

Agenda Report

June 6, 2016

TO: Honorable Mayor and City Council

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 \$275,000 TO IMPLEMENT A PURCHASE OPTION ON A CITY-ASSISTED AFFORDABLE HOMEOWNERSHIP UNIT AT 596 N. FAIR OAKS AVENUE, #117

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 \$275,000 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:

Affordable homeownership units which secure City homebuyer assistance loans, or which are developed under the City's inclusionary or density bonus ordinances, are deed restricted with provisions that give the City the right of first refusal to purchase the

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property prior to the owner making the property available to other buyers. By exercising the right of first refusal to purchase, or assigning the option to a qualified nonprofit housing sponsor, the City is able to preserve a dwelling unit within the City's affordable housing stock.

On April 26, 2016 the owner of a deed-restricted affordable homeownership provided written notice of their intent to resell their home due to an out of state employment move. The property is at 596 N. Fair Oaks Avenue, #117 (the "Property"), a condominium unit within the Fair Oaks Court project that was developed in 2008 by local nonprofit developer Heritage Housing Partners ("HHP") with City financial assistance. The Property secures an HHP second trust deed loan in the amount of \$164,831 and a City third trust deed loan in the amount of \$32,400 (funded with State "BEGIN" program monies). On May 3, 2016 HHP submitted an acquisition financing request in the amount of \$275,000 to the City. In the interest of preserving the affordability of the Property, staff recommends that the City enter into a Housing Acquisition Loan Agreement with HHP pursuant to which the City would extend purchase money financing in the amount of \$275,000 for HHP's acquisition of the Property and subsequent resale to a low income family.

The City has entered into similar transactions with HHP since 2012 to acquire a total of seven (7) deed-restricted affordable homeownership units. HHP marketed and resold the properties to low and moderate income first-time homebuyers, resulting in the preservation of those units within the City's affordable housing inventory. The acquisition financing extended by the City to HHP have been fully repaid from the resale transactions. In accordance with City policies, priority is provided to applicants who live and/or work in Pasadena. Of the seven (7) homes resold by HHP under previous housing acquisition loan agreements with the City, six (6) were purchased by families who already lived and/or worked in Pasadena. In summary, the affordable housing deed restrictions, and the related City actions to assign purchase options to HHP with acquisition financing, have resulted in positive outcomes as envisioned.

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.

The Internal Housing Loan Committee, at its meeting of May 19, 2015, reviewed and approved the proposed transaction.

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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 City financing amount shall not exceed \$275,000.
- HHP shall utilize the City financing to acquire the deed-restricted affordable homeownership unit located at 596 N. Fair Oaks Avenue, #117.
- The City loan to HHP shall be evidenced by a promissory note naming the City as beneficiary and secured by a first trust deed on the subject property.
- The City loan shall be due and payable on October 31, 2016 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 transaction, the City loan will bear no interest.
- HHP's acquisition price for the subject property shall be the lesser of: a) the current affordable sales price as determined by the City's Housing and Career Services Department ("Housing Department"); or b) the fair market value as appraised by HHP.
- HHP shall re-sell the subject property in accordance with the affordable housing deed restrictions on the property, and with the City's local preference policy.
- HHP's estimated costs for the transaction shall be reviewed prior to closing by the Housing Department. Such costs may generally not exceed 4.00% of the contract sale 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 October 31, 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 implementation of the staff recommendation to provide financing for the purchase of the subject property 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.

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FISCAL IMPACT:

If the staff recommendation is approved, the proposed City financing in the amount of \$275,000 to implement HHP's acquisition of the subject property will be drawn from Inclusionary Housing Trust Fund (Account No. 8167-619-684140). This action will reduce the available balance of the Inclusionary Fund to approximately \$1.86 million in non-earmarked funds available for new project commitments. In accordance with the proposed terms of the Agreement, HHP shall repay the City financing from resale proceeds when the subject property is purchased by a qualified homebuyer.

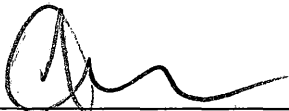
Respectfully submitted,



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