

# Agenda Report

December 17, 2012

**TO:** Honorable Mayor and City Council

**THROUGH:** Economic Development & Technology Committee (December 5, 2012)

**FROM:** Housing Department

**SUBJECT:** APPROVAL OF KEY BUSINESS TERMS OF AMENDMENT TO LOAN AGREEMENT WITH CENTENNIAL PLACE PARTNERS TO RESTRUCTURE CITY LOANS FOR THE CENTENNIAL PLACE PROJECT AT 235 E. HOLLY STREET

**RECOMMENDATION:**

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

- 1) Find that the proposed action is exempt from the California Environmental Quality Act ("CEQA") pursuant to State CEQA Guidelines Section 15061(b)(3) (General Rule);
- 2) Approve certain key business terms, as described in this agenda report, of the proposed amendment to that certain First Amended and Restated Acquisition and Rehabilitation Loan Agreement dated July 19, 1989 with Centennial Place Limited Partners for the Centennial Place housing project; and
- 3) Authorize the City Manager to execute any and all documents necessary to effectuate the staff recommendation.

**BACKGROUND:**

In 1989 the Pasadena Community Development Commission, pursuant to that certain First Amended and Restated Acquisition and Rehabilitation Loan Agreement dated July 19, 1989 (the "Loan Agreement") with Centennial Place Limited Partnership (the "Owner"), provided loan assistance totaling \$4,540,000 for the Centennial Place project, which involved the acquisition and renovation of the YMCA building located at 235 E. Holly Street for use as an affordable rental housing project (144 units) for very low income persons. The Commission's financial assistance consisted of two trust deed loans in the amounts of \$1,190,000 and \$3,350,000. Other project development financing included low income housing and historic tax credits, a conventional loan from Citibank and two loans from the State of California under the Special User Housing Rehabilitation Program ("SUHRP") and the California Housing Rehabilitation Program ("CHRP"). The project was completed in 1991 and has been operated and managed by the Los Angeles Community Design Center, later renamed Abode Communities.

Beginning in 2009, a collaborative effort between the City, Abode Communities, and Union Station Homeless Services was undertaken to convert Centennial Place into a permanent supportive housing project with services for formerly homeless persons and those at-risk of homelessness. The financial resources which enabled the conversion to take place included new Section 8 Project-Based Vouchers from the City for 116 units and a \$1,000,000 grant from the County of Los Angeles (\$750,000 for supportive services and \$250,000 for capital improvements). In November 2010 the City's Public Works Department made a commitment of capital grant funds in the amount of \$300,057 to incorporate "green" and sustainable measures in the project, which commitment was used to enhance Abode Communities' application to the County for "City of Industry" program funding for capital improvements and a green upgrades at the project, resulting in reduced maintenance expenses and utilities costs. The County awarded \$2 million in loan funds for the project in April 2011.

In conjunction with the City of Industry loan, which is anticipated to close by the end of this calendar year, the Owner has initiated the conversion of the State SUHRP loan. Under the current financing structure, all residual receipts from the project must be paid to the State for repayment on the SUHRP loan. None of the cash flow is available for debt service on the City and County loans, or for resident services. However, pursuant to new State legislation (SB 707), borrowers have an opportunity to convert their SUHRP loan to a similar loan that is currently provided by the State under its Multifamily Housing Program (the "MHP loan"). The new principal balance of the MHP loan will not exceed \$1,700,000 (original principal plus accrued interest). The term of the MHP loan and associated State regulatory agreement is 55 years, expiring in the year 2067. The terms of the CHRP loan essentially remain the same. The new terms of the MHP loan will include a 50/50 split of project residual receipts between the Owner and lenders, with each lender receiving a pro rata share based on the amounts of their respective loans relative to the total permanent financing. By converting the SUHRP loan, cash flow would be available to pay on the two City residual receipts loans.

**KEY BUSINESS TERMS OF AMENDMENT TO LOAN AGREEMENT:**

As a condition for converting the SUHRP loan, the State requested the Owner to work with the City to amend certain terms of the City loan agreement to coincide with the modifications to the loan being made at the State level. Specifically, the Owner has requested that the City extend the term of its loans to match the MHP loan term, which matures in the year 2067. Currently, the City loans mature in 2019. With this extension, the current City loans, with a combined principal balance of \$4,211,679, will be recast with an increased principal amount of \$5,300,000 which amount includes accrued interest. Based on this principal amount, the City will claim approximately 71% of the lenders' share of project residual receipts. The County's and State's share would be 6% and 13%, respectively. The Owner has also requested that the City reduce the interest rate on its loans from 10.5% to 3.5%. The reduced interest rate is consistent with the cost of funds charged on recent City-financed housing transactions. The lien positions of the permanent financing would be as follows: first – Citibank, second – MHP, third – CHRP, fourth and fifth – City, sixth – County.

The Housing Department reviewed the Owner's request and considers it to be reasonable. The reduction in expenses as a result of the green makeover, coupled with the restructuring of the soft debt, will ensure greater financial stability for this project, which provides service-enriched housing at deep levels of affordability for extremely low income persons. Also, in consideration of the City amending its loan agreement and related documents as described above, the Owner has agreed to the following terms:

- The City's affordable housing restrictive covenant will be extended to expire in the year 2067 (originally 2019).
- The City will receive 50% of Owner's share of project residual receipts, which shall be deposited into the City General Fund. Based on current cash flow projections, this revenue totals approximately \$375,000 over the next 20 years.

**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:**

The proposed action has been determined to be exempt from the California Environmental Quality Act ("CEQA") pursuant to State CEQA Guidelines Section 15061(b)(3), the general rule that CEQA applies only to projects, which have the potential for causing a significant effect on the environment. Where it can be seen with certainty that there is no possibility that the activity in question may have a significant effect on the environment, the activity is not subject to CEQA. The proposed restructuring of City loans at the Centennial Place project has been deemed to not have the potential for significant effect on the environment.


**FISCAL IMPACT:**

The proposed restructuring of the Centennial Place permanent financing will not require any infusion of City funds. The transaction may potentially generate revenue as the City stands to receive 50% of the Owner's share of annual residual receipts generated by the project; which monies shall be deposited into the General Fund.

Respectfully submitted,

  
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