

Agenda Report

June 6, 2016

TO: Honorable Mayor and City Council

FROM: Housing and Career Services Department

SUBJECT: APPROVAL TO AMEND KEY BUSINESS TERMS OF LOAN AGREEMENT WITH HHP CAPITAL, INC. IN CONNECTION WITH THE DEVELOPMENT OF A 21-UNIT AFFORDABLE HOMEOWNERSHIP PROJECT AT 104-124 E. ORANGE GROVE BOULEVARD AND 677 N. SUMMIT AVENUE ("SUMMIT GROVE PROJECT") BY HHP-SUMMIT, LLC

RECOMMENDATION:

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

- 1) Find that the recommended action is exempt from the California Environmental Quality Act ("CEQA") pursuant to State CEQA Guidelines per Section 15061 (b)(3), the "General Rule" that CEQA only applies to projects that may have an effect on the environment;
- 2) Amend the Fiscal Year 2016 adopted operating budget of the Housing Department by appropriating \$1,300,000 in City affordable housing monies to fund the City loan for the Summit Grove project (the "City Loan") consisting of: a) \$1,000,000 in Inclusionary Housing Trust Funds (TM# 23916003-816700); and b) \$300,000 in Housing Successor Low/Moderate Income Housing Asset Funds (TM# 23716003-816700), and reduce the revised budget in the amounts of \$1,114,267 from HOME Investment Partnership ("HOME") Funds (TM# 22116002-816700) and \$185,733 from Inclusionary Housing Trust Funds (TM# 23916003-816700); and
- 3) Amend the key business terms of the Summit Grove project transaction to reflect the modified funding sources for the City Loan, consisting of \$1,000,000 in Inclusionary Housing Trust Funds and \$300,000 in Housing Successor Low/Moderate Income Housing Asset Funds.

BACKGROUND:

The City Council, at its regular meeting of March 14, 2016, approved a staff recommendation regarding the key business terms related to the development by

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HHP-Summit, LLC ("HHP") of a 21-unit affordable homeownership project located at 104-124 E. Orange Grove Boulevard and 677 N. Summit Avenue (the "Summit Grove project" or "Project"). In connection with the approved Project business terms, the City would make a loan to HHP Capital, Inc. (a nonprofit supporting affiliate of HHP) in the amount of \$1,300,000 funded from two sources: \$1,114,267 in federal HOME Investment Partnerships ("HOME") funds and \$185,733 in Inclusionary Housing Trust Funds.

Housing Department staff had kept the Los Angeles HUD office apprised of the progress of the Summit Grove project, including environmental review clearances and the proposed financial structure utilizing New Market Tax Credits ("NMTC"). On March 29, 2016, HUD issued its Authority to Use Grant Funds, which enables the City to formally commit the budgeted HOME funds for the Project. However, despite the grant authorization, Los Angeles HUD office staff informed the Housing Department on April 26, 2016 of the determination made by HUD headquarters that the Project's proposed financing structure is incompatible with HOME program regulations. In particular, HUD noted that HHP's role as beneficiary under the homebuyer trust deed loans during the seven-year NMTC regulatory period does not comply with HOME regulations. This directly conflicts, however, with the NMTC requirement (pursuant to Internal Revenue Service tax code) that the project sponsor (HHP) shall hold the beneficial interest of the trust deed loans during the seven-year compliance period, upon the expiration of which the loans are subject to transfer to the City -- a business term that was approved as part of City Council's action on March 14, 2016.

Therefore, with HOME funds not being a feasible source to assist the Summit Grove project, staff recommends that the originally approved mix of housing funds for the City's \$1,300,000 loan be modified to consist of \$1,000,000 in Inclusionary Housing Trust Funds and \$300,000 in Housing Successor Low/Moderate Income Housing Asset Funds. The proposed action changes out funding sources but does not increase the City's financial commitment to the project.

The closing date for the Project's NMTC construction financing has been rescheduled to June 15, 2016, with construction to commence by July 15, 2016.

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 action proposed herein is exempt from the California Environmental Quality Act (CEQA), pursuant to State CEQA Guidelines Section 15061 (b)(3), the "General Rule" provision of CEQA which applies to projects which may have the potential for causing a significant effect on the environment. Where it can be seen with certainty that there is

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no possibility that the activity in question may have a significant effect on the environment, the activity is not subject to CEQA. The approval of the subject action to modify the mix of City funding sources and make the related funding appropriations (for this project which has been previously approved and determined to be exempt from environmental review pursuant to CEQA) is excluded from the definition of "project" pursuant to State CEQA Guidelines Section 15378(b)(4). No further CEQA review is required for this action.

FISCAL IMPACT:

The proposed action will have no net fiscal impact to the FY 2016 operating budget of the Housing and Career Services Department.

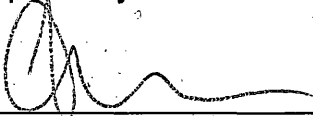
Respectfully submitted,



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