

Agenda Report

October 23, 2023

TO: Honorable Mayor and City Council

THROUGH: Finance Committee

FROM: Housing Department

SUBJECT: AMENDMENT OF THE HOUSING DEPARTMENT'S FISCAL YEAR 2024 OPERATING BUDGET IN THE AMOUNT OF \$379,900; APPROVAL OF KEY TERMS OF HOUSING ACQUISITION LOAN AGREEMENT WITH HERITAGE HOUSING PARTNERS TO PROVIDE PURCHASE FINANCING IN AN AMOUNT NOT TO EXCEED \$379,900 TO IMPLEMENT PURCHASE OPTIONS ON AFFORDABLE HOMEOWNERSHIP UNIT AT 588 N. FAIR OAKS AVENUE, #103

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) Amend the Housing Department's Fiscal Year (FY) 2024 Operating Budget by appropriating \$379,900 from the Inclusionary Housing Fund's unappropriated fund balance for the HHP Housing Acquisition Project;
- 3) Approve key business terms, as described in this agenda report, of the proposed Housing Acquisition Loan Agreement (the "Agreement") with Heritage Housing Partners; and
- 4) Authorize the City Manager to execute the Agreement and all documents necessary to effectuate the staff recommendation.

BACKGROUND:

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

HHP ACQUISITION LOAN AGREEMENT

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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. These units are subject to deed restrictions, which provide 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 and 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, one (1) deed-restricted homeownership unit (the “Property”) has come up for resale:

- 588 N. Fair Oaks Ave., Unit 103 in the Fair Oaks Court project developed by HHP. This two-bedroom unit is deed-restricted at the moderate-income level. Owner Johnna Beeson, who acquired the unit in 2008, will be moving outside of Pasadena to provide caregiving services to an elderly family member.

In September 2023, HHP submitted to the City a loan request in the amount of \$379,900 to acquire the Property. Staff have evaluated HHP’s request and in the interest of preserving the affordability of the Property, it is recommended that the City provide \$379,900 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, HHP has successfully acquired 14 deed restricted affordable units and resold them to qualified low- and moderate-income first-time homebuyers. The acquisition financing extended by the City to HHP were fully repaid from the resale transactions. The most recent City loan made to HHP was in January 2022, in the total amount of \$450,000 to acquire a unit in the Herkimer Garden development. HHP repaid the City loan in full from the resale transaction, and the property was resold and preserved as an affordable unit in the City’s housing inventory. A housing acquisition loan for the purchase of 106 E. Orange Grove Blvd, #102 was approved by the Council on August 28, 2023; HHP is currently in escrow to purchase this property, with a targeted closing at the end of October 2023.

HHP is an experienced housing organization with a strong track record in developing, marketing and selling affordable ownership housing. Homeownership projects completed by HHP in Pasadena include Haskett Court, Fair Oaks Court, Herkimer Gardens, Summit Grove, and Lincoln Orange Grove. The nonprofit has extensive experience working with income-qualified first-time homebuyers and familiarity with mortgage programs designed for these buyers. HHP maintains an interest list of 9,062 subscribers of which 5,806 have indicated a preference for purchasing a home in Pasadena.

The Internal Housing Loan Committee 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") with the following key business terms:

- a) The total amount of the City acquisition financing shall not exceed \$379,900.
- b) HHP shall utilize the City financing to acquire deed-restricted homeownership unit located at 588 N. Fair Oaks Ave., Unit #103 (the "Property").
- c) The acquisition loan for the Property shall be evidenced by a promissory note with the City as beneficiary and secured by a first trust deed on the Property.
- d) The term of the acquisition loan shall not exceed 12 months unless a longer term is agreed to at the discretion of the Director of the Housing Department (the "Housing Director").
- 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 moderate-income households, as determined by the Housing Department.
- g) HHP shall utilize the City loan funds to acquire the Property no later than December 31, 2023.
- h) HHP shall re-sell the Property to a qualified moderate-income household or family in accordance with the City's affordable housing deed restrictions and the City's local preference policy.
- i) The costs of 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 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).
- j) Priority in the selection of qualified buyers will be in accordance with the City's local preference guidelines.

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

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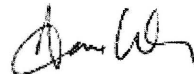
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15326 of the State CEQA Guidelines. No further CEQA review is required for this activity.

FISCAL IMPACT:

Approval of the recommended actions will increase the Housing Department's FY 2024 Operating Budget by an amount not to exceed \$379,900 by appropriating from the unappropriated fund balance of the Inclusionary Housing Trust Fund (239). The proposed City financing to implement HHP's acquisition of the subject Property will be drawn from Inclusionary Housing Trust Fund (Account No. 23916003-816700-51402). The action will reduce the available balance of the Inclusionary Fund to approximately \$1.42 million in non-earmarked funds available for new project commitments. There is no impact to the General Fund.

Respectfully submitted,



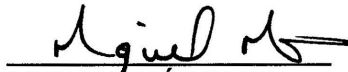
WILLIAM K. HUANG
Director of Housing

Prepared by:



CAROLINE LOCKWOOD NELSON
Program Coordinator

Approved by:



MIGUEL MÁRQUEZ
City Manager