

Agenda Report

August 19, 2024

TO: Honorable Mayor and City Council

THROUGH: Economic Development and Technology Committee (July 16, 2024)

FROM: Department of Housing

SUBJECT: **AUTHORIZE THE SUBMITTAL OF AN APPLICATION TO THE BURBANK-GLENDALE-PASADENA REGIONAL HOUSING TRUST FUND FOR FUNDING IN AN AMOUNT NOT TO EXCEED \$3,250,000 FOR AN AFFORDABLE HOUSING PROJECT WITH HERITAGE HOUSING PARTNERS AT 1878 E. WALNUT STREET**

RECOMMENDATION:

It is recommended that the City Council:

- 1) Find that the action proposed herein is not a “project” subject to the California Environmental Quality Act (CEQA) pursuant to State CEQA Guidelines Section 21065 and within the meaning of Section 15378(b);
- 2) Authorize the City of Pasadena to apply for funding from the Burbank-Glendale-Pasadena Regional Housing Trust Fund in an amount not to exceed \$3,250,000 for a short-term loan for an affordable housing project at 1878 E. Walnut Street that will result in the addition of a total of thirty-one (31) affordable homeownership units to Pasadena’s housing stock; and
- 3) Authorize the City Manager, or his designee, to execute, on behalf of the City, the Burbank-Glendale-Pasadena Regional Housing Trust Fund funding application, along with any associated funding documents and agreements, as well as any amendments thereto, as required for participation in the Burbank-Glendale-Pasadena Regional Housing Trust Fund funding program.

BACKGROUND:

1878 E. Walnut Street Project

Staff proposes applying to the Burbank-Glendale-Pasadena Regional Housing Trust (“BGPRHT”) for \$3,250,000 to assist the construction of a mixed-income for-sale condominium project located at 1878 E. Walnut Street (the “Project”). This would be a

short-term construction loan to be repaid in September 2026. Once returned, the BGPRHT funding would be available as funding for the acquisition or construction of additional affordable housing in Pasadena.

The project developer is HHP-WALNUT LLC, whose sole member is Heritage Housing Partners (“HHP”), a Pasadena-based non-profit affordable housing developer. The Project overall consists of sixty (60) for-sale units, with a mix of twenty-five (25) Low Income units, three (3) Moderate Income units, and thirty-two (32) unrestricted units. If the proposed BGPRHT funding application is successful, HHP has agreed to provide an additional three (3) Moderate Income units. This would add a total of thirty-one (31) affordable units to Pasadena’s housing stock.

The Affordable Sales Price (the total of the homebuyer’s downpayment and first mortgage) ranges from \$332,000 for a Low Income one-bedroom unit to \$726,000 for a Moderate Income three-bedroom unit. The median sales price Citywide for a new construction condominium (built in 2019 or after) over the past six months was \$1.23 million. The proposed BGPRHT funding for the Project would represent the City’s most significant investment in affordable for-sale housing since 2020 with the Decker House and Gill Court projects which totaled 16 units.

Burbank-Glendale-Pasadena Regional Housing Trust Fund

During the 2021-2022 legislative session, State Senator Anthony Portantino introduced Senate Bill (SB) 1177, a bill authorizing the creation of the BGPRHT. This joint powers authority/agency, formed by and between the cities of Burbank, Glendale, and Pasadena, is a new funding source for affordable housing in the tri-city area and has the ability to fund affordable housing for the homeless population and for extremely Low, Very Low, Low, and Moderate Income households.

SB 1177 allowed Burbank, Glendale, and Pasadena to enter into a Joint Exercise of Powers Agreement (“JPA”), which was approved by each City Council and executed on May 2, 2023. In addition, a budget appropriation of \$23 million was approved in the Governor’s 2022-2023 budget for the BGPRHT.

On September 27, 2023, the BGPRHT Board of Directors, which consists of one City Councilmember each from Burbank, Glendale, and Pasadena, approved a Trust Project/Program Funding Policy (the “Funding Policy”). The Funding Policy allocates the capital funding from the initial \$23 million budget appropriation equally to each member city, resulting in a distribution of \$6.9 million to each. Trust staff crafted the Funding Policy to allow each member city to prioritize its own individual funding needs, including funding any existing pipeline projects, as SB 1177 was drafted in part to address insufficient funding for pipeline projects throughout the tri-city region.

The Funding Policy provides flexibility in terms for both the type of projects that can be funded and the use of funds (predevelopment, construction, and permanent financing are all allowable under the Funding Policy). Per the Funding Policy, Trust member City

Councils must approve the submission of funding requests before they can be considered for funding by the Trust Board. Loan funds from the initial \$23 million will be repaid to the Trust member city, rather than to the Trust itself.

At the City Council's regular meeting on May 20, 2024, the BGPRHT Interim Trust Manager provided an update on the BGPRHT, including information on the funding process.

1878 Walnut St. Funding Proposal

A standard funding agreement between HCD, the City, and HHP for an award of Affordable Housing & Sustainable Communities ("AHSC") funds was executed in June 2023, but HCD has yet to finalize a form of regulatory agreement for the Project's affordable units. This is required by HCD before the AHSC funds can be released, which resulted in HHP having to draw down its higher cost conventional construction financing for the Project, which broke ground in January 2024. Meanwhile, construction costs for the Project have continued to increase during this delay.

In April 2024, HHP submitted a funding proposal (including a project narrative stating the need for funding and a project proforma) through the Department's ongoing, over-the-counter funding process. Per HHP's proposal, the Project, which has a total needs a short-term construction loan to help defray the costs associated with the delay of the AHSC funds. The Project has a total direct development cost of \$51 million, plus post-completion costs including sales commission, holding costs, title and escrow costs, and reserves for post-completion repairs. Other committed funding sources include funding from the AHSC award, State of California CalHome funds, a conventional construction loan, and developer equity.

Currently, the single largest source of public funding for the Project is the AHSC program, which was secured under a joint funding application submitted by the City and HHP in 2021. The AHSC program is an important part of California's climate and equity strategy; it provides funding for affordable housing and transportation project near to jobs, schools, and other daily destinations, with a focus on reducing greenhouse gas emissions. HCD awarded a total of \$8.75 million in AHSC funds to the City, with \$4.75 million to assist the Project directly in the form of a long-term loan. The Project is the first homeownership development to be assisted by AHSC since the inception of the state program.

The remainder of the AHSC award provides the City with capital funding for transportation projects, including enhanced Allen Metro Station access, the design and installation of traffic calming devices and bicycle enhancements along Craig Avenue, the purchase of new electric buses as part of the increased service on the Los Angeles Department of Transportation ("LADOT") Commuter Express Line 549 route, and other transit related amenities such as street lighting, street trees, and real time bus arrival information signs. HHP, the City, and LADOT are all parties to a joint implementation

agreement that outlines each entity's responsibility for effectuating the AHSC-funded activities contemplated in the application.

Staff reviewed the funding proposal and identified BGPRHT funds as a potential source to provide the requested construction financing for the Project. As proposed, the BGPRHT funding would be provided by the City, as lender, to HHP as a construction loan. The City loan would have a 24-month term and bear interest at the rate of 1.00%. Principal and interest would be deferred during the construction period. Upon project completion, the loan (principal plus interest) will be repaid from the proceeds of the unit sales.

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 has demonstrated success with implementing the City's Local Preference and Priority System Guidelines; 88.6% of the households who purchased a home at the recently completed Lincoln Orange Grove project qualified under the Local Preference criteria. RAAM Construction will be the general contractor for the 1878 E. Walnut St. project.

The key business terms of a Development and Loan Agreement will be brought back to Council for approval, if BGPRHT funding is approved by the BGPRHT Board.

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:

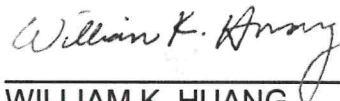
CEQA excludes, from environmental review, actions that are not "projects" as defined by CEQA Guidelines Section 21065 and within the meaning of Section 15378(b). Sections 21065 and 15378 define a project as an action which may cause either a direct physical change in the environment, or a reasonably foreseeable indirect physical change in the environment. Section 15378 excludes from the definition of "project" organizational or administrative governmental activities that do not result in physical changes to the environment. The actions proposed herein, authorizing staff to apply for funding and execute the application, are organizational or administrative governmental activities that do not result in physical changes to the environment, and therefore is not a "project" as defined by CEQA. Since the action is not a project subject to CEQA, no environmental document is required. The 1878 E. Walnut St. project was previously subject to environmental review on April 21, 2021. The project was determined to be

exempt from environmental review pursuant to the CEQA Guidelines Section 15332, Class 32, In-Fill Development Projects.

FISCAL IMPACT:

Approval of the recommended actions will have no direct fiscal impact on the City's General Funds or current operating budget. If the City's application for BGPRHT funding is successful, a funding agreement between the City and the BGPRHT will be entered into, and staff will return to City Council to amend the Housing Department's FY 2025 Operating Budget and to recognize the BGPRHT funding as revenue.

Respectfully submitted,



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