

Agenda Report

October 15, 2012

TO: Honorable Mayor and City Council

THROUGH: Economic Development & Technology Committee (October 3, 2012)

FROM: Housing Department

SUBJECT: APPROVAL OF BUSINESS TERMS OF THIRD AMENDMENT TO AMENDED AND RESTATED OWNER PARTICIPATION AND LOAN AGREEMENT WITH WASHINGTON PARK CLASSICS, LLC FOR THE WASHINGTON PARK CLASSICS HOUSING PROJECT AT 671 E. WASHINGTON BOULEVARD

RECOMMENDATION:

It is recommended that the City Council as Housing Successor take the following actions:

- 1) Find that the proposed business terms, as described in this agenda report, for the Washington Park Classics housing project located at 671 E. Washington Boulevard (the "Project"), is consistent with the CEQA categorical exemption adopted by the Pasadena Community Development Commission on August 8, 2005 for the Project; and
- 2) Approve certain key business terms, as described in this agenda report, of the Third Amendment To Amended and Restated Owner Participation and Loan Agreement (the "Third Amendment to OPLA") with Washington Park Classics, LLC for the Project; and
- 3) Authorize the City Manager to execute any and all documents necessary to effectuate the terms and provisions of the Third Amendment to OPLA.

BACKGROUND:

Washington Park Classics is an 8-unit homeownership project developed by local developer Trademark Development Company ("Developer"). The City's direct financial investment in the Project is \$1,529,869 in the form of a trust deed loan (the "City Loan").

WASHINGTON CLASSICS

October 3, 2012

Page 2 of 3

Pursuant to the approved Second Amendment to Amended and Restated Owner Participation and Loan Agreement dated December 15, 2008 (Agreement No. CDC-560-2) \$1,005,624 of the City Loan were to be granted upon completion of the Project and the outstanding balance of \$524,245 would recast as secured loans ("Recast Loans") to buyers of the affordable units. The Project was completed on May 18, 2012. In late-July 2012 the Developer approached the Housing Department with a request for additional reduction of the City loan principal. The request was based principally on declining real estate conditions that financially impacted the Project subsequent to the 2008 Second Amendment business terms. The Housing Department analyzed the Project's anticipated total costs and revenues and estimated a shortfall in the amount of \$368,645 associated with financial break-even (\$0 profit to Developer) for the Project.

The Housing Department is recommending that the City grant the Developer's request based on the following considerations: a) the role of the Project in removing neighborhood blight (the former liquor store that occupied the site) and as a potential neighborhood revitalization catalyst; b) additional state and federal homebuyer assistance funding (totaling \$750,400) that was secured by the City through the Housing Department which enabled the Project to provide a greater number of low income-restricted affordable units; and c) the Developer's steadfast commitment to the Project over the past seven years in the face of major challenges (e.g., engineering and design issues related to the storm drain; change in construction lender during the early Project phase; and reduced real property values and tightened mortgage lending conditions).

Therefore, in order to facilitate the successful close-out of the project, prevent the project from going into default on the construction loan, and preserve the affordable housing covenants, the Housing Department recommends approval of the proposed terms of the Third Amendment To Amended and Restated Owner Participation and Loan Agreement (the "Third Amendment to OPLA") as summarized:

EXISTING BUSINESS TERMS	AMENDED BUSINESS TERMS
1. Amt. of City Loan to be granted: \$1,005,624	1. Amt. of City Loan to be granted: \$1,374,269
2. Amount of City Loan to be recast as homebuyer loans: \$524,245	2. Amount of City Loan to be recast as homebuyer loans: \$155,600
3. Affordable units: 4 Moderate income	3. Affordable Units: 3 Low, 3 Mod. income

Also, the Developer shall be obligated to repay any portion of the City grant amount in the event that there is an excess in revenues beyond the financial breakeven point. This will be determined by a Housing Department review of actual Project costs and revenues within 30 days after the last unit is sold.

PROJECT STATUS:

Two market rate units have closed escrow and five affordable units are currently in escrow with scheduled closings in October and November. The next affordable unit (Unit #107) is scheduled to close by October 3 and the homebuyer will be assisted with additional City funding in the form of a Homeownership Opportunities Program ("HOP")

loan in the amount of \$74,000. The HOP loan replaces a City Recast Loan that was originally part of the purchase financing structure for this unit. This will expedite the closing of this unit and assist the Developer to meet construction lender Century Housing's release requirements (the lender requires the Developer to first close on all the units that do not have City Recast Loan encumbrances before the units with City Recast Loans can be sold). The City will recover its \$74,000 infusion by placing a demand in the amount of \$18,500 on each of the four units currently in escrow.

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.

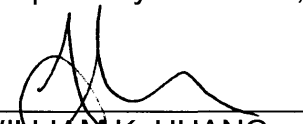
ENVIRONMENTAL ANALYSIS:

In accordance with the provisions of the California Environmental Quality Act (CEQA), a categorical exemption under Section 15061(b)(3) was adopted for the Project by the Pasadena Community Development Commission on August 8, 2005. The action proposed herein is the approval of certain business points of the Third Amendment To Amended and Restated Owner Participation and Loan Agreement in connection with the Project. This activity is consistent with the adopted CEQA categorical exemption. No further CEQA review is required for this action.

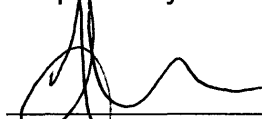
FISCAL IMPACT:

Approval of the recommended action will cause to write down, by \$368,645, the principal amount of the City Loan to the Developer, resulting in a principal balance of \$155,600. This amount would be recast as secured trust deed loans to the homebuyers of the affordable units in the Project. The total public subsidy (City, state and federal funds) for the Project is \$2,280,269 or \$380,045 per affordable unit. Of this total, \$1,529,869 (\$254,978 per affordable unit) are from City Inclusionary Housing funds.

Respectfully submitted,


for WILLIAM K. HUANG
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Approved by:


for MICHAEL J. BECK
City Manager