

Agenda Report

February 10, 2014

TO: Honorable Mayor and City Council

THROUGH: Economic Development and Technology Committee (Feb. 3, 2014)

FROM: Housing and Career Services Department

SUBJECT: APPROVAL OF KEY BUSINESS TERMS OF FIRST AMENDMENT TO DEVELOPMENT, LOAN AND LEASE AGREEMENT WITH BRIDGE HOUSING CORPORATION FOR THE HERITAGE SQUARE SENIOR HOUSING PROJECT AT 750-790 N. FAIR OAKS AVENUE; INCREASE IN CITY LOAN BY AN AMOUNT NOT TO EXCEED \$400,000

RECOMMENDATION:

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

- 1) Find that the proposed business terms, as described in this agenda report, of the First Amendment to Development, Loan, and Lease Agreement with Bridge Housing Corporation for the development of the Heritage Square senior housing project located at 750-790 N. Fair Oaks Avenue are consistent with the In-Fill Development Projects exemption under Section 15332 of the California Environmental Quality Act that was adopted by City Council on November 7, 2011 for this project;
- 2) Approve a journal voucher appropriating \$400,000 from the Inclusionary Housing Fund balance to the "Heritage Square" project (Account No. 8167-619-684140-55-51333); and
- 3) Approve key business terms of the First Amendment to Development, Loan, and Lease Agreement with Bridge Housing Corporation, as set forth in this agenda report, to increase the City loan assistance for the Heritage Square senior housing project by an additional amount not to exceed \$400,000.

ADVISORY BODY RECOMMENDATION:

At its regular meeting on January 9, 2014, the Northwest Commission voted to recommend to the City Council approval of the staff recommendation.

BACKGROUND:

In March 2013 the City entered into that certain Development, Loan and Lease Agreement (City Agreement No. 20,998) (the "DLLA") with developer Bridge Housing Corporation ("BRIDGE") in connection with the development of a 70-unit affordable rental housing project for very low income seniors at 750-790 N. Fair Oaks Avenue (the "Heritage Square project"). Under the DLLA, the project financing structure includes a predevelopment loan in the amount of \$600,000 from City housing funds; a reservation of project-based rental subsidies for 69 units under the Housing Choice Voucher program administered by the City's housing authority; and 9% Low Income Housing Tax Credits from the California Tax Credit Allocation Committee ("TCAC"). BRIDGE applied for the tax credits in the previous two funding cycles last year (March and July, 2013) but were not successful. BRIDGE will be reapplying in the upcoming funding cycle on March 5, 2014.

Heritage Square was edged out of the tax credit allocation process in the July 2013 funding cycle because funding in the first of two categories that the project was eligible to compete in (the "Nonprofit Setaside" funding pool) was fully allocated to three special needs projects serving the homeless and a senior housing project in Palo Alto. Furthermore, Heritage Square was not able to compete in the second category (the geographic "Balance of LA County Region" funding pool) because TCAC's statewide 15% cap on funding for senior housing projects had already been reached.

Staff have monitored potential competition from projects which did not receive an award in the July 2013 funding cycle and which may reapply in March 2014. The most likely competition are two projects with high scores that competed in the Nonprofit Setaside pool (a large-family project and a senior project, both located outside of Los Angeles County). Staff have determined that both projects were subsequently financially restructured with 4% tax credits and bond financing. Therefore, these projects will not be competing with Heritage Square in the upcoming cycle for 9% tax credits.

Additional City financial leveraging may increase Heritage Square's competitiveness. The tax credit application submitted by BRIDGE in the July 2013 funding cycle had a relatively high score of 56.1 points. By comparison, the senior housing project in Palo Alto that was awarded funding in the Nonprofit Setaside pool had a score of 58.3. To bring up Heritage Square's score by two points in the next cycle would require an increase of \$400,000 in City loan assistance under the DLLA.

Therefore, to enhance the competitiveness of the Heritage Square project in the upcoming tax credit funding cycle, staff is recommending that the DLLA be amended to increase the City loan assistance by \$400,000. This would bring the total City loan amount to \$1,000,000 which represents a loan subsidy of \$14,706 per affordable unit. TCAC is expected to announce tax credit awards for the next funding cycle in June 2014. An allocation of tax credits for Heritage Square will enable the project to proceed into plan check, obtain a building permit, and commence construction.

KEY BUSINESS TERMS OF FIRST AMENDMENT TO DLLA

- The City loan to BRIDGE shall be increased by \$400,000.
- The City's disbursement of the additional loan funds (\$400,000) shall be conditioned on, among other things, the Heritage Square project receiving an award of 9% tax credits in the Spring 2014 funding cycle.
- Should the Heritage Square project receive an award of 9% tax credits in the Spring 2014 funding cycle and the project is able to proceed into construction, the additional City loan funds shall be utilized only for project construction costs.
- If the Heritage Square project does not receive an award of 9% tax credits in the Spring 2014 funding cycle, the City's commitment of the additional loan funds shall be automatically rescinded.

ENVIRONMENTAL ANALYSIS:

In accordance with the provisions of the California Environmental Quality Act (CEQA), an In-Fill Development Projects exemption under Section 15332 of CEQA was adopted by the City Council on November 7, 2011 for the Heritage Square project. The action proposed herein consists of the approval of key business terms of an amendment to the DLLA for the project and this activity is consistent with the adopted CEQA exemption. No further CEQA review is required for this action.

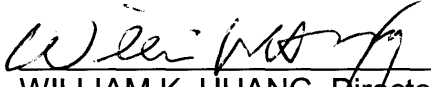
COUNCIL POLICY CONSIDERATION:

The proposed action will provide a competitive advantage for the Heritage Square affordable senior housing project in the upcoming tax credit funding round. The project is consistent with the City's General Plan - Housing Element, and it supports and promotes the quality of life and the local economy -- a goal of the City Council's Strategic Objectives.

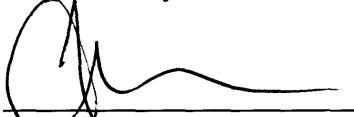
FISCAL IMPACT:

The proposed increase in the amount \$400,000 in City loan assistance for the Heritage Square senior housing project will be drawn from City's Inclusionary Housing Fund (Fund 619, account no. 8167-619-684140-55-51333) . Approval of the staff recommendation will reduce the available balance of the Inclusionary Housing Fund balance to approximately \$2.8 million.

Respectfully submitted,

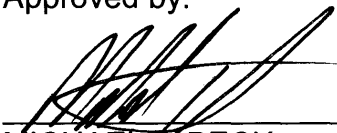

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