

## Agenda Report

July 20, 2015

**TO:** Honorable Mayor and City Council

**THROUGH:** Economic Development & Technology Committee (July 9, 2015)

**FROM:** Housing and Career Services Department

**SUBJECT:** APPROVAL OF KEY BUSINESS TERMS OF A LOAN AGREEMENT WITH COMMUNITY HOUSING WORKS AND COMMITMENT OF HOME INVESTMENT PARTNERSHIP ACT FUNDS IN THE AMOUNT OF \$470,000 TO REHABILITATE THE NORTHWEST MANORS II APARTMENT BUILDINGS AT 700 E. MOUNTAIN STREET AND 965 N. RAYMOND AVENUE

### **RECOMMENDATION:**

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

1. Find that the rehabilitation of the 44-unit Northwest Manors II apartment buildings at 700 E. Mountain Street and 965 N. Raymond Avenue (the "Project") does not have a significant effect on the environment and has been determined to be categorically exempt under Class 1 (Existing Facilities) of the State California Environmental Quality Act ("CEQA"), and, specifically, Section 15301 of the State CEQA Guidelines;
2. Approve the key business terms of the Home Investment Partnership Act Loan Agreement ("HOME Agreement"), as described in this agenda report, between the City and Community Housing Works as a City-certified Community Housing Development Organization;
3. Recognize revenues (6229-221-68411) and increase appropriations (8167-221-68411) in the Housing and Career Services Department FY 2016 Operating Budget in the Home Investment Partnership Act ("HOME") Fund (Fund 221) in the amount of \$470,000 for the Northwest Manors II project; and
4. Authorize the City Manager to approve the HOME Agreement, certifications, and other documents as necessary to implement the staff recommendations.

## **ADVISORY BODY RECOMMENDATIONS**

The key business terms of the subject agreement and funding commitment will be brought to the Northwest Commission at its regular meeting of July 14, 2015 for consideration of a recommendation to the City Council.

## **BACKGROUND**

Northwest Manors II is a 44-unit apartment complex ("Northwest Manors II") which occupies two sites located at 700 E. Mountain Street and 965 North Raymond Avenue. Northwest Manors II is currently owned by Westminster Housing Group I, a nonprofit California corporation ("Westminster"). Northwest Manors II was financed and operated by Westminster for the last 40 years under the U. S. Department of Housing and Urban Development ("HUD") Section 236 loan program. Project-based Section 8 Housing Assistance Payments ("HAP") contracts between HUD and Westminster provide rental subsidies to the low income and very low income tenant residents. The HUD 236 loan matured and was paid off in 2014.

Community Housing Works, a nonprofit affordable housing developer ("CHW") based in San Diego, has undertaken the restructuring of Northwest Manors II to preserve the long-term sustainability and affordability of the 44 rental housing units. CHW is a nationally recognized developer of affordable housing, serving the Southern California region for 33 years. CHW has completed and currently owns 32 rental communities with over 2,000 apartments located throughout San Diego County and Los Angeles County. In addition, CHW has approximately 750 apartments currently in their pipeline.

CHW has formed East Mountain Housing Associates LP, a limited partnership, to acquire, own, and operate Northwest Manors II as affordable rental housing for low income and very low income families. CHW is currently in escrow to acquire Northwest Manors II.

The total development cost of the Northwest Manors II project is approximately \$11 million and the financing will consist primarily of State low income housing tax credit equity and tax-exempt multifamily housing revenue bonds, the latter issued through the California Statewide Communities Development Authority joint powers authority, per resolution adopted by the City Council at its regular meeting of June 1, 2015. CHW has also submitted a request to HUD for a 20-year extension of the Project-based Section 8 HAP contract. The State low income housing tax credit program will require the owner to enter into a 55-year affordable housing regulatory agreement.

Despite the buildings being in relatively well-maintained condition for their age, the 50+ old properties have not had a major renovation and are in great need of capital upgrades. The scope of work under the current \$14.5 million project budget includes a new roof, replacing the galvanized piping, interior improvements such as new flooring, countertops and cabinets, wall furnaces, paint and bathrooms, exterior paint and stucco repair, upgraded landscaping, and the installation of a new playground at the Mountain Street property.

In March 2015 CHW submitted a funding request in the amount of \$300,000 to the Housing and Career Services Department to assist in the Northwest Manors II restructuring project. Subsequent discussions between the Department and CHW identified additional project needs. The recommended City funding in the amount of \$470,000 would enable the project to cover additional costs including modern energy efficiency and sustainability upgrades that will significantly reduce operating expenses and reduce the impact on the environment. These improvements include Energy Star appliance replacement, light fixtures, new dual-pane windows, and water-conscious landscaping. Available HUD Program Year 2013 HOME and HOME/CHDO Reserve monies would be used to provide the recommended funding, which represents a subsidy of \$10,682 per unit.

### **KEY BUSINESS TERMS OF HOME AGREEMENT**

The proposed HOME Agreement between the City and Community Housing Works (“CHW”) includes the following key business terms:

- a) City shall provide \$470,000 in HOME and HOME/CHDO Reserve monies in the form of a loan to fund the Project (the “Project Loan”).
- b) The HOME Agreement shall contain a scope of work and uses of funds that are substantially in the form as submitted to the City by CHW in its funding request, as amended. Eligible cost items shall include energy and water efficiency upgrades, purchase escrow extension payment, soft costs, and project management costs not exceeding 10% of the loan amount.
- c) The Project Loan shall: 1) be secured by a recorded trust deed in favor of the City; 2) have a term of 15 years; and 3) bear 3% simple, fixed interest with loan payments made from annual residual receipts. Residual receipts, generally, are defined as project revenue less operating expenses, debt service, partnership management fees, deferred developer fees, and reserve deposits.
- d) The Project Loan may be assigned to the East Mountain Housing Associates LP (the “Owner LP”) subject to Housing and Career Services Director approval of the following documentation: i) Owner LP consent to assignment, ii) Ownership interest and role of CHW in the Owner LP structure; iii) agreement between Owner LP and CHW regarding CHW’s sole responsibility as a CHDO to implement the project in compliance with HUD HOME regulations; and iv) other documentation as may be required by the Housing and Career Services Director.
- e) CHW shall adhere to a Schedule of Performance which anticipates an overall project timeframe of 12 months beginning July 20, 2015.
- f) CHW shall comply with all applicable City ordinances, policies and regulations including the City’s First Source Hiring ordinance.

- g) The Project shall be deed-restricted in favor of the City under a HOME affordable housing regulatory agreement with a term of 15 years.
- h) CHW shall comply with all applicable HOME Program statutes and regulations.

**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.

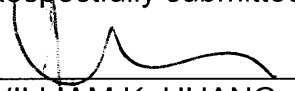
**ENVIRONMENTAL ANALYSIS**

The rehabilitation of the Northwest Manors II apartment buildings at 700 E. Mountain Street and 965 N. Raymond Avenue does not have a significant effect on the environment and has been determined to be categorically exempt under Class 1 (Existing Facilities) of the State California Environmental Quality Act ("CEQA"), and, specifically, Section 15301 of the State CEQA Guidelines. Class 1 specifically exempts from further CEQA review the repair, maintenance or minor alteration of existing structures where there is negligible or no expansion of the use. The repair, maintenance, and minor alterations of the type contemplated under the Project are specifically contemplated under Class 1. Hence, the proposed rehabilitation of Northwest Manors II qualifies the project under the Class 1 Categorical Exemption.

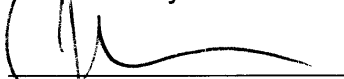
**FISCAL IMPACT**

Approval of the subject recommendation will increase appropriations in the Housing Department FY 2016 Operating Budget for the Northwest Manors II Project in the amount of \$470,000 from available HUD Program Year 2013 HOME and HOME/CHDO Reserve funds. With this action, approximately \$504,000 in HOME funds (HUD Program Year 2014) remain available for new project commitments.

Respectfully submitted

  
for WILLIAM K. HUANG  
Director of Housing and Career Services

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Approved by:

  
MICHAEL J. BECK  
City Manager