

Agenda Report

June 16, 2014

TO: Honorable Mayor and City Council

THROUGH: Economic Development and Technology Committee (June 11, 2014)

FROM: Housing and Career Services Department

SUBJECT: APPROVAL OF KEY BUSINESS TERMS OF SECOND 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 ORIGINAL LOAN BY AN AMOUNT NOT TO EXCEED \$800,000

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 Second 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 Second Amendment to Development, Loan, and Lease Agreement with Bridge Housing Corporation, as set forth in this agenda report.

ADVISORY BODY RECOMMENDATION:

The subject matter will be considered by the Northwest Commission at its meeting of June 12, 2014. Staff will report orally on the action taken by the Northwest Commission.

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 Inclusionary housing funds (of which \$543,284 have been expended to date); 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"). The DLLA provided BRIDGE with three consecutive opportunities in TCAC funding rounds in 2013-2014 to obtain tax credits and complete the financing package for the project. If BRIDGE was unable to receive an allocation of tax credits after the third attempt (in the first funding round of 2014), the DLLA would be subject to termination.

BRIDGE competed in the two funding rounds in 2013 but did not receive a tax credit allocation. To provide BRIDGE with a greater competitive advantage in the first funding round of 2014, the City Council on February 10, 2014 approved the business terms of a First Amendment to the DLLA which, among other things, increased the City funding commitment for the Heritage Square project by an amount of \$400,000 resulting in a total loan of \$1,000,000.

Unfortunately, even with the substantial leverage of City housing dollars, BRIDGE's third application was not successful. Although it is acknowledged that BRIDGE's first application had some minor deficiencies which lowered its score, the failure to win the tax credits in the last two rounds, wherein the application achieved the maximum score possible, has been the result of regulations established by TCAC. Specifically, caps on the number of senior housing projects that are funded per round, alternating priority between northern and southern California projects and higher priority placed on projects serving special needs populations (e.g. veterans, seniors at risk of homelessness).

Given the importance of Heritage Square in meeting a critical affordable housing need in the community, and the substantial financial investment that the City has made in the project, staff believes that the DLLA contract term should be extended to provide BRIDGE with an additional opportunity to obtain tax credits in the upcoming second round of 2014 (after which there will be no further funding cycles until Spring 2015). Furthermore, Heritage Square's chances of receiving a tax credit allocation should be improved in the next funding round for the following reasons:

- Fewer applications are being submitted in each round, resulting in a general downward trend in the rate of demand for federal low income housing tax credits. For tax credit applications in the Los Angeles County region there was only \$1 of tax credits available for \$3.50 in tax credits requested in 2012, compared to \$1 available for \$1.83 requested in the first round of 2014. A similar trend exists at the statewide level. The decline in applications is a consequence in large part of local jurisdictions not having adequate housing monies (due to the elimination of

redevelopment and declining federal housing funds) to support tax credit projects.

- Heritage Square will be in a more advantageous position relative to the previous funding round because in accordance with TCAC regulations, in the second round of the tax credit program year, the process for funding of the geographic pools considers first those projects located in the southern part of the state rather than those in the northern part. This is reversed in the first round of a tax credit program year in which projects in the north are considered first.

Finally, to continue to enhance the competitiveness of the Heritage Square project, staff is recommending that the City's original loan amount of \$600,000 be increased by \$800,000 for a total of \$1,400,000. The \$800,000 amount includes the additional \$400,000 commitment under the First Amendment. This would represent a loan subsidy of \$20,290 per affordable unit.

The application deadline for the upcoming second round is July 1, 2014. TCAC is expected to announce tax credit awards in September 2014. If BRIDGE is successful in obtaining an allocation of tax credits for Heritage Square, the project will be able to proceed into plan check, obtain a building permit, and commence construction.

If the recommended action is not taken and the Heritage Square project does not move forward under the DLLA, the City's direct financial loss would be \$543,284 (the amount disbursed on the City loan for design and predevelopment) and very likely the recapture by HUD of \$1,500,000 in HOME funds that the City used to acquire the properties which include the Heritage Square senior housing development site.

KEY BUSINESS TERMS OF SECOND AMENDMENT TO DLLA

- The DLLA Schedule of Performance shall be amended to provide BRIDGE with an additional opportunity to apply for 9% low income housing tax credits in the second round of the 2014 TCAC program year.
- The City loan to BRIDGE shall be increased by \$800,000 from the original loan amount of \$600,000.
- The City's disbursement of the additional loan funds (\$800,000) shall be conditioned on, among other things, BRIDGE receiving an award of 9% tax credits in second round of 2014 for the Heritage Square project.
- Should the Heritage Square project receive an award of 9% tax credits in the second round of 2014 and the project proceeds into construction, the additional City loan funds shall be utilized only for project construction costs. Furthermore, any costs savings realized by BRIDGE in the financing and development of the project will be applied to offset the City's loan amount increase.

- If the Heritage Square project does not receive an award of 9% tax credits in the second round of 2014, the City's commitment of the additional loan funds shall be automatically rescinded and the DLLA terminated.

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.

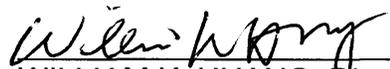
COUNCIL POLICY CONSIDERATION:

The proposed action will provide BRIDGE with an additional opportunity to apply for tax credits for the Heritage Square affordable senior housing project in the second round of the 2014 TCAC program year. 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 \$800,000 from the City's original loan assistance of \$600,000 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 \$3.1 million.

Respectfully submitted,


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