Agenda Report

May 24, 2021

TO: HONORABLE MAYOR AND CITY COUNCIL

THROUGH: ECONOMIC DEVELOPMENT AND TECHNOLOGY COMMITTEE (May 18, 2021)

FROM: William K. Huang, Director of Housing

SUBJECT: **ADOPTION OF A RESOLUTION AUTHORIZING THE CITY OF PASADENA TO BECOME A MEMBER OF THE CSCDA COMMUNITY IMPROVEMENT AUTHORITY (THE "AUTHORITY"); ADOPTION OF A RESOLUTION AUTHORIZING THE CITY OF PASADENA TO BECOME A MEMBER OF THE CALIFORNIA COMMUNITY HOUSING AGENCY; APPROVAL OF A PUBLIC BENEFIT AGREEMENT FOR THE ACQUISITION OF TWO PROPERTIES BY THE AUTHORITY FOR CONVERSION TO LOW- AND MODERATE-INCOME HOUSING**

RECOMMENDATION:

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

1) Find that the proposed actions are exempt from the California Environmental Quality Act ("CEQA") in accordance with State CEQA Guidelines Sections 15060(c)3 and 15326, because they are not "projects" as defined in Section 15378(b)(5) of the State CEQA Guidelines, and because they consist of the acquisition of housing for housing assistance programs;

2) Adopt a resolution authorizing the City to become an additional member of the CSCDA Community Improvement Authority (the "Authority") supporting the Authority's issuance of bonds for the production, preservation, and protection of essential low- and moderate-income rental housing;

3) Adopt a resolution authorizing the City to become an additional member of the California Community Housing Agency Joint Powers Authority ("CalCHA") supporting CalCHA's issuance of bonds for the production, preservation, and protection of essential low- and moderate-income rental housing;

4) Authorize the City Manager or his designee to execute any and all documents to effectuate the City's membership in the Authority and in CalCHA;

5) Approve the terms of a Public Benefit Agreement with the CSCDA Authority, for the acquisition of existing apartment projects located at 231 S. DeLacey Avenue (Westgate Apartments; Phase II and III; 340 units) and 678 E. Walnut Street (The Hudson; 173 units);

6) Authorize the City Manager or designee to approve minor, non-material modifications to the Public Benefit Agreement that are consistent with the purpose and intent of the Authority's Low-and Moderate-Income/Workforce Housing Rental Program; and

7) Authorize the City Manager to execute the Public Benefit Agreement and related documents and take any actions that may be required to implement the Authority's low- and moderate-income rental housing program.

EXECUTIVE SUMMARY:

The California Statewide Communities Development Authority ("CSCDA") and the California Community Housing Agency ("CalCHA") are joint powers authorities. Both organizations are working to create low- and moderate-income housing opportunities throughout California. Moderate-income housing in particular, which is typically defined as housing that serves households earning between 80% and 120% of Area Median Income ("AMI"), does not have many other funding sources. Both CSCDA and CalCHA finance the acquisition and operation of low- and moderate-income rental housing through the issuance and sale of governmental purpose revenue bonds. The use of these bonds eliminates the property tax burden to the projects, enabling CSCDA and CalCHA to restrict rents to low- and moderate-income affordability while still ensuring project feasibility. Although these transactions require the City to forgo property tax revenue, the City receives an equity stake in any approved project once the bonds have matured, meaning that the City is entitled to excess sales proceeds at that time (typically Year 30). For any properties acquired by CalCHA, the City also has a Right of First Refusal to purchase the property for market value starting in Year 16. The City would not incur any fees, costs, liability, or administrative responsibility in connection with any project acquisition. The City would also not be a direct party to any real estate or financial transactions.

Should the City join the CSCDA and CalCHA joint powers authorities, the City would have the ability to approve the financing and acquisition (by CSCDA or CalCHA) of apartment projects for conversion to low- and moderate-income rental housing on a project-by-project basis through Public Benefit Agreements. The CSCDA currently has a binding Letter of Intent with the sellers of two potential projects in Pasadena totaling 513 units (The Hudson and Westgate Phases II and III) which are recommended for Council approval.

BACKGROUND:

Currently, there are limited Federal, State or local subsidies and programs that fund the production and preservation of housing for moderate and workforce-income households. To date, affordable housing programs in California have almost exclusively focused on providing housing for low-income households, which are households that earn at or below 80% of area median income ("AMI"). State and federal funding sources are almost exclusively targeted to households at or below 60% of AMI. This has left a "missing middle," comprised of households that earn too much to qualify for traditional affordable housing programs, but not enough to afford market rate housing. Households in this "missing middle" typically earn between 80% and 120% of AMI.

CSCDA and CalCHA Joint Powers Authorities

The California Statewide Communities Development Authority ("CSCDA") is a joint powers authority founded and sponsored by the League of California Cities ("League") and the California State Association of Counties ("CSAC"). CSCDA was created by the League and CSAC in 1988 to enable local government and eligible private entities access to low-cost, tax-exempt financing for projects that provide a tangible public benefit, contribute to social and economic growth and improve the overall quality of life in local communities throughout California. CSCDA is comprised of more than 530 cities, counties and special districts, including the City of Pasadena, which has been a member since 1993. CSCDA has issued more than $65 billion in bond financing through 1,700 plus transactions across its public benefit financing programs which are designed to help local governments build community infrastructure, provide affordable housing, create jobs, and make access available to quality healthcare.

The California Community Housing Agency ("CalCHA") is a California joint powers authority and political subdivision of the State, which was specifically founded with the purpose of providing, preserving, protecting, and supporting low- and moderate-income housing production throughout California. Like the CSCDA, CalCHA issues governmental purpose revenue bonds to finance the acquisition or development of rent-restricted rental communities for low- and moderate-income households.

Program Structure

The CSCDA Community Improvement Authority (the "Authority") is an affiliate joint powers authority that was created to broaden its program offerings by acquiring public benefit oriented capital projects through the issuance of tax-exempt governmental purpose bonds. One such program is the Workforce Housing Program ("Workforce Program"). Under a Public Benefit Agreement (discussed below) with CSCDA member local jurisdictions, the Authority issues government bonds to acquire new or existing Class A market-rate apartment buildings. CSCDA recently received approval from the cities of Anaheim, Glendale, and Monrovia to acquire apartment projects for conversion to low-and moderate-income housing. CSCDA will be converting 1,107 units in Anaheim, 507 units in Glendale, and 261 units in Monrovia to moderate-income housing.

Meanwhile, CalCHA was created in January 2019, also to address the needs of low- and moderate-income households. Its primary program is the Essential Middle-Income Rental Housing Program ("Essential Housing Program"). Through the Essential Housing Program, CalCHA also acquires existing market-rate apartment communities through the issuance and sale of its own governmental purpose bonds. CalCHA has created more than 2,000 affordable units to date. Most recently, they have acquired 699 units in Glendale. CalCHA has over 900 units in Northern California in their pipeline.

For both the CSCDA Workforce Program and the CalCHA Essential Housing Program, the use of these bond funds reduces project financing costs and eliminates the property tax burden. This financing mechanism would result in the loss of property tax revenues to the local jurisdiction while enabling the financial feasibility of the projects, creating housing opportunities that might not otherwise exist and allows the CSCDA and CalCHA to operate as project owners to target income-eligible households and charge reduced, below-market rents.

These acquired properties are converted to income and rent-restricted units for low/moderate/missing middle-income households, which are generally households earning 80% to 120% of AMI, but may include households earning as low as 60% AMI. While the restricted rents under these programs are higher than the limits under existing City affordable housing programs (e.g., Inclusionary or density bonus ordinances), the proposed program rents are at or below current market levels. Additionally, annual rent increases would be capped at the lesser of the annual increase in AMI, the increase in market rents, or four percent (4.0%), which is less than the rent increase limits under AB1482, the State tenant protection legislation that went into effect in 2020. No existing tenants would be displaced under the program. Tenants who are income-eligible will be offered the opportunity to rent restricted units.

Regulatory agreements which include provisions restricting the occupancy of the units to income-eligible households, limiting annual rent increases, preventing the displacement of current tenants who do not meet the income requirements, and any local preference policies, will be recorded against each property. The term of these agreements is tied to the duration of the bonds; typically, these have an effective term of 30 or more years.

Any Workforce Program or Essential Housing Program properties will be professionally managed by experienced property managers who will bear the responsibility for ensuring compliance with the regulatory agreements.

The Authority has identified two Workforce Program projects for the City's consideration (discussed below), while no projects have been identified by CalCHA at this time.

CSCDA PROJECTS, PUBLIC BENEFIT AGREEMENT

Hudson and Westgate Projects

The Authority has entered into a Letter of Intent ("LOI") with the owners of two existing apartment complexes in Pasadena, The Hudson and the Westgate Apartments Phase II and III.

The Hudson is a 173-unit project located at 678 E. Walnut Ave. The project was completed in 2017. The proposed affordability mix is 40% of the units at 80% of AMI, 20% at 100% of AMI, and 40% at 120% of AMI. Maximum allowable rents for each income category will not exceed 35% of the respective income limit. However, for units at the 100% AMI and 120% AMI tiers, the Program will commit to maintaining target rents, subject to financial feasibility, that are below the maximum allowable rents and current market rents, as shown in the two tables below which compare current rents with proposed maximum allowable and target rents, respectively, under the CSCDA program.

Unit Type	Total Units	Current Rent	Max. 80% AMI Rent	Max. 100% AMI Rent	Max. 120% AMI Rent
Studio	18	$2,168	$1,841	$2,301	$2,762
1 BR	86	$2,501	$2,102	$2,628	$3,154
2 BR	89	$3,180	$2,366	$2,958	$3,549

Unit Type	Total Units	Current Rent	Target 80% AMI Rent	Target 100% AMI Rent	Target 120% AMI Rent
Studio	18	$2,168	$1,841	$1,968	$2,068
1 BR	86	$2,501	$2,102	$2,301	$2,401
2 BR	89	$3,180	$2,366	$2,958	$3,080

The Westgate Phases II and III contains 340 units, which were completed in 2010. The project is located 231 S. DeLacey Avenue. As with The Hudson, the affordability mix is 40% of the units at 80% of AMI, 20% at 100% of AMI, and 40% at 120% of AMI. Maximum allowable rents for each income category will not exceed 35% of the respective income limit. For units at the 100% AMI and 120% AMI tiers, the Program will commit to maintaining target rents, subject to financial feasibility, that are below the maximum allowable rents and the current market rents, as shown in the two tables below which compare current rents with proposed maximum allowable and target rents, respectively, under the CSCDA program.

Unit Type	Total Units	Current Rent	Max. 80% AMI Rent	Max. 100% AMI Rent	Max. 120% AMI Rent
Studio	11	$2,314	$1,841	$2,301	$2,762
1 BR	177	$2,606	$2,102	$2,628	$2,606
2 BR	95	$3,520	$2,366	$2,958	$3,549
3 BR	57	$4,490	$2,627	$3,284	$3,941

Unit Type	Total Units	Current Rent	Target 80% AMI Rent	Target 100% AMI Rent	Target 120% AMI Rent
Studio	11	$2,314	$1,841	$2,114	$2,214
1 BR	177	$2,606	$2,102	$2,406	$2,506
2 BR	95	$3,520	$2,366	$2,958	$3,420
3 BR	57	$4,490	$2,627	$3,284	$3,941

The difference between market rents and affordable rents is expected to increase year over year due to the annual rental increase cap (the lesser of 4%, increase in AMI, or increase in market), meaning that the affordability of the units at The Hudson and Westgate Phases II and III will deepen each year.

CSCDA would rent all of the units at both The Hudson and Westgate Phases II and III to low and moderate-income households. The current low- and moderate-income range for a family of four in Los Angeles County is $90,080 to $135,120, per the California Tax Credit Allocation Committee ("CTCAC"). Existing tenants are not displaced, but all new tenants would need to income-qualify before entering a lease. For both The Hudson and Westgate projects, Waterford Property Company ("Waterford") is the proposed Project Sponsor/Administrator. Waterford has owned and managed over 2,000 affordable rental units, including those in Southern California cities. Waterford will be responsible for tenant selection, compliance with the regulatory agreements, and general project operations.

Waterford estimates that approximately 20% of the current tenants at both projects are potentially income eligible; these tenants would be able to rent units at the affordable rents once their current leases expire. As units become available at both projects, Waterford will conduct marketing and outreach that complies with the City's Local Preference and Priority System Guidelines; all units will be rented in accordance with the Local Preference Guidelines.

As eligible tenant households experience increases in income, their rents would increase to the corresponding income tier, as applicable (e.g., a household whose income increased from 80% to 100% of AMI would be expected to pay rents priced at 100% of AMI when they renew their lease). Households who no longer meet the income eligibility parameters would be required to pay market rents, but these households would not be displaced.

Waterford projects that all housing units at both projects will become compliant with the affordability requirements by Year 3, as current leases expire and non-eligible tenants elect to move. Waterford estimates that 75% of the current leases are set to expire in the next twelve months. Current tenants who are not income eligible may remain after the expiration of their leases, but they will be subject to market increases in rent.

Once The Hudson is fully converted to an affordable project, the rent savings, or the difference between current average rents and average target affordable rents across unit types, is 9%. Notably, the difference between peak pre-COVID rents at The Hudson and target affordable rents is 16%. The rent savings at Westgate Phase II and III is 14% and the difference between peak pre-COVID rents and target affordable rents is 19%. This demonstrates the importance of the Workforce Housing Program's annual rent increase cap, which will protect against significant growth in the rental market.

The units at both projects are not currently eligible for State Regional Housing Needs Assessment ("RHNA") credit, but CSCDA is currently exploring options in the program structure that may allow the City to receive RHNA credit in the future for some or all of the units.

Public Benefit Agreement, Ownership Structure and Liability

As recommended, the City would participate in the CSCDA Workforce Program by entering into a Public Benefit Agreement for the two projects.

Under the Public Benefit Agreement, the City has no initial ownership in any project. However, the City maintains an option to force a sale or refinance of the project starting in Year 15. Once all debt is discharged (Year 30), the City is the beneficiary of all cash flow from the project or of all net sales proceeds if the project is sold. The City would not have a fee interest in the projects and would not be a direct party to the real estate or financial transactions. The projects are real estate assets that are owned jointly by the Authority and its Project Sponsor/Administrator. The Project Sponsor/Administrator is responsible for overseeing all operations of the projects. Project Sponsors/Administrators are entities that have experience owning and operating multifamily housing rental projects, including projects with affordability restrictions. The Project Sponsors/Administrators are responsible for any project shortfalls; the City has no obligations should this occur. The project financing is reviewed and approved by Bond Investors who require healthy reserves and property insurance in excess of the replacement cost value of the property in order to protect against worst-case scenarios where costs exceed the revenues or where the property is destroyed. The Project Administrator/Sponsor would be responsible for covering any cash shortfall not covered by reserves.

The Authority is a public entity separate and apart from its members, and any debts, liabilities, and obligations incurred by the Authority will not constitute debts, liabilities, or obligations of its member agencies. Bonds issued for any particular project will be indebtedness solely of the Authority, and payable only from revenues of the project. The City will not incur any financial expenditures (including upfront investment and annual operating costs), liabilities, or obligations by joining the Authority or executing any Public Benefit Agreement in connection with a project. The City Attorney's office, through outside counsel, has reviewed the legal documents in connection with this Agenda Report, and has confirmed the same.

COUNCIL 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 proposed actions are not subject to CEQA because, pursuant to State CEQA Guidelines Section 15061(b)(3) they are not "projects". State CEQA Guidelines Section 15378(b)(5) defines a "project" as one that has a potential for resulting in either a direct physical change in the environment, or a reasonably foreseeable indirect physical change in the environment. The actions are also exempt pursuant to State CEQA Guidelines Section 15326, which applies to the acquisition of housing for housing assistance programs. The actions proposed herein, joining the CSCDA Authority and CalCHA, and approval of the acquisition by the CSCDA Authority of the existing multifamily residential properties at The Hudson and Westgate Phases II and III, do not have the potential for any significant impact on the environment, and are undertaken to support Pasadena's housing assistance programs.

FISCAL IMPACT:

Membership in CSCDA Authority and CalHCA
The recommended action to become a member of both the CSCDA Authority and of CalCHA has no fiscal impact to the City and it does not commit the City to any particular action on any property that may be proposed by the Authority or by CalCHA under the Workforce Program or the Essential Housing Program. However, should the City elect to participate on a property purchased by the Authority or by CalCHA under the Workforce Program or the Essential Housing Program, the property will be exempt from paying property taxes, resulting in a loss of revenue to the City.

Acquisition of The Hudson and Westgate Phases II and III
Council approval of the recommended action, and acquisition and operation by the CSCDA Authority of the proposed Hudson and Westgate Phases II and III properties will result in the City forgoing property tax revenues generated from these multifamily rental developments. In FY 2020, the City received $423,000 in annual property tax revenues from these projects. Based on current projections, the total amount of property tax revenues that would be forgone is approximately $7,315,115 (current dollars) for the 15-year period from FY 2021 through FY 2035 and approximately $17,160,298 (current dollars) for the 30-year period from FY 2021 through FY 2050. The City will have no financial or legal obligation for the tax-exempt status of the Authority, the debt service obligations carried by the Authority, nor any other matter related to the Authority and its projects.

Respectfully submitted,

for WILLIAM K. HUANG
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MATTHEW E. HAWKESWORTH
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Prepared by:

for Caroline Lockwood Nelson
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Approved by:

STEVE MERMELL
City Manager

Attachments: (3)
Attachment A: CSCDA Resolution
Attachment B: CalCHA Resolution
Attachment C: Income Limit Table