

# Agenda Report

August 31, 2015

**TO:** Honorable Mayor and City Council

**THROUGH:** Finance Committee (August 31, 2015)

**FROM:** Housing and Career Services Department

**SUBJECT: APPROVAL OF HOUSING ACQUISITION LOAN AGREEMENT WITH HERITAGE HOUSING PARTNERS TO PROVIDE PURCHASE MONEY FINANCING IN AN AMOUNT NOT TO EXCEED \$517,000 TO IMPLEMENT PURCHASE OPTIONS ON CITY DEED-RESTRICTED AFFORDABLE HOMEOWNERSHIP UNITS**

## **RECOMMENDATION:**

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

- 1) Find that the proposed housing financing and acquisition activity, as described in this agenda report, does not have a significant effect on the environment and has been determined to be categorically exempt under Class 26 (Acquisition of Housing) of the State California Environmental Quality Act ("CEQA") and, specifically, Section 15326 of the State CEQA Guidelines;
- 2) Approve a budget amendment, and a journal voucher appropriating \$517,000 from the Inclusionary Housing Fund Balance to the Housing Department's FY 2016 operating budget Account No. 8167-619-684140 for the HHP Housing Acquisition Project;
- 3) Approve certain key business terms, as described in this agenda report, of the proposed Housing Acquisition Loan Agreement with Heritage Housing Partners; and
- 4) Authorize the City Manager to execute any and all documents necessary to effectuate the staff recommendation.

## **BACKGROUND:**

Since 2012 the City of Pasadena has entered into two (2) housing acquisition loan agreements with local nonprofit housing developer Heritage Housing Partners ("HHP")

## HHP ACQUISITION LOAN AGREEMENT

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for the acquisition of City deed-restricted affordable homeownership units (Agreement No. 21,207 dated January 17, 2013 and Agreement No. 21,724 dated February 5, 2014). Affordable homeownership units which are produced under the City's Inclusionary Housing program or which receive City financial assistance are deed restricted with provisions that give the City the right of first refusal to purchase the affordable unit upon resale. Over the past three (3) years the City has exercised this purchase right on 12 units of which five (5) were assigned to HHP pursuant to the aforementioned Agreements. Recently, two (2) affordable homeownership units have come up for resale and it is proposed that the City enter into a similar agreement with HHP to acquire and resell these properties so they are preserved within the City's affordable housing stock.

Under the City's previous housing acquisition loan agreements, HHP has successfully acquired five (5) City deed-restricted homes and resold them to qualified low and moderate income first-time homebuyers. The acquisition financing extended by the City to HHP was fully repaid from the resale transactions, with the properties retained within the City's affordable housing stock. In accordance with City policies, priority is provided to applicants who live and/or work in Pasadena. Of the five (5) homes resold by HHP under previous housing acquisition loan agreements with the City, four (4) were purchased by families who already lived and/or worked in Pasadena.

HHP is an experienced housing organization with a strong track record in developing, marketing and selling affordable ownership housing. HHP projects in Pasadena include Haskett Court, Fair Oaks Court, and Herkimer Gardens. HHP's qualifications include:

- Full time sales and marketing staff devoted to finding income-qualified first-time homebuyers and helping them get a good mortgage.
- An interest list of over 270 income-eligible households that have indicated a desire to own a home in Pasadena.
- Projects in Pasadena with 77% of homeowners who previously lived and/or worked in Pasadena.
- Experience working with income-qualified first-time homebuyers with credit issues, and familiarity with mortgage programs designed for these buyers.

Recently, owners of two (2) deed-restricted affordable homeownership units have notified the City of their interest in reselling their homes. These properties are located at: 1) 333 N. Hill Avenue, #409; and 2) 588 N. Fair Oaks Avenue, #104. The first property was developed under the City's Inclusionary Housing program, and the second property is located within the Fair Oaks Court project, developed by HHP. In the interest of preserving the affordability of these units, it is recommended that the City enter into a Housing Acquisition Loan Agreement with HHP pursuant to which the City would assign its purchase right to HHP and extend purchase money financing in the amount of \$517,000 for HHP's acquisition of these properties.

The Internal Housing Loan Committee, at its meeting of July 16, 2015, reviewed the proposed transaction and did not recommend any changes.

**KEY BUSINESS TERMS OF HOUSING ACQUISITION LOAN AGREEMENT**

The City's provision of purchase money financing to HHP shall be made in accordance with a Housing Acquisition Loan Agreement (the "Agreement"). The key terms of the Agreement are as follows:

- The total amount of the City financing shall not exceed \$517,000.
- HHP shall utilize the City financing to acquire two (2) deed-restricted affordable homeownership units located at 333 N. Hill Avenue, #409 and 588 N. Fair Oaks Avenue, #104.
- The HHP acquisition loans shall be evidenced by a promissory note naming the City as beneficiary and secured by a first trust deed on the acquired property.
- The term of each acquisition loan shall not exceed four (4) months unless an extension is agreed to at the discretion of the City's Housing and Career Services Director or his designee (the "Department Director").
- To minimize the cost of the affordable housing transactions, the City financing will bear no interest.
- HHP's acquisition price for each property shall be the lesser of: a) the current affordable sales price as determined by the Housing Director; or b) the fair market value as determined by an appraisal which HHP shall cause to perform.
- HHP shall re-sell the properties in accordance with the City's affordable housing deed restrictions, and the City's local preference policy.
- HHP's estimated costs for each transaction shall be reviewed prior to closing by the Department Director. Costs may generally not exceed 4.00% of the contract price. However, the Department Director may approve costs up to 6.00% if the transaction is determined to involve greater than normal expenses (e.g., repairs).
- The Agreement shall expire on December 31, 2015.

**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 Plan.

**ENVIRONMENTAL ANALYSIS:**

The implementation of the staff recommendation to provide financing for the purchase of covenanted affordable housing units does not have a significant effect on the environment and has been determined to be categorically exempt under Class 26 (Acquisition of Housing) of the State California Environmental Quality Act ("CEQA"), and, specifically, Section 15326 of the State CEQA Guidelines. No further CEQA review is required for this activity.

HHP ACQUISITION LOAN AGREEMENT

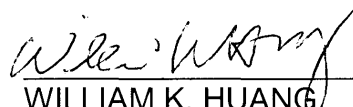
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**FISCAL IMPACT:**

The proposed City financing in the amount of \$517,000 to implement HHP's acquisition of deed-restricted affordable homeownership units will be drawn from Inclusionary Housing Trust Fund #619 (Account No. 8167-619-684140 ). Approval of the staff recommendation will reduce the available balance of Fund #619 to approximately \$2.1 million in non-earmarked funds available for new project commitments. In accordance with the proposed terms of the Agreement, the City financing shall be repaid from the resales proceeds as the properties are purchased by qualified homebuyers.

Respectfully submitted,

  
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