



Agenda Report

April 30, 2018

TO: Honorable Mayor and City Council

THROUGH: Economic Development and Technology Committee (April 17, 2018)

FROM: Housing and Career Services Department

SUBJECT: **APPROVAL OF THE KEY BUSINESS TERMS OF A REHABILITATION LOAN AGREEMENT WITH VILLA LOS ROBLES PARTNERS, L.P. IN AN AMOUNT NOT TO EXCEED \$1,050,000 TO REHABILITATE THE VILLA LOS ROBLES PROJECT AT 473 N. LOS ROBLES AVENUE**

RECOMMENDATION:

It is recommended that the City Council:

- 1) Find that the proposed rehabilitation of the Villa Los Robles project at 473 N. Los Robles 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; and
- 2) Approve a budget amendment appropriating \$1,050,000 from the HOME Program Income unappropriated fund balance and the Housing Successor unappropriated fund balance to the Housing Department's FY 2018 Operating Budget for the Villa Los Robles Rehabilitation Project; and
- 3) Approve the key business terms of a Rehabilitation Loan Agreement with Villa Los Robles Partners LP for the rehabilitation of the Villa Los Robles project at 473 N. Los Robles Avenue, as described in this agenda report; and
- 4) Authorize the City Manager to execute, and the City Clerk to attest, any and all documents necessary to effectuate the staff recommendation.

ADVISORY BODY RECOMMENDATION:

The proposed transaction was brought to the Northwest Commission for consideration at its regular meeting of April 10, 2018. Staff will report orally on the action taken by the Northwest Commission.

BACKGROUND:

Villa Los Robles is an 8-unit affordable rental housing project located at 473 N. Los Robles Avenue. The owner is Villa Los Robles Partners, L. P. ("Owner"). The new construction project, completed in 1992, was financed with low income housing tax credits, CalHFA and HCD Rental Housing Construction Program loans ("State Loans"), and a Pasadena Community Development Commission redevelopment housing loan in the original amount of \$326,500 ("PCDC Loan"). The PCDC Loan was increased by \$200,000 in 2003 to address extraordinary damage to the property from the collapse of the main sewer lateral. Of the eight (8) units, three (3) are restricted to families with income not exceeding 35% of Area Median Income ("AMI") and the balance of five (5) units are restricted to families with income not exceeding 80% of AMI. The tax credit and PCDC regulatory agreements restrict the project to affordable housing restrictions until the year 2047.

The project has experienced ongoing property maintenance issues and capital needs due to the age of the building. In July 2017, the Owner submitted to the City a request for funding assistance in the amount of \$1,009,300 to address the project's capital needs. Staff reviewed the request, which included a rehabilitation work scope and estimate, and cash flow pro formas. Staff is recommending a slightly greater amount of City funding assistance, \$1,050,000, to cover additional items not included in the Owner's request, including accessibility improvements and a modest enhancement of the project's replacement reserve fund. The City funding will be in the form of a residual receipts payment loan, secured by a trust deed and bearing zero percent (0%) interest. The zero interest provision is in recognition of the economics of the project, which generates very little excess cash flow. Because Villa Los Robles is a relatively small project, it does not benefit from the economies of scale that a larger project does. Hence, the cash flow is very tight and the project typically runs at break-even.

The owner has operated Villa Los Robles in a responsible and stable manner since the project's completion in 1992. There have been no defaults under the three existing, secured loans which encumber the property (the two State Loans and the PCDC Loan). Based on this, it is staff's assessment that the recommended City Loan is a reasonably low-risk financial investment. On the other hand, without City Loan assistance for the needed rehabilitation, the existing building issues will worsen and increase strain on the project's operating cash flow and reserves. Such a scenario would likely put the project at-risk with respect to the Owner's obligations under the existing State Loans and the PCDC Loan.

The proposed transaction was reviewed by the Internal Housing Loan Committee, which serves the Housing & Career Services Department and is comprised of staff in the City Manager, Housing, Human Services, and Public Works departments. The committee's functions include the review of department modifications to City homebuyer loans, as well as the review of department recommendations which require City Manager or City Council approval, including housing loan transactions.

At its regular meeting of April 30, 2018, the City Council, in a public hearing, approved a Substantial Amendment to the Program Year (PY) 2017-2018 HOME Annual Action Plan and allocated HOME funds to the Villa Los Robles rehabilitation project in the total amount of \$399,179. Approval of the subject recommendation will enable the City to satisfy HUD program commitment requirements through the next two years. HOME funds can be difficult to commit and expend given HUD's rules pertaining to project eligibility, environmental review, and action plan requirements. The use of HOME funds under the proposed transaction, along with the proposed use of Housing Successor funds, comply with HUD and State regulations which govern the respective funding sources.

KEY BUSINESS POINTS OF REHABILITATION LOAN AGREEMENT:

The proposed Rehabilitation Loan Agreement (the "Loan Agreement") includes the following key business points:

- a) The City shall provide a loan (the "City Loan") to Villa Los Robles Partners, L. P. ("Borrower") in an amount not to exceed \$1,050,000 for the rehabilitation of the Villa Los Robles project. The City loan will be secured by a fourth (4th) lien deed of trust. The City Loan will bear no interest, and annual residual receipts payments will be due and payable to the extent that the project generates net cash flow. The term of the City Loan will be 55 years.
- b) The scope of rehabilitation work will pertain primarily to six (6) categories: 1) extending the useful life of the building and correcting existing building problems such as dry rot, rust, and damage to gates and irrigation; 2) upgrading systems; 3) addressing deferred maintenance and repairs; 4) modernizing and replacing other items, such as cabinets and flooring, that will need to be replaced over the next 5-10 years; 5) improving energy efficiency and environmental sustainability; and 6) improving accessibility. City Loan funds may also be used to provide a modest enhancement to the project's replacement reserve, and for project management and general administrative costs not to exceed 10% of the total project cost. Loan funds shall be disbursed on a cost-incurred reimbursement basis.
- c) Owner shall rehabilitate the project in accordance with a schedule of performance which presently anticipates a 12-month period commencing by June 1, 2018 and completion by May 31, 2019.

- d) A recorded regulatory agreement in favor of the City, containing affordable housing deed restrictions; among other restrictions (the "Regulatory Agreement") will be required. The Regulatory Agreement shall have a term of 55 years, coterminous with the City Loan term, expiring in the year 2073.
- e) Owner shall comply with all applicable City ordinances, policies and regulations including the City's First Source Hiring ordinance and Minimum Wage standards.

COUNCIL POLICY CONSIDERATION:

The proposed action is consistent with the City's General Plan - Housing Element and the Five-Year Consolidated Plan. The proposed action supports and promotes the quality of life and the local economy, a goal of the City Council's strategic plan.

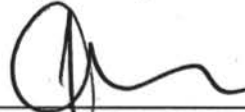
ENVIRONMENTAL ANALYSIS:

The proposed rehabilitation of the Villa Los Robles apartments building at 473 N. Los Robles 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. 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. Interior or exterior repair and alteration of the type contemplated under the Project are specifically contemplated under Class 1.

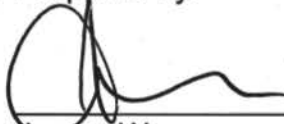
FISCAL IMPACT:

Approval of the subject recommendation will increase the Department's FY 2018 Operating Budget by an amount not to exceed \$1,050,000 by transferring \$650,821 from the Housing Successor unappropriated fund balance and \$399,179 from the HOME Program Income unappropriated fund balance to the Villa Los Robles Rehabilitation Project (HOME Account No. 22116002-817200-52065 in the amount of \$399,179 and Housing Successor Account No. 23716001-817200-52065 in the amount of \$650,821).

Respectfully submitted,


for WILLIAM K. HUANG
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Approved by:


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