



Agenda Report

September 21, 2015

TO: Honorable Mayor and City Council

THROUGH: Economic Development and Technology Committee (September 10, 2015)

FROM: Housing and Career Services Department

SUBJECT: **AMENDED DEVELOPMENT AND LOAN AGREEMENT WITH HHP-1661, LLC FOR THE DEVELOPMENT OF A 15-UNIT AFFORDABLE HOMEOWNERSHIP PROJECT AT 1661-1669 N. FAIR OAKS AVENUE**

RECOMMENDATION:

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

1. Find that the proposed key business terms, as described in this agenda report, of the agreement with HHP-1661, LLC ("HHP") for the acquisition and development of a 15-unit affordable homeownership project located at 1661 - 1669 N. Fair Oaks Avenue (the "Arbor Vista Project") are consistent with the In-Fill Development Projects exemption under Section 15332 of the California Environmental Quality Act; and
2. Amend the Fiscal Year 2016 adopted operating budget of the Housing and Career Services Department by appropriating \$1,250,000 from the Inclusionary Housing Trust Fund balance (Fund 619) to assist the development of the Arbor Vista Project.
3. Approve key terms of an Amended Development and Loan Agreement with HHP, in the amount of \$2,350,000, for the development of the Arbor Vista Project.

BACKGROUND:

In August 2014 the City of Pasadena (City) entered into a Development and Loan Agreement (DLA) with local nonprofit housing developer Heritage Housing Partners for the construction of an 8-unit affordable homeownership project located at 1661 N. Fair Oaks Avenue. Pursuant to the DLA, the City provided loan assistance in the amount of \$1.1 million utilizing federal Home Investment Partnership Act (HOME) program monies.

In November 2014 HHP acquired the project site and commenced predevelopment activities. In January 2015, the property owner of the adjacent parcel at 1669 N. Fair Oaks Avenue contacted the City regarding his interest in selling the property. This inquiry was referred to HHP and land purchase negotiations commenced between the two parties. This property is improved with a residential duplex which is occupied by two renter households. If the land transaction moves forward, the current owner will provide relocation benefits to the households and the duplex will be demolished by HHP.

In May 2015, HHP submitted a funding proposal to the City's Housing and Career Services Department in the amount of \$1.25 million for the development of an expanded project on the combined parcels of 1661 and 1669 N. Fair Oaks Avenue. This project would entail: a) the acquisition of the adjacent parcel at 1669 N. Fair Oaks Avenue; b) the relocation of the historic Decker House which is presently located on the City-owned "Heritage Square South" development site (please see photos, Attachment "A"); c) the rehabilitation of the Decker House as two (2) affordable homeownership units; and d) the new construction of 13 affordable homeownership units.

The development site is approximately 0.74 acres in area and is located within the Fair Oaks Orange Grove Specific Plan area. The zoning designation is FGSP RM-16 which allows for multi-family residential use. The 13 new homes to be constructed will be attached condominiums built around a central courtyard (please see concept plans, Attachments "B", "C and "D"). Parking will be provided through a subterranean garage. HHP will sell all of the units to income-eligible, first-time homebuyers at affordable housing cost. Eight (8) of the homes will be for sale to low income households. The other seven (7) units (including the two Decker House units) will be sold to moderate-income households.

Total project costs are estimated to be approximately \$9.76 million consisting of \$1.6 million site acquisition costs, \$7.78 million development costs, and \$383,000 developer fee. Funds to cover project costs consist of the City's Amended Loan (\$2.35 million), New Market Tax Credit equity (\$662,000), a conventional construction loan (\$5.5 million), HHP equity (\$25,000), and proceeds from the unit sales (\$1.23 million). The City's Amended Loan will be reconveyed upon the sale of each project unit in the form of subordinate mortgages in the average amount of approximately \$156,670 per unit.

The financial feasibility of the project to provide over a majority of its units at an affordable cost to Low Income buyers will be achieved in part by HHP using \$480,000 in "Calhome" program funds to make second trust deed loans (\$60,000 per loan) to assist the Low Income home buyers. The Calhome funding will help bridge the financial gap between the market sales price of the units and the housing cost that a Low Income buyer can afford to pay. These funds were awarded to HHP by the State.

HHP has built and sold over 130 homes to low- and moderate-income first-time homebuyers since its inception in 1998. HHP promotes long-term affordable homeownership through the preservation of existing historic homes and the construction of new, single-family residences. To date, HHP has provided over 60 households in Pasadena with their first home, including 33 affordable units at the 40-unit Fair Oaks Court project built in 2008. This project has garnered several national awards and

recognitions and was the first project in the nation to utilize New Market Tax Credits for an affordable homeownership project. Other successful HHP projects developed in Pasadena include Haskett Court (6 units) and Herkimer Gardens (4 units).

HHP and the property owner have entered into a purchase and sale agreement, with closing conditioned on, among other things, HHP obtaining project funding approval from the City.

The subject recommendation was reviewed by the City's Internal Housing Loan Committee at its regular meeting of August 20, 2015.

ADVISORY BODY RECOMMENDATION:

The key business terms of the subject agreement was presented to the Northwest Commission at its regular meeting of September 8, 2015 for consideration of a recommendation to the City Council. Staff will report orally on the action taken by the Commission.

KEY TERMS OF AMENDED DEVELOPMENT AND LOAN AGREEMENT:

The proposed Amended Development and Loan Agreement ("Amended DLA") between the City and HHP includes the following key business terms:

- a) City funding assistance for the project will total \$2.35 million consisting of \$1.1 million in federal HOME funds that were committed in 2014 under the original DLA, and additional funds in the amount of \$1.25 million from the City Inclusionary Housing Trust Fund. The City funding shall be provided in the form of an amended loan to HHP (the "Amended Loan").
- b) The Amended DLA shall contain a scope of work and uses of funds that are substantially in the form as submitted to the City by HHP in its funding proposal. Eligible expenses shall include land acquisition, Decker House relocation, predevelopment, construction, soft costs, financing, and other project development related costs.
- c) The Amended Loan shall: 1) be evidenced by a promissory note and secured by a recorded trust deed in favor of the City; 2) have a term of two (2) years; and 3) bear 3.00% simple, fixed interest.
- d) HHP shall develop the project in accordance with a 28-month schedule of performance which will commence in October 2015 with the acquisition of 1669 N. Fair Oaks Avenue, a 6-month predevelopment/entitlement period, a 14-month construction period, and an eight-month sales period ending in February 2018.
- e) Upon HHP's successful completion of the Project in accordance with the scope of work and schedule of performance, the Amended Loan would be reconveyed when the units are sold as subordinate trust deed loans for the homebuyers.

Such loans shall be made in accordance with the City's Homeownership Opportunities Program (the "HOP Loans"). Buyers must be low or moderate income, provide a 5% down payment towards the affordable sales price, and complete a qualified homebuyer education course.

- f) The HOP Loans shall: 1) have a term of 45 years; 2) bear interest at the fixed rate of 1.50% for Low Income borrowers and 3.00% for Moderate Income borrowers; 3) be deferred for the first seven (7) years of the loan term after which monthly amortized payments shall be due and payable; 4) require City deed-restrictions to be recorded against the property which bind the homeowner to owner-occupancy, resale, and other restrictions.
- g) The Amended DLA and Amended Loan are contemplated to be assigned to HHP-1661, LLC (the "LLC"), a limited liability company formed by Heritage Housing Partners in connection with the New Market Tax Credit financing, subject to Housing and Career Services Director approval of documents evidencing the following: i) the LLC's written consent to the assignment, ii) the interest and role of HHP in the LLC structure; iii) agreement between the LLC and HHP which specifies HHP's sole responsibility to develop the Project in compliance with the Amended DLA; and iv) other documentation as may be required by the Housing and Career Services Director.
- h) HHP shall comply with all applicable City ordinances, policies and regulations including the City's First Source Hiring ordinance.
- i) Each unit in the Project shall be deed-restricted in favor of the City under an affordable housing regulatory agreement with a term of 45 years.

ENVIRONMENTAL ANALYSIS:

The "In-Fill Development Projects" Categorical Exemption under California Environmental Quality Act ("CEQA") Guidelines Section 15332 pertains to projects characterized as in-fill development which meet the following conditions: (a) The project is consistent with the applicable general plan designation and all applicable general plan policies as well as with applicable zoning designation and regulations; (b) The proposed development occurs within city limits on a project site of no more than five acres substantially surrounded by urban uses; (c) The project site has no value, as habitat for endangered, rare or threatened species; (d) Approval of the project would not result in any significant effects relating to traffic, noise, air quality, or water quality; and (e) The site can be adequately served by all required utilities and public services.

It has been determined that the infill housing project to be developed pursuant to the proposed agreement between the City and HHP is consistent with the Categorical Exemption under CEQA Guidelines Section 15332 and is thereby exempt from CEQA and no further CEQA review is required.

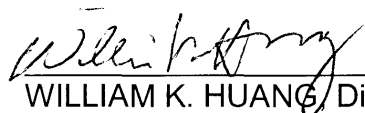
COUNCIL POLICY CONSIDERATION:

The proposed action supports and promotes the quality of life and the local economy -- a goal of the City Council's Strategic Objectives.

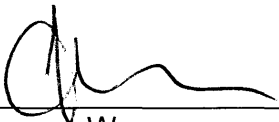
FISCAL IMPACT:

The proposed action will increase the FY 2016 operating budget of the Housing and Career Services Department in the amount of \$1,250,000. The budget increase will come from available, unreserved monies from the department's Inclusionary Housing Trust Fund balance, which will result in an Inclusionary fund balance of approximately \$850,000 in available, unreserved monies. The 15 homebuyer loans in the total principal amount of \$2.35 million will yield an annual debt service payment stream in the maximum amount of \$93,165 (after the seven-year loan payment deferral period ends). Hypothetically, if all 15 loans were to remain active and current for the duration of the 45-year loan term, the total amount of interest to be received by the City would be \$1,533,993.

Respectfully submitted,


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Housing and Career Services

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Approved by:


MICHAEL J. BECK
City Manager

Attachment(s):

Attachment "A" – Decker House photos

Attachments "B", "C" and "D" – Arbor Vista Concept Plans