

# Agenda Report

August 28, 2023

**TO:** City Council

**THROUGH:** Finance Committee

**FROM:** Housing Department

**SUBJECT: AMENDMENT OF THE HOUSING DEPARTMENT'S FISCAL YEAR 2024 OPERATING BUDGET IN THE AMOUNT OF \$1,997,000; APPROVAL OF KEY TERMS OF AFFORDABLE HOUSING LOAN AGREEMENT WITH HOME OWNERSHIP FOR PERSONAL EMPOWERMENT, INC. TO REHABILITATE AND FINANCIALLY RESTRUCTURE RENTAL HOUSING PROJECTS AT 940 NORTH SUMMIT AVENUE AND 760 WORCESTER STREET FOR PERSONS WITH INTELLECTUAL AND/OR DEVELOPMENTAL DISABILITIES**

## **RECOMMENDATION:**

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

- 1) Find that the proposed housing rehabilitation and financial restructuring activities as described in this agenda report do 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) Amend the Housing Department's Fiscal Year (FY) 2024 Operating Budget by appropriating \$1,997,000 from the Home Investment Partnership ("HOME") Fund (221) for the award of the proposed Affordable Housing Loan Agreement (the "Agreement") with Home Ownership for Personal Empowerment, Inc. ("HOPE") in connection with proposed the HOPE Project;
- 3) Approve HOPE as a Community Housing Development Organization for the purpose of satisfying federal eligibility requirements to receive HOME-CHDO funding assistance; and
- 4) Approve key business terms, as described in this agenda report, of the proposed Agreement and authorize the City Manager to execute the Agreement and all documents necessary to effectuate the staff recommendation.

## **BACKGROUND**

Home Ownership for Personal Empowerment, Inc. ("HOPE") is a nonprofit housing sponsor formed in 1994 to provide affordable housing and services for persons with intellectual and/or developmental disabilities. Among the projects owned and operated by HOPE in Los Angeles County are 21 single-family and multifamily independent-living housing projects totaling 48 units. A number of these projects are subsidized by sponsoring cities with nearly \$13 million in HOME and HOME/CHDO funds. HOPE partners with the Frank D. Lanterman Regional Center and other agencies to provide assistance for their clients.

Two (2) of HOPE's multifamily projects are located in Pasadena:

- 940 N. Summit Ave.: three (3) units, built in 1963, acquired by HOPE in 2020
- 760 Worcester St.: six (6) units, built in 1962, acquired by HOPE in 2020

The proposed project entails the renovation and financial restructuring of these two properties (the "Project") with City funding assistance totaling \$1,997,000 so that HOPE may provide financially sustainable, affordable housing to address an unmet need for this population into the future.

The two apartment properties were built over 60 years ago and substantial capital improvements are required to extend the buildings' duration of usefulness. Proposed renovations for each property include a variety of exterior and capital improvements including a new roof, plumbing, and replacing stair rails and windows. "Green" initiatives include more efficient HVAC systems, solar panels, and low-water landscaping. Proposed interior upgrades include kitchen and bathroom remodeling, new appliances, new flooring, and interior painting. Furthermore, the scope of work includes accessibility modifications to create additional accessible units. The Project will also include broadband installation.

The other component of the Project is to financially restructure the properties so that housing affordability for clients can be ensured and maintained, as well as the financial sustainability of housing operations. Currently the largest single monthly expense is the debt service payment on the conventional mortgage, which creates financial stress on the operating budget. The properties have been operating on a very tight cash flow with insufficient operating and replacement reserves deposits. As proposed, approximately 99% of the conventional debt would be paid down with City funds with the balance to be refinanced by HOPE. This would result in a reduced mortgage expense which will allow the property cash flow to cover operating and property maintenance expenses, sufficient replacement reserves deposits for future capital improvements, as well as on-going supportive and social services for clients.

The total Project budget is \$2,017,000, consisting of \$1,997,000 in City funds and \$20,000 in HOPE owner equity. The City funding would be in the form of a loan, drawn from the City's allocation of federal Home Investment Partnership program ("HOME") funds and HOME-Community Housing Development Organization ("CHDO") funds. HOPE has been determined by staff to qualify as a CHDO that is eligible to receive

HOME-CHDO funds. On June 5, 2023, City Council approved a Substantial Amendment to the 2022-2023 Annual Plan which allocated \$1,997,000 in HOME funds for the HOPE Project.

The table below summarizes the Project funding sources and uses.

	<b>940 N. Summit</b>	<b>760 Worcester</b>	<b>Total</b>
<b>SOURCE</b>			
City Loan	\$1,274,000	\$723,000	<b>\$1,997,000</b>
HOPE Equity	\$10,000	\$10,000	\$20,000
<b>Total Sources</b>	<b>\$1,284,000</b>	<b>\$733,000</b>	<b>\$2,017,000</b>
<b>USES</b>			
Mortgage pay-down costs	\$638,185	\$353,300	\$991,485
Renovation costs	\$645,815	\$379,700	\$1,025,515
<b>Total Uses</b>	<b>\$1,284,000</b>	<b>\$733,000</b>	<b>\$2,017,000</b>

HOPE submitted a proposal to the City on May 5, 2023, to request funding assistance; transaction negotiations were finalized on August 11, 2023. Documentation received from HOPE included property inspection reports, project budgets, annual operating budgets, cash flow analyses, and replacement reserves analyses. Staff analyzed HOPE's funding request and believe that the Project financial assumptions are reasonable, the City HOME funding amount conforms with the maximum subsidy per-unit limits set forth by HUD, and 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 HOPE in connection with the Project. The staff recommendation was reviewed by the Internal Housing Loan Committee on August 17, 2023, which recommended approval.

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

The proposed Affordable Housing Loan Agreement between the City and HOPE includes the following key business points:

- 1) **Project budget:** The total cost of the Project is \$2,017,000 which is comprised of renovation (\$1,025,515) and mortgage pay-down (\$991,485) costs. The City funds shall be used to pay Project costs as set forth in the Project budget,
- 2) **City and HOPE funding sources:** City funding assistance for the Project shall not exceed \$1,997,000 from HOME and HOME-CHDO funds. HOPE shall provide owner equity in the minimum amount of \$20,000.
- 3) **City Loan interest, term, residual receipts:** Total City funding assistance for the Project shall not exceed \$1,997,000 in the form of a loan for each of the two properties (collectively, the "City Loan"). The City Loan shall bear simple interest at the fixed rate of 1.50% per annum, with a 30-year term. Annual residual

receipts generated by the Project shall be shared equally between City and HOPE. The City's share of annual residual receipts shall be applied towards the City Loan principal. Prior to the 30-year City Loan maturity, HOPE may request an extension of the City Loan term by a period not to exceed 25 years plus waiver of accrued simple interest. City disposition of HOPE's request shall be based on a financial analysis performed by the Housing Department to determine the financial capability of HOPE to repay the outstanding balance of the City Loan while achieving the mutually desired objectives of maintaining the Project's operational feasibility and the continued provision of housing at an affordable cost to HOPE's clients.

- 4) **City Loan security:** The City Loan shall be secured with a recorded deed of trust that may be subordinate to conventional mortgage financing as required. Any sale, transfer, refinance, or encumbrance of the Property by HOPE shall require the approval of the City.
- 5) **Scope of Development:** The Project scope of development shall include exterior renovations (new roof, plumbing, replacing stair rails, windows, new driveway, landscaping), interior upgrades (kitchen and bathroom remodeling, new appliances, new flooring, interior painting, accessibility modifications).
- 6) **Schedule of Performance:** The Project schedule of performance will include milestones during a 12-month construction period. Project rehabilitation is scheduled to commence by early-September 2023, and refinancing of the properties is scheduled to be completed by mid-September 2023.
- 7) **Regulatory Agreement:** Affordable housing deed restrictions in favor of the City shall be recorded against the Property for a term of 30 years (the "Regulatory Agreement"). HOME requirements shall be applicable during the first 20 years of this term including but not limited to very low and low income occupancy restrictions and affordable rent limits. After the HOME requirements expire upon the 20<sup>th</sup> anniversary of the Regulatory Agreement the Project shall be subject to low income occupancy and affordable rents per State Housing and Community Development Department standards.
- 8) **Local Preference Policy and Management Plans:** HOPE shall comply with the City's Local Preference and Priority Guidelines with respect to the selection of tenants for any Project units which may become vacant. HOPE shall submit to the City for approval a Property Management Plan for the operation and maintenance of the Project.
- 9) **City ordinances, regulations, policies:** HOPE shall comply with all applicable City ordinances, regulations and policies including but not limited to City Minimum Wage standards; "First Source" local hiring requirements; insurance and indemnification requirements; and submittal of annual compliance reports and audited financial statements.

- 10) **HOME regulations:** The Affordable Housing Loan Agreement and Regulatory Agreement shall contain all applicable federal HOME regulations which shall be in effect for the first 20 years of the respective terms of the agreements.

**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.

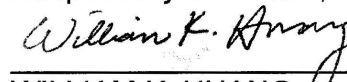
**COUNCIL CONSIDERATION:**

The proposed action is consistent with the City's General Plan - Housing Element and the Five-Year Consolidated Plan. Approval and implementation of the staff recommendation will enable the City to ensure the long-term affordability and viability of the HOPE projects in Pasadena which provide affordable housing opportunities for the underserved population of persons with intellectual and/or developmental disabilities. The proposed action also supports and promotes the quality of life and the local economy -- a goal of the City Council's Strategic Plan.

**FISCAL IMPACT:**

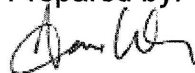
Approval of the recommended actions will increase the Housing Department's FY 2024 Operating Budget by an amount not to exceed \$1,997,000 (Account No. 22116002-817200-52080) by appropriating from the HOME Fund (221) to the HOPE project as discussed in this report. The proposed City financing to implement the HOPE Project will be drawn from HOME Fund. There is no impact to the General Fund.

Respectfully submitted,

  
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