

# Agenda Report

September 27, 2021

**TO:** Honorable Mayor and City Council

**THROUGH:** Economic Development and Technology Committee (September 21, 2021)

**FROM:** Housing Department

**SUBJECT:** **APPROVAL OF HOUSING ACQUISITION LOAN AGREEMENT WITH HERITAGE HOUSING PARTNERS TO PROVIDE PURCHASE FINANCING IN AN AMOUNT NOT TO EXCEED \$331,200 TO IMPLEMENT PURCHASE OPTION ON AFFORDABLE HOMEOWNERSHIP UNIT AT 106 E. ORANGE GROVE BOULEVARD, #101**

## **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 appropriating \$331,200 from the Inclusionary Housing Fund Unappropriated Fund Balance to the Housing Department's FY 2022 operating budget 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:**

Since 2012 the City of Pasadena has entered into housing acquisition loan agreements

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with local developer Heritage Housing Partners (“HHP”), as the non-profit designee, to acquire City-assisted units in affordable homeownership projects developed by HHP, or units in homeownership projects that were developed pursuant to the City’s inclusionary ordinance. These affordable units are subject to deed restrictions which provide the City with the right of first refusal to purchase the property upon the homeowner submitting a Notice of Intent to Sell. If the right of first refusal is not exercised, the homeowner may sell the property at market price in which case the City would receive an equity share of the sale proceeds but the deed restrictions would be extinguished, resulting in the loss of an affordable unit to the market. On the other hand, by exercising the right of first refusal to purchase, the property is preserved as affordable housing within the City’s housing stock. Priority in the selection of qualified buyers is implemented in accordance with the City’s local preference guidelines.

Recently, a deed-restricted homeownership unit has come up for resale, located at 106 E. Orange Grove Boulevard, Unit 101, in the Summit Grove condominium project developed by HHP with City financial assistance. The property is a three-bedroom unit deed-restricted at the low income level. The owner is planning to relocate out of state. On August 25, 2021, HHP submitted to the City a loan request in the amount of \$315,600 to acquire the Property. Staff evaluated the request and in the interest of preserving the affordability of the Property, it is recommended that the City provide \$331,200 in purchase money financing to HHP for the acquisition and resale of the property.

Under the City’s previous housing acquisition loan agreements with HHP since 2012, twelve (12) deed restricted affordable units have been acquired by HHP of which nine (9) have been resold to qualified low and moderate income first-time homebuyers. The three (3) remaining units were recently purchased by HHP and qualified buyers have been selected or are in escrow to acquire the properties. The acquisition financing extended by the City to HHP are fully repaid from the resale transactions.

HHP is an experienced housing organization with a strong track record in developing, marketing and selling affordable ownership housing. HHP’s completed projects in Pasadena include Haskett Court, Fair Oaks Court, Herkimer Gardens, Decker Court, Gill Court, and Summit Grove. The nonprofit has extensive experience working with income-qualified first-time homebuyers with credit issues, and familiarity with mortgage programs designed for these buyers. HHP maintains an interest list of 7,599 subscribers of whom 4,227 have indicated a preference for purchasing a home in Pasadena.

The Internal Housing Loan Committee, at its meeting of September 16, 2021, reviewed and approved the proposed transaction.

### **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:

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- a) The total amount of the City acquisition financing to shall not exceed \$331,200 (the "City Loan").
- b) HHP shall utilize the City Loan to acquire the deed-restricted homeownership unit located at 106 E. Orange Grove Boulevard, Unit #101 (the "Property").
- c) The City Loan shall be evidenced by a promissory note with the City as beneficiary and secured by a first trust deed on the acquired Property.
- d) HHP shall be required to repay the City Loan within a term of 12 months of the City Loan effective date, unless extended at the discretion of the City Housing Director. Such extension shall not exceed six (6) months.
- e) To minimize the cost of the affordable housing transaction, the City loan to HHP will bear no interest.
- f) HHP's acquisition price for the Property shall not exceed a price based on the affordable housing cost for a low income family, as determined by the City Department of Housing.
- g) HHP shall utilize the City loan funds to acquire the Property no later than 11/30/21.
- h) HHP shall re-sell the Property to a qualified income-eligible family in accordance with the City's affordable housing deed restrictions and the City's local preference policy.
- i) The costs related to the transaction shall be reviewed by the Housing Department for approval prior to closing. Such costs may generally not exceed 5.00% of the sales price, which includes a commission to HHP of less than 3.00% for each of the Property. However, the Housing Director has the discretion to approve costs up to 6.00% if the transaction is determined to require greater than normal expenses (e.g. repairs).

### **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.

### **FISCAL IMPACT:**

Approval of the subject recommendation will increase the Department's FY 2022 Operating Budget by the amount of \$331,200 by transferring said amount from the unappropriated fund balance of the Inclusionary Housing Trust Fund. The proposed City financing to implement HHP's acquisition of the subject properties will be drawn

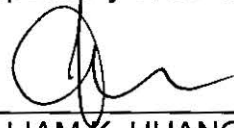
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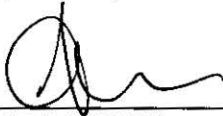
from Inclusionary Housing Trust Fund (Account No. 23916003-816700-51402). The action will reduce the available balance of the Inclusionary Fund to approximately \$2.3 million in non-earmarked funds available for new project commitments

Respectfully submitted,



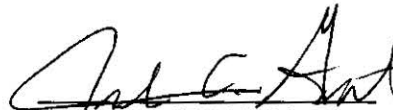
 WILLIAM K. HUANG  
Director of Housing


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