

H O U S I N G   D E P A R T M E N T

June 14, 2010

**TO:** Pasadena Community Development Commission

**FROM:** William K. Huang, Housing Director *William K. Huang*

**RE:** Approval of Amended Agreement Containing Covenants Affecting Real Property With Centennial Place Limited Partnership for Centennial Place Housing Project at 235 E. Holly Street; Commitment of Replacement Funding To Back-Stop Section 8 Project-Based Subsidies

In response to comments at the June 2, 2010 meeting of the City Council Economic Development and Technology Committee, the key terms and conditions of Amended Agreement Containing Covenants Affecting Real Property will include the following additional provisions:

- The Commission's obligation to provide Replacement Funding will not apply in cases where the Section 8 Project-Based Rent Subsidy is withheld or terminated for cause (e.g., Owner fraud, mismanagement, poor performance, non-compliance with HUD or Commission requirements, etc.)
- Replacement Funding will be provided solely to meet the revenue shortfall resulting from the partial or complete loss of the Section 8 subsidy. Replacement Funding will not be provided, however, to mitigate other factors affecting cash flow (e.g., increased project operating or supportive services costs, capital improvement expenses, etc.).
- The Amended Agreement will include a schedule of the maximum annual amounts of Replacement Funding to which the Commission would be obligated during the Agreement term. The amounts incorporate reasonable assumptions as to the respective percentages of tenant rent and Section 8 subsidy of the total rent, as well as adjusting for annual increases in the total rent.
- Owner shall use best efforts to obtain alternate replacement rent subsidies from non-City/Commission sources.
- The primary source of the Replacement Funding is expected to be the City's federal HOME entitlement. However, other housing funding sources may be considered.

Also, attached is a table indicating the present value of the Commission's maximum exposure under the worst-case Replacement Funding scenario as described in the agenda report.

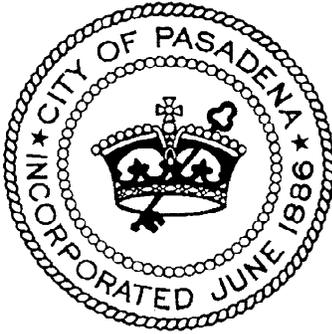
cc: Michael J. Beck, City Manager

06/14/2010

Item 6.A

**CENTENNIAL PLACE - PRESENT VALUE OF CASH OUTFLOWS TO BACK-STOP  
SECTION 8 PROJECT-BASED RENT SUBSIDIES IN YEARS 2026 TO 2040**

<u>Year</u>	<u>FY</u>	<u>Amount</u>	<u>PV</u>
0	2010	0	0
1	2011	0	0
2	2012	0	0
3	2013	0	0
4	2014	0	0
5	2015	0	0
6	2016	0	0
7	2017	0	0
8	2018	0	0
9	2019	0	0
10	2020	0	0
11	2021	0	0
12	2022	0	0
13	2023	0	0
14	2024	0	0
15	2025	0	0
16	2026	\$1,087,155	\$677,479
17	2027	1,114,334	674,190
18	2028	1,142,192	670,917
19	2029	1,170,747	667,661
20	2030	1,200,016	664,420
21	2031	1,230,016	661,194
22	2032	1,260,766	657,984
23	2033	1,292,286	654,791
24	2034	1,324,593	651,612
25	2035	1,357,708	648,449
26	2036	1,391,650	645,301
27	2037	1,426,442	642,169
28	2038	1,462,103	639,051
29	2039	1,498,655	635,949
30	2040	1,536,122	<u>632,862</u>
<b>Present Value</b>			<b>\$9,824,029</b>



# Agenda Report

JUNE 14, 2010

**TO:** PASADENA COMMUNITY DEVELOPMENT COMMISSION

**THROUGH:** ECONOMIC DEVELOPMENT AND TECHNOLOGY  
COMMITTEE (June 2, 2010)

**FROM:** HOUSING DEPARTMENT

**SUBJECT:** APPROVAL OF AMENDED AGREEMENT CONTAINING  
COVENANTS AFFECTING REAL PROPERTY WITH  
CENTENNIAL PLACE LIMITED PARTNERSHIP FOR  
CENTENNIAL PLACE HOUSING PROJECT AT  
235 E. HOLLY STREET INCLUDING COMMITMENT OF  
REPLACEMENT FUNDING TO BACK-STOP SECTION 8  
PROJECT-BASED SUBSIDIES

**RECOMMENDATION:**

It is recommended that the Pasadena Community Development Commission approve the key terms and conditions of an Amended Agreement Containing Covenants Affecting Real Property with Centennial Place Limited Partnership as described in this report.

**ADVISORY BODY RECOMMENDATION:**

The staff recommendation was scheduled for consideration by the Community Development Committee ("CDC") at its regular meeting on May 27, 2010. Staff will report orally to the Economic Development and Technology Committee on the CDC action.

**BACKGROUND:**

Centennial Place is a 144-unit single-room occupancy apartment building located at 235 E. Holly Street. It underwent historic and adaptive reuse renovation in 1990 with financial assistance from the Pasadena Community Development Commission ("Commission") the terms of which were set forth in Agreement CDC-2. The project is owned by Centennial Place Limited Partnership ("Owner"), with Abode Communities (formerly the Los Angeles Community Design Center) as the managing general partner. Pursuant to the agreement

with the Commission, the operation of the project is restricted to providing rental housing at affordable cost to very low income persons. The term of the Agreement term is 45 years and will expire in 2034.

Recently, financial resources have been committed to make feasible the conversion of Centennial Place to a permanent supportive housing project and ensure its long-term viability to serve homeless persons and those at-risk of becoming homeless. These resources consist of a \$250,000 capital improvements grant from the County of Los Angeles; a three-year \$750,000 grant to provide supportive services; and federal Section 8 Project-Based rent subsidies for 116 dwelling units (in addition to an existing allocation of Section 8 Project-Based assistance for 28 units). The Section 8 rent subsidies for this project is administered by the Commission through the Housing Department's Rental Assistance Program, pursuant to a Housing Assistance Payment ("HAP") contract which has an initial term of 15 years.

Beyond meeting a critical need for low-income housing the conversion of Centennial Place has the potential to fulfill a key requirement for the acquisition of the Desiderio Army Reserve site. At its regular meeting of December 14, 2009, the City Council approved an amendment to the City's Desiderio Army Reserve Reuse Application to include the Centennial Place project as part of the application's required "Homeless Assistance" component. Subsequently, HUD informed the City of its preliminary approval of the Desiderio application, conditioned on there being a covenant recorded on the Centennial Place property restricting its use to the provision of permanent housing and supportive services for homeless and at-risk homeless persons for a period of 30 years from 2010 to 2040. The Owner is agreeable to this long-term use restriction with the condition that the Commission guarantee rent subsidies equivalent to the Section 8 rent subsidies should this federal funding source not be available to assist the project at any time during the 15-year period after the HAP contract expires. The Housing Department believes that this is a reasonable condition.

**KEY TERMS AND CONDITIONS OF AMENDED COVENANT AGREEMENT:**

The proposed key terms and conditions of the Amended Agreement Containing Covenants Affecting Real Property ("Amended Covenant Agreement") are as follows:

- As of the Effective Date of the Amended Covenant Agreement, the Owner shall operate the Centennial Place project to provide permanent housing and supportive services for homeless and at-risk homeless persons,
- The term of the Amended Covenant Agreement shall be 30 years from the Effective Date.

- In the event that federal Section 8 Project-Based rent subsidies allocated to the project cease to be available at any time during the period commencing with the expiration of the Housing Assistance Payment contract through the end of the Amended Covenant Agreement term, the City will provide replacement funding from other available sources to back-stop the loss of rent revenue (“Replacement Funding”).
- The amount of Replacement Funding, if any, to be applied to the project will be determined in the Commission’s sole and absolute discretion with the objective of ensuring the continued provision of affordable permanent housing and supportive services at a level comparable to that which was provided before the cessation of the Section 8 subsidies.
- Owner shall submit to the Commission annual audited financial reports during the period that Replacement Funding is provided.
- The Commission’s obligation to provide Replacement Funding expires with the end of the Amended Covenant Agreement term.
- The Amended Covenant Agreement shall not be recorded until HUD provides its approval of the City’s Desiderio application.

**COUNCIL POLICY CONSIDERATION:**

Approval of the subject recommendation advances the following City Council goals and City policies:

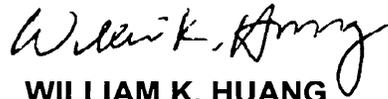
- Support and promote the quality of life and the local economy -- City Council Strategic Plan goal (2009-2012)
- Promote preservation of existing affordable housing stock -- Housing Element, Policy 1.10
- Provide housing assistance and supportive services to address special needs populations -- Housing Element, Policy 3.8

**FISCAL IMPACT:**

Approval of the subject recommendation could result in a maximum, cumulative exposure to the Commission/City in the amount of approximately \$19.5 million over a 15 year period (see Exhibit “A”). This figure assumes a highly improbable scenario in which the federal Section 8 rent subsidy program becomes unavailable for a continuous period of 15 years after the HAP contract expires in 2026. The total exposure amount declines over time. However, should the guarantee of rent subsidies be required, the Commission would draw replacement funding from other sources including federal HOME entitlement funds, and redevelopment tax increment housing set-aside funds. The estimated replacement funding exposure in the first year (2026) is \$1,087,155. For

comparative purposes, the current FY 2010 budgeted revenues from federal HOME and tax increment housing set-aside funds combined is approximately \$4.2 million.

Respectfully submitted,



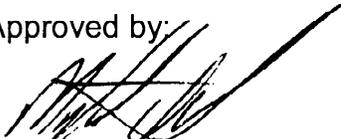
**WILLIAM K. HUANG**  
Housing Director  
Housing Department

Prepared by:



James Wong  
Senior Project Manager

Approved by:



**MICHAEL J. BECK**  
City Manager

EXHIBIT "A"

**CENTENNIAL PLACE -- SCHEDULE OF ESTIMATED SECTION 8 PROJECT-BASED  
 RENT SUBSIDY or REPLACEMENT FUNDING**

<u>YEAR</u>	<u>Total Rent Rev.</u>	<u>Tenant Payment</u>	<u>S8PB Rent Subsidy or Replacement Funding</u>
2026	1,811,925	724,770	1,087,155
2027	1,857,223	742,889	1,114,334
2028	1,903,654	761,461	1,142,192
2029	1,951,245	780,498	1,170,747
2030	2,000,026	800,010	1,200,016
2031	2,050,027	820,011	1,230,016
2032	2,101,277	840,511	1,260,766
2033	2,153,809	861,524	1,292,286
2034	2,207,655	883,062	1,324,593
2035	2,262,846	905,138	1,357,708
2036	2,319,417	927,767	1,391,650
2037	2,377,403	950,961	1,426,442
2038	2,436,838	974,735	1,462,103
2039	2,497,759	999,103	1,498,655
2040	<u>2,560,203</u>	<u>1,024,081</u>	<u>1,536,122</u>
	<b>\$32,491,306</b>	<b>\$12,996,522</b>	<b>\$19,494,784</b>

**Assumptions:**

Expiration of HAP Contract 15-year term at end of Year 2025  
 144 assisted units @ \$1048.57 mo. rent beginning in Year 2026  
 Total Rent Rev. = 40% Tenant + 60% S8PB  
 Total Rent Rev. increases 2.5% annually