

# Agenda Report

April 25, 2022

**TO:** Honorable Mayor and City Council

**THROUGH:** Finance Committee (April 11, 2022)

**FROM:** Department of Housing

**SUBJECT: APPROVAL OF AN AFFORDABLE HOUSING LOAN AGREEMENT WITH HERITAGE HOUSING PARTNERS FOR A CITY LOAN IN AN AMOUNT NOT TO EXCEED \$2,000,000 TO ACQUIRE AND REHABILITATE PROPERTY AT 2322 E. FOOTHILL BOULEVARD FOR OPERATION AS A SIX-UNIT AFFORDABLE RENTAL HOUSING PROJECT FOR HOMELESS AND HOUSING INSECURE TRANSITION AGE YOUTH**

## **RECOMMENDATION:**

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

- 1) Find that the proposed housing financing, acquisition and rehabilitation 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 1 (Existing Facilities) (State CEQA Guidelines Section 15301) and Class 26 (Acquisition of Housing) (State CEQA Guidelines Section 15326);
- 2) Approve a budget amendment appropriating \$1,600,000 from the Inclusionary Housing Trust Fund's unappropriated fund balance to the Housing Department's FY 2022 Operating Budget to fund the proposed City loan for the Heritage Housing Partners Transition Age Youth Housing Project;
- 3) Approve certain key business terms, as described in this agenda report, of the proposed Affordable Housing 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:**

The subject Property (the "Property") is located at 2322 E. Foothill Boulevard, Pasadena. The Property is a 4,189 square foot lot that currently contains two buildings, including a front one that was constructed in 1924, along with a rear building that was reconstructed with a second floor circa 1973. The total square footage for both buildings is 2,360 sq ft. The Property is currently vacant, although it was previously used as a five-(5) unit non-permitted residential rental property.

The Property is zoned as General Commercial. Under the permissible Commercial General land uses, the Property can be used to provide either Transitional Housing or Single Room Occupancy ("SRO") by-right.

The property owner ("Seller") listed the Property for sale in December 2021. The Seller entertained several offers before Heritage Housing Partners, a Pasadena-based non-profit affordable housing developer, negotiated a purchase and sale agreement with the Seller for an acquisition price of \$1,300,000 (\$551/SF). The Property is currently in escrow, with closing scheduled for thirty (30) days after Council approval. Due diligence activities contemplated by the purchase and sale agreement include property and environmental investigations. Any findings will be remediated as part of the rehab construction.

HHP proposes renovating the existing structures and reconfiguring the five (5) existing floor plans to provide six (6) units of interim housing for homeless and at-risk youth (generally from the ages of eighteen to twenty-four). The proposed Project (the "Project") will help address an unmet need for housing among this population.

In order to comply with SRO development standards, all six of the units will be no more than 375 square feet. New drywall, flooring, and bath and kitchen fixtures will be installed, along with microwaves, ranges, garbage disposals, and refrigerators.

In addition, new mechanical, electrical, and plumbing systems will be installed as part of the rehab construction. The Property will also be re-roofed. Other improvements include creating a laundry room, resurfacing the driveway, upgrading the storm water drainage system, and creating a landscaped seating area near the back building. HHP anticipates a nine-month construction period.

Once the rehab construction is complete, HHP intends to enter into a Master Lease with a qualified operator, which will manage the property and provide supportive services to Transition Age Youth ("TAY") tenants, all of whom will be homeless or at-risk of homelessness.

HHP is in discussions with several local service providers and intends to enter into a Letter of Intent with one of these during the rehab construction period. There will be a Pasadena preference as part of tenant selection and depending on the funding the chosen provider is able to access, the Project may be able to house youth tenants who are also Pasadena City College students.

Youth housing remains an unmet need in the City and throughout the region. According to a recent study, UCLA's "State of Crisis: Dismantling Student Homelessness in California", it's estimated that one (1) in five (5) California Community College students experience homelessness or are housing insecure. Community colleges have the highest rates of homelessness and housing insecurity across California's three public systems of post-secondary education. Currently, there are not enough housing opportunities that are affordable to students and growing housing insecurity among college students stemming from high rents poses serious barriers to educational achievement.

Critical interventions for youth experiencing homelessness include early and immediate access to interim housing and a clear pathway to long-term housing that will end their homelessness and promote early stabilization, so they can get connected to resources such as employment and education support.

The total project budget is \$2,215,950, consisting of \$1.3M for acquisition, \$820,000 for property rehab construction, \$69,450 for capitalized operating and replacement reserves, \$15,000 for developer acquisition fee, \$8,000 for construction period insurance, and \$3,500 for transaction and title costs.

The Project is proposed to be financed with a City loan in the amount of \$2,000,000 (drawn from Inclusionary (\$1,600,000) and ARPA (\$400,000) funds), \$200,000 Developer private funds consisting of an anticipated grant from the Pasadena Community Foundation ("PCF") and a \$15,950 Developer contribution. PCF will consider the Developer's funding request at its April 20, 2022 Board of Directors' meeting. The Developer is also exploring other potential sources, including additional grant funding. If HHP secures additional funding, the City's loan may be reduced or may be used to subsidize operating costs as needed.

HHP submitted a request to the City on February 24, 2022 for loan assistance in the amount of \$2,215,950. Documentation received from HHP includes property inspection reports, a project budget, an annual budget for operation of the Property as affordable rental housing, and a 10-year cash flow analysis. HHP proposes to acquire the Property, make necessary renovations, and operate the Property as affordable rental housing targeting TAY students at Very Low income (50% of the Los Angeles County area median income) or below. If the operation of the Project as TAY housing becomes financially unsustainable at the City's determination, the Property may be operated as affordable rental housing for low-income persons at 60% of AMI.

Staff analyzed HHP's request and believes that the project financial assumptions are reasonable, the funding amount is in line with the subsidy levels provided by the City on other affordable housing projects, and that the proposed loan assistance for the project is an appropriate use of City housing funds. Accordingly, staff recommends that the City enter into an Affordable Housing Loan Agreement with HHP in connection with the Property. The staff recommendation was reviewed by the Internal Housing Loan Committee on April 7, 2022, which recommended approval.

### **KEY BUSINESS TERMS OF THE AFFORDABLE HOUSING LOAN AGREEMENT**

The proposed Affordable Housing Loan Agreement (the "Loan Agreement") between the City and HHP ("Developer"), in connection with the acquisition, rehabilitation, and operation of the Property as affordable rental housing (the "Project"), includes the following key business points:

- 1) **Project Budget:** The estimated total project cost is \$2,215,950 comprised of acquisition, rehabilitation, capitalized replacement and operating reserves, escrow/title fees, and HHP acquisition fee. This amount shall be financed with the City Loan and Developer private funds.
- 2) **City Loan funding, interest, term:** City funding assistance for the Project shall not exceed \$2,000,000 in the form of a loan ("City Loan") drawn from the Inclusionary Housing Trust Fund and the ARPA Fund. The City Loan shall bear interest at the fixed rate of 1.50% per annum, compounded annually, with a 55-year term. City Loan funds shall be used to pay project costs as set forth in the Project Budget.
- 3) **City Loan payment:** Developer shall make annual payments on the City Loan from the Project's residual receipts, if any (where residual receipts equals 55% of net cash flow after operating expenses, property taxes, replacement/operating reserves, and asset management fee, are paid). Developer's share of net cash flow is 45%.
- 4) **City Loan security:** The City Loan shall be secured with a deed of trust in the first lien position, recorded against the Property. Any sale, transfer, refinance, or encumbrance of the Property by Developer shall require the approval of the City.
- 5) **Scope of Development:** Acquisition and rehabilitation shall be performed in accordance with a Scope of Development.
- 6) **Schedule of Performance:** The Project milestones and timeframe for their completion shall be performed in accordance with a Schedule of Performance.
- 6) **Regulatory Agreement; Approval of Transfers, Encumbrances:** Developer shall comply with rental housing deed restrictions in favor of the City for a term of 55 years ("Regulatory Agreement"). Under the recorded Regulatory Agreement, occupancy of all six (6) dwelling units in the Project shall be restricted to Transition Age Youth (TAY) tenants at Very Low income with rents paid by tenants not to exceed the Very Low income affordability under the City's Inclusionary housing standards. In the event operation of the Project as TAY housing becomes financially unsustainable at the City's determination, the Property may be operated as affordable rental housing for low-income persons at 60% of AMI. Any sale, transfer, refinance, or encumbrance of the Property by Developer shall require the approval of the City. In the event of a sale of the Property by Developer, City shall have the right of first refusal to acquire the Property.

- 8) **Marketing, Tenant Selection, and Management Plans:** Developer or the Master Lessee on Developer's behalf shall submit to the City for approval a Marketing and Tenant Selection Plan for the TAY population which complies with the City's Local Preference and Priority Guidelines. Developer shall also submit to the City for approval a Property Management Plan for the operation and maintenance of the Project.
- 9) **City policies:** Developer shall comply with all applicable City ordinances, regulations and policies including but not limited to City Minimum Wage standards, "First Source" local hiring requirements, and insurance and indemnification requirements.
- 10) **Reporting:** Developer shall submit to the City the following reports: a) during the Scope of Development period: monthly status reports on compliance with the City's First Source local hiring and Minimum Wage ordinances; b) during the City Loan term: annual operating budget and audited financial statements; c) during the Regulatory Agreement term: annual affordable housing and property management compliance reports.

#### **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 implementation of the staff recommendation to provide financing for the purchase and rehabilitation of the subject property does not have a significant effect on the environment and has been determined to be categorically exempt under Classes 1 (Existing Facilities) and 26 (Acquisition of Housing) of the State California Environmental Quality Act ("CEQA"), (Sections 15301 and 15326 of the State CEQA Guidelines. Class 1 applies to the repair, maintenance and minor alterations of existing facilities where there is negligible or no expansion of the use. In this instance, the use – residential – will remain the same, and the repairs to the units will not have a significant effect on the environment. Class 26 applies where an agency is acquiring an interest in housing units for housing assistance, as is the case for this project. No unusual circumstances apply to these units, and no exceptions to the exemptions apply. Accordingly, no further CEQA review is required for this activity.

**FISCAL IMPACT:**

Approval of the recommended actions will increase the Housing Department's FY 2022 Operating Budget by the amount of \$1,600,000 from the unappropriated fund balance of the Inclusionary Housing Trust Fund. The proposed City financing to implement HHP's acquisition and rehabilitation of the subject property will be drawn from the Inclusionary Housing Trust Fund (Account No. 23916003-816700-51047). Approval of this action will leave an unappropriated fund balance of approximately \$1.26M in the Inclusionary Housing Trust Fund. The City funding for this project will be in the form of a loan secured by a deed of trust. The debt service on the City loan would be paid from the project's annual residual receipts which are not guaranteed.

Respectfully submitted,

  
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