

Agenda Report

July 27, 2020

TO: Honorable Mayor and City Council

THROUGH: Economic, Development and Technology Committee (July 9, 2020)

FROM: Department of Housing

SUBJECT: **APPROVAL OF AMENDMENTS TO THE BUSINESS TERMS OF THE AFFORDABLE HOUSING LOAN AGREEMENT WITH THE SALVATION ARMY INCLUDING ADDITIONAL CITY FUNDING IN AN AMOUNT NOT TO EXCEED \$1,000,000 FOR THE DEVELOPMENT OF THE SALVATION ARMY HOPE CENTER PROJECT AT 1000 E. WALNUT STREET**

RECOMMENDATION:

It is recommended that the City Council:

- 1) Find that the proposed development of The Salvation Army Hope Center project consisting of a Charitable Institution land use and permanent supportive housing at 1000 East Walnut Street (the "Pasadena Hope Center" project), and related actions/approvals, are statutorily exempt from environmental review pursuant to the guidelines of the California Environmental Quality Act (Public Resources Code §21080(b)(9); Administrative Code, Title 14, Chapter 3, Article 12.5, §15194 (Affordable Housing Exemption). Section 15194 specifically applies to residential housing projects consisting of 100 or fewer units that are affordable to low-income households. One hundred percent (100%) of the total units, exclusive of the managers' units, are for lower income households; and
- 2) Approve the proposed amendments to the business terms of an Affordable Housing Loan Agreement with The Salvation Army for the potential development of The Salvation Army Hope Center project at 1000 E. Walnut Street, as described in this agenda report; and
- 3) Authorize the City Manager to execute, and the City Clerk to attest, any and all documents necessary to effectuate the staff recommendation.

EXECUTIVE SUMMARY:

The proposed Pasadena Hope Center project to be developed by The Salvation Army has a funding gap in the amount of \$1,000,000 due to the combined impacts of the COVID-19 crisis, a modified financing plan, and increased development costs. The developer has requested the City to fill the funding gap. The recommended action would increase the City's previously approved loan assistance to a total of \$2,000,000 for the permanent supportive housing component of the project. The project has made the following progress subsequent to consideration of the staff recommendation by the Economic Development and Technology Committee at its meeting of July 9, 2020: a) completion of the statutory exemption evaluation report pursuant to the California Environmental Quality Act; b) Conditional Use Permit approved by the City Hearing Officer on July 15, 2020; and c) \$2.4M in private pledges have been secured to date through the developer's capital fundraising campaign. Also, under a separate item on the City Council's meeting agenda of July 27, 2020, staff is recommending approval of an allocation of Section 8 project-based vouchers for the Pasadena Hope Center project.

BACKGROUND:

At its regular meeting of November 25, 2019, the City Council approved the key business terms of an Affordable Housing Loan Agreement (the "Agreement") with The Salvation Army ("Developer") to develop the Hope Center, a four-story complex on Developer-owned land located at 1000 E. Walnut Street, Pasadena. The Agreement provided for, among other things, City loan funding in the amount of \$1,000,000 (the "City Loan") to assist the development of the project. As proposed, the project would consist of permanent supportive housing ("PSH") units on the second, third and fourth floors and a portion of the first floor of the complex, with the remaining portions of the ground floor being operated as an expanded social services center for PSH residents and low/moderate income people in the community who are currently served by The Salvation Army. The target population of the PSH apartments would be single adults experiencing homelessness with incomes at or below 30% and 40% of area median income (40 units and 25 units, respectively). Furthermore, certain units would be restricted to VA service-eligible homeless veterans.

At the time of the City Council action in November 2019, the estimated total development cost for the Hope Center project was approximately \$31.8M, of which \$24.8M were attributed to the PSH component of the Hope Center (the "PSH Project") and \$7M to the (non-PSH) social service center component. The financing plan included 9% Low Income Housing Tax Credits ("LIHTC"), the City Loan, a loan from the Los Angeles County Development Authority, and a grant from the Federal Home Loan Bank Affordable Housing Program.

However, as the Developer moved forward with predevelopment activities, a number of factors arose which have impacted the financial feasibility of the Hope Center project

and resulted in the need to amend certain business terms of the Agreement. The factors which have impacted the approved transaction are as follows

Reduction in key funding sources

- The COVID-19 crisis has severely impacted the capital markets resulting in projections of less equity available to the project from tax credit syndication proceeds than previously estimated.
- The Salvation Army's capital campaign was underway to raise approximately \$5M to support the Hope Center project. However, the impact of COVID-19 on capital markets has resulted in declines in prospective donors' stock portfolios. Consequently, The Salvation Army has reduced the capital campaign goal to \$3.7M. To date, approximately \$2.4M in pledges have been secured, including a commitment in the amount of \$350,000 from the Pasadena Community Foundation and a recent commitment of \$500,000 to be paid this month by a local family. In addition, The Salvation Army has submitted a proposal in the amount of \$150,000 to The Ralph M. Parsons Foundation, and other gifts are also pending. Approximately \$1.3M still needs to be secured to meet the \$3.7M capital campaign goal.

Modification to the financing plan

- The Developer's original financing plan for the project contemplated utilizing 9% tax credits for which there were two (2) competitive funding rounds this year with application deadlines that have passed (March 1, 2020 and July 1, 2020). The Developer has revised its financing plan to, instead, utilize 4% tax credits (non-competitive allocation process) with tax exempt bond financing (competitive allocation process) because the open-window application process to obtain these financing sources is more feasible given the project's current timeframe for securing the necessary environmental clearances and project entitlements, as well as for the timing of The Salvation Army capital fundraising campaign.
- Under the revised financing plan, the Developer will also apply within the next several months for new funding from the State Multifamily Housing Program, and supplemental funding from the Los Angeles County Development Authority.

Increased development costs

- The total development cost of the project is approximately \$35.8M, compared to \$31.8M when the transaction was approved in November 2019. The increase is attributed to: a) off-site public improvement and transportation requirements including street resurfacing, curb cuts, traffic light improvements, and street light improvements; b) increased hard cost budget to account for rapidly increasing construction costs; and c) environmental remediation issues that were discovered during the predevelopment period requiring increased testing, monitoring, and preparation and submission of a Corrective Plan of Action.

The net impact of these factors is that the total development cost of the Hope Center project has increased by approximately \$4M (from \$31.8M to \$35.8M), of which \$3M

can be offset by non-City funding sources proposed under the revised financing plan, resulting in a net funding gap of \$1M. On May 21, 2020, the Developer submitted a proposal to the City requesting \$1,000,000 in additional City Loan assistance to fill the funding gap. As proposed, the revised financing plan would consist of direct funding sources totaling approximately \$35.8M, of which 85% would be used for development costs attributed to the PSH component and 15% for the development of the (non-PSH) social service center component, as follows:

\$12,746,242 Tax Credit Equity (4% Low Income Housing Tax Credit program)
\$ 8,126,000 State Multifamily Housing Program loan
\$ 2,000,000 City of Pasadena loan
\$ 4,480,000 Los Angeles County Development Authority loan (already approved)
\$ 960,000 Los Angeles County Development Authority loan (supplemental funds)
\$ 780,000 Federal Home Loan Bank Affordable Housing Program grant
\$ 3,700,000 The Salvation Army Capital Campaign funds
\$ 3,007,903 Deferred/Contributed Developer Fee
\$ _____ 100 General Partner Capital Contribution
\$35,800,245 Sub-Total Direct Funding (85% for PSH, 15% for social service ctr)
\$ 2,400,000 Land Value (leasehold value)
\$38,200,245 Grand Total Funding Sources

Staff evaluated the Developer's request and determined that the proposed City direct subsidy of the PSH Project at the increased amount of \$2,000,000 (\$28,985 per restricted unit) remains a feasible and cost-effective way to address the City's critical affordable housing shortage. Accordingly, staff recommends that the City amend the Affordable Housing Loan Agreement and provide loan assistance in the amount of \$2,000,000 for the development of the PSH Project.

PROPOSED AMENDMENTS TO THE BUSINESS TERMS OF THE AFFORDABLE HOUSING LOAN AGREEMENT:

The proposed amendments to the business terms of the Affordable Housing Loan Agreement with the Developer for the PSH Project consist of the following:

- 1) Project Development Cost and Budget: The revised total development cost of the Hope Center project is \$35,800,245, of which 85% are attributed to the PSH component and 15% for the (non-PSH) social service center component, (see attached Development Budget). The revised project budget reflects a total of \$35,800,245 in direct funding sources, with 85% allocated to the PSH component and 15% to the (non-PSH) social service center component.
- 2) City Loan: Funding of the City's residual receipts trust deed loan for the PSH Project (the "City Loan") shall be increased by \$1,000,000 for a total principal amount not exceed \$2,000,000. Annual repayments on the City Loan would be

made to the extent that there are available residual receipts distributions from the PSH Project to the public lenders (State, City County), which are not guaranteed.

- 3) Equity and Other Permanent Financing: Equity and other (non-City) permanent financing sources totaling \$36,200,245 for the Hope Center project shall consist of: a) 4% Tax Credit equity (\$12,746,242); b) State Multifamily Housing Program loan (\$8,126,000); c) Los Angeles County Development Authority loan (\$5,440,000); d) Federal Home Loan Bank Affordable Housing Program grant (\$780,000); e) The Salvation Army land leasehold value (\$2,400,000); f) The Salvation Army Capital Campaign funds (\$3,700,000); g) Deferred/Contributed Developer Fee (\$3,007,903); and h) General Partner Capital Contribution (\$100).

CURRENT PROJECT STATUS AND TIMEFRAME

The Predevelopment Plan Review for the Hope Center project was presented to the City Council as an information item at its regular meeting of May 11, 2020. The CEQA review for the project is currently being conducted by the Planning and Community Development Department. The Developer’s application for a Conditional Use Permit was approved by the City Hearing Officer on July 15, 2020.

As proposed, the PSH units would be rent subsidized with project-based vouchers (PBVs). The Developer has submitted to the City an application for a PBV allocation in response to a competitive PBV Request for Proposals (RFP) which the Housing Department issued on May 11, 2020. Under a separate item on the City Council’s meeting agenda of July 27, 2020, staff is recommending approval of PBV awards for projects selected through the RFP process.

The project’s schedule performance include the following key milestones:

| Schedule of Performance Event | Projected Completion Date |
|---|----------------------------------|
| CEQA clearance | July 15, 2020 |
| Conditional Use Permit | July 15, 2020 |
| Design Review approval | July 28, 2020 |
| State MHP funding application submittal | September 15, 2020 |
| LACDA funding application submittal & award | November 1-30, 2020 |
| State MHP funding application award | December 10, 2020 |
| 4% tax credit & bond financing application | January 14, 2021 |
| 4% tax credit & bond financing award | April 15, 2021 |
| Construction finance closing | July 30, 2021 |
| Start of construction | August 10, 2021 |
| Completion of construction | December 15, 2022 |

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:

This project has been determined to be statutorily exempt from environmental review pursuant to the guidelines of the California Environmental Quality Act (Public Resources Code §21080(b)(9); Administrative Code, Title 14, Chapter 3, Article 12.5, §15194 (Affordable Housing Exemption). Section 15194 specifically applies to residential housing projects consisting of 100 or fewer units that are affordable to low-income households. As proposed, all of the units, exclusive of the managers' units, are for lower income households. The building, and the Charitable Institution land use proposed on the ground floor, meets Article 12.5's definition of "Residential" (Section 15191(l) of the CEQA Guidelines), as it consists of residential units and primarily neighborhood serving goods, services, or retail uses that do not exceed 15 percent of the total floor area of the project. In this instance, the 7,549-square-foot nonresidential component of the building would be used for a Charitable Institution use, a neighborhood-serving service use, and comprises 14.6 percent of the total Project floor area.

The City's Department of Transportation (DOT) determined that a Traffic Impact Analysis was required for the Charitable Institution use, as part of the new building for the 68 SRO units to be utilized for supportive housing. The study evaluated the effect the project would have on existing neighborhood traffic volumes along access and neighborhood collector street segments and intersections within the vicinity of the project, and evaluated the existing Pedestrian Environmental Quality Index (PEQI) and Bicycle Environmental Quality Index (BEQI) along key corridors within the vicinity of the project.

In addition, because the Charitable Institution use is proposed in a building that would contain more than 50 residential units, DOT also conducted a separate analysis (referred to as the CEQA Evaluation) of the City's five vehicular and multimodal performance measures that assess accessibility of different modes of travel when evaluating a project's impact, as well as the project's transportation impact to its community using adopted transportation performance measures that relate to vehicle miles traveled (VMT), vehicle trips (VT), proximity and quality of the bicycle network, proximity and quality of the transit network, and pedestrian accessibility.

The analyses determined that the project is not expected to exceed adopted street segment and intersection caps, and that the project would not cause a significant impact. Furthermore, the pedestrian environment received an indicator score, at minimum, of "average"; no conditions of approval are required when the score is

"average" or higher. The bicycle environment received an indicator score of "low". To improve the bicycle environment, the Department of Transportation included a Condition of Approval to not allow any driveways along the Walnut Street frontage. The analyses determined that the project's incremental VMT per capita change does not exceed the adopted threshold of significance under the VMT per capita of 22.6. Therefore, the project does not cause any significant impacts as it relates to VMT. Additionally, the project's incremental VT per capita does not exceed the adopted threshold of significance under the VT per capita of 2.8. Thus, the project does not cause any significant impacts as it relates to VT. It was also determined that the project increases the service population access to transit and maintains the service population access to bike facilities. Therefore, the project does not cause a significant impact on the existing bicycle network or access to transit facilities. Furthermore, the DOT found that the proposed project does not exceed any of the CEQA thresholds outlined in the City's transportation guidelines.

Please find the attached Article 12.5 Statutory Exemption Evaluation Report, dated July 9, 2020, in connection with the recommended finding.

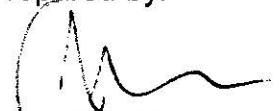
FISCAL IMPACT:

Approval of the subject recommendation will have no direct, immediate fiscal impact. The closing of the construction financing for the Hope Center PSH Project is not scheduled until early FY 2022 (in July 2021); therefore, staff will return to Council later in this fiscal year to seek approval of a budget amendment for the recommended City Loan funding increase in the amount of \$1,000,000.

Respectfully submitted,


for WILLIAM K. HUANG
Director of Housing

Prepared by:


James Wong
Senior Project Manager

Approved by:


STEVE MERMELL
City Manager

Attachments:

Development Budget
Article 12.5 Statutory Exemption Evaluation Report