise Foundation may be used for acquisition of the Property.

The Project's estimated Sales Revenues are \$9,905,000 (\$8,355,000 Affordable Units; \$1,550,000 Market Rate Units). The Net Sales Revenues after payment of all housing-related costs is estimated at \$991,000. The Commission and Developer shall share the Net Sales Revenues 20%/80%, respectively, following payment of a Developer Fee of \$648,500, which is anticipated to yield Commission revenue of approximately \$68,500. Upon sale of the affordable units, the Commission's financial assistance will be recast as second trust deed loans for eligible low and moderate-income homebuyers for a 45 year term @ 3-5% interest rate, subject to the buyer's household income. Repayment of the Commission homebuyer loans will be in accordance with the Homeownership Opportunities Program.

## **INITIAL STUDY AND MITIGATED NEGATIVE DECLARATION**

In accordance with the California Environmental Quality Act, an Initial Study was conducted by the City as the lead agency. The Initial Study resulted in a Mitigated Negative Declaration describing the reasons why the proposed Project will not have a significant impact on the environment. Mitigating measures were cited for relocated, newly constructed, rehabilitated or demolished units to ensure compliance with the Secretary of Interior standards. The cited mitigation measures include a) photo documentation of the original sites both individual and groupings of structures, b) evaluation of the appropriateness of design, c) evaluation and approval of relocation site(s) and d) approval of certificate of appropriateness for demolished structures. In addition, a review of the proposed rehabilitation and new construction activities by the Design Commission and Historic Preservation Commission is required.

## **AVAILABILITY OF DOCUMENTS FOR PUBLIC REVIEW**

A public notice of the availability for public review of the Relocation Plan, Replacement Housing Plan, OPLA & Summary Report in the City Clerk's Office & other locations was published in the Pasadena Star News on March 15, 2004. The Initial Study was published in the Pasadena Star News on March 5, 2004 and recorded with the Los Angeles County Recorder on March 4, 2004.

## **HOUSING IMPACT**

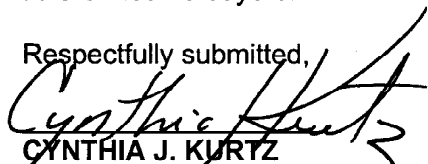
The Project will add 40 dwelling units to the City's affordable homeownership housing inventory. The Project meets the goals and objectives of the Commission's Five-Year Implementation Plan (1999-2004), City's General Plan Housing Element, Northwest Community Plan, Fair Oaks/Orange Grove Specific Plan and Villa-Parke Redevelopment Plan.

## **FISCAL IMPACT**

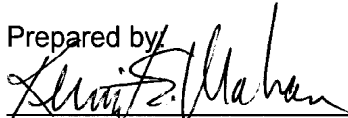
Approval of the subject recommendations will provide a Commission Loan assistance totaling \$3,876,000 for the Fair Oaks Court Development. The Commission Loan is comprised of the following sources: a) \$3,196,000 from the Housing Opportunities Fund (Account No. 810-684120) (\$2,396,000 - Low and Moderate Income Housing Trust Funds; \$800,000 - FNMA American Communities Funds); b) \$630,000 - "existing" Affordable Housing Agreement (CDC-480); and c) \$50,000 - "existing" Predevelopment Loan Agreement (CDC-518) for the Project.

The Commission Loan will be allocated: \$1,640,000 for land acquisition, \$1,006,000 for predevelopment & construction costs, and \$1,080,000 for relocation assistance. The Commission loan will bear an interest of 7% during the predevelopment/construction phases and no payments shall be required. The accrued interest shall be forgiven if the Project is completed. Upon completion, the Commission Loan will be recast as second trust deed loans for eligible low and moderate-income homebuyers consistent with Commission's Homeownership Opportunities Program (i.e., 45-year term, 3-6% interest rate based on buyer's household income). In addition, \$930,000 in State BEGIN Program funds will also be provided under the same terms to eligible low and moderate-income buyers.

Respectfully submitted,

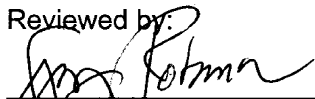
  
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