

Agenda Report

April 23, 2012

TO: Honorable Mayor and City Council

THROUGH: Economic Development & Technology Committee (April 18, 2012)

FROM: Housing Department

SUBJECT: APPROVAL OF AMENDED BUSINESS TERMS OF DEVELOPMENT AND LEASE AGREEMENT WITH BRIDGE HOUSING CORPORATION FOR THE DEVELOPMENT OF THE HERITAGE SQUARE AFFORDABLE SENIOR RENTAL HOUSING PROJECT AT 750-790 N. FAIR OAKS AVENUE

RECOMMENDATION:

It is recommended that the City Council take the following actions:

- 1) Find that the proposed amended business terms, as described in this agenda report, of a Development and Lease Agreement (the "DLA") with BRIDGE Housing Corporation for the development of the Heritage Square affordable senior rental housing project located at 750-790 N. Fair Oaks Avenue (the "Project") is consistent with the CEQA categorical exemption adopted by the City Council on November 11, 2011 for the Project;
- 2) Approve certain key amended business terms, as described in this agenda report, of a Development and Lease Agreement with BRIDGE Housing Corporation for development of the Project; and
- 3) Appropriate \$600,000 from Inclusionary Housing Fund Balance (Account No. 619-684140) to the Heritage Square Senior Housing Project (Account No. 51333).

ADVISORY BODY RECOMMENDATION:

The subject recommendation was considered and approved unanimously by the Northwest Commission at a special meeting on March 29, 2012.

BACKGROUND:

When the Heritage Square Senior Affordable Housing Project Request For Proposals was issued in March 2011 it contemplated preferred and back-up financing plans for the development of the Project. The key components of the "Preferred Financing Plan" consisted principally of federal HUD 202 program funding, 4% Low Income Housing Tax Credits, Los Angeles County "City Of Industry" program financing, and City funding assistance. The "Back-Up Financing Plan" replaces the HUD 202 and 4% Tax Credits with 9% Low Income Housing Tax Credits and provides for a greater level of City funding assistance.

In November 2011 the City Council unanimously approved key business points of a Development and Lease Agreement (the "DLA") with BRIDGE Housing Corporation ("Developer") for the development of the Project. The terms of the DLA included provisions for the Preferred Financing Plan as discussed above, including Section 8 Project-Based rental subsidy vouchers for 16 of the Project units. Subsequently, as the Developer began to move the project forward, significant changes in the affordable housing funding environment transpired which compelled the Developer and City Housing staff to consider an alternative financing structure. These changes consisted of: 1) the elimination of funding for new construction projects in the HUD 202 program budget for the current federal fiscal year; and 2) the dissolution of local redevelopment agencies in the State of California which makes uncertain the continued availability of the County's City of Industry funding program.

AMENDED BUSINESS TERMS:

Consequently, to ensure that the Project is economically viable, and to enable the Developer to move the Project forward without further delay, certain amendments to the DLA business terms to incorporate a modified Back-Up Financing Plan which relies on 9% Tax Credits are being recommended by staff as summarized in the table below:

EXISTING DLA BUSINESS TERMS	AMENDED DLA BUSINESS TERMS
External financing sources: HUD 202, City of Industry loan, 4% Low Income Housing Tax Credits	External financing sources: 9% Low Income Housing Tax Credits, Federal Home Loan Bank grant, conventional permanent loan
City capital subsidy: \$0	City capital subsidy: \$600,000 Inclusionary
Project-Based Section 8 vouchers: 16 units	Project-Based Section 8 vouchers: 63 units
Annual Payment In-Lieu Of Taxes to City: \$50,000	Annual Payment In-Lieu Of Taxes to City: \$25,000
Capitalized Ground Lease Payment to City: \$437,000	Capitalized Ground Lease Payment to City: \$0
City Compliance Monitoring Fee: No	City Compliance Monitoring Fee: Yes

The City's capital subsidy, which shall be applied toward approved predevelopment and construction costs, will be in the form of a secured trust deed loan with a term of 55 years bearing 3% simple interest. Annual payments on the City loan will be made from Project residual receipts. Furthermore, should the HUD 202 New Construction and/or City of Industry funding programs be continued in the future, the Developer may apply

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for those funds and thereby reduce or eliminate the City's capital subsidy and fund the capitalized ground lease payment.

While the financing plan for the Project needs to change, certain important aspects of the Project will stay the same:

- Total project units: 70
- Population served: Very low income seniors
- Affordable rents: 63 of the 69 restricted units will still pay affordable rents not to exceed 30% of household income (\$505). And rent for the other 16 units will still be affordable (\$745 compared to \$1,300 market rate).
- Local Benefit Requirements: 20% local hiring, 20% local subcontracting, 20% local procurement of materials
- Basic design
- Timeline

Subject to approval of the staff recommendation, the proposed Heritage Square development schedule is as follows:

April 21, 2012	Community meeting to discuss concept design of the project
June 2012	Secure Planning entitlements
July 2012	Submit tax credits application (contingent on Planning entitlements)
September 2012	Receive 9% tax credits award
March 2013	Begin construction
May 2014	Complete construction
August 2014	Achieve full project lease-up

COUNCIL POLICY CONSIDERATION:

The proposed action is consistent with the City's General Plan - Housing Element and the Five-Year Consolidated Plan. It also supports and promotes the quality of life and the local economy -- a goal of the City Council's Strategic Objectives.

ENVIRONMENTAL ANALYSIS:

In accordance with the provisions of the California Environmental Quality Act (CEQA), a categorical exemption (Section 15332) was adopted for the Project by the City Council on November 11, 2011. The action proposed herein is the approval of certain amended business points of the Development and Lease Agreement in connection with the Project and this activity is consistent with the adopted CEQA categorical exemption. No further CEQA review is required for this action.

FISCAL IMPACT:

The direct cost of this action will be \$600,000. Funding for this action will be addressed by an increase in appropriation in the Heritage Square Senior Housing Project (Account No. 51333) in the amount of \$600,000 and a decrease in the Inclusionary Housing Fund Balance (Account No. 619-684140) in the amount of \$600,000. It is anticipated that the full amount of the requested appropriation will be spent during the current fiscal year.

Respectfully submitted,

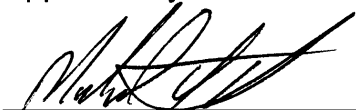

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