

Agenda Report

February 26, 2024

TO: Honorable Mayor and City Council

THROUGH: Finance Committee

FROM: Department of Housing

SUBJECT: AMENDMENT OF THE HOUSING DEPARTMENT'S FISCAL YEAR 2024 OPERATING BUDGET IN THE AMOUNT OF \$1,903,121; APPROVAL OF KEY BUSINESS TERMS OF AN AFFORDABLE HOUSING LOAN AGREEMENT WITH DOOR OF HOPE FOR THE DEVELOPMENT OF A TRANSITIONAL HOUSING PROJECT AT 724 N. MARENGO AVENUE TO SERVE UNHOUSED PERSONS AND FAMILIES

RECOMMENDATION:

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

- 1) Find that the proposed housing financing and development activities, as described in this agenda report, do not have a significant effect on the environment and have been determined to be categorically exempt from the California Environmental Quality Act under Section 15301(e)(2) (Class 1, Existing Facilities), and that there are no features that distinguish this project from others in the exempt class and, therefore, there are no unusual circumstances;
- 2) Approve a budget amendment appropriating a total of \$1,903,121 consisting of:
a) \$1,200,000 from the Inclusionary Housing Trust Fund unappropriated fund balance, b) \$500,000 from the HOME Fund unappropriated fund balance, and c) \$203,121 from the Housing Successor Fund unappropriated fund balance to the Housing Department's FY 2024 Operating Budget to fund the proposed City loan for the Door of Hope Transitional Housing Project;
- 3) Approve certain key business terms, as described in this agenda report, of the proposed Affordable Housing Loan Agreement with Door of Hope; 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 724 N. Marengo Avenue, Pasadena. The Property was acquired by Door of Hope in November 2023, from Andy Bales who is the retiring Chief Executive Officer of the Union Rescue Mission in Los Angeles. The front of the Property is improved with an Arts and Crafts Period single-family residence (3,213 sq. ft.) built in 1909, and in the rear, a vernacular residence (560 sq. ft.) built in 1945. Both structures are unoccupied and in poor condition. Design and Historic Preservation staff conducted a historic resource evaluation and concluded on February 8, 2024, that the Property does not meet the criteria for any historic designation. The Property is zoned as Fair Oaks Specific Plan, Limited Commercial District 3, subarea "d" (FGSP-C-3D). Under this zoning designation, the Property can be used to provide transitional housing by-right.

Door of Hope proposes to convert the Property to transitional housing use by renovating the main residence, demolishing the rear structure, and constructing an additional 10,000 sq. ft. of habitable building space extending from the main residence to the rear of the parcel. The completed project, to be named the David and Katherine Lee Home ("Lee Home") would provide living accommodations for up to 20 client households (single mothers, single fathers, and two-parent families with children). Each household will have their own private bedroom/bathroom. Amenities include a living room, dining/multipurpose room, shared kitchen with ten (10) cooking stations, laundry room, case management office, rooms for supportive services, children's playroom with adjacent outdoor tot lot, manager's office, and an elevator for ADA accessibility. The Lee Home will be operated and managed by the Door of Hope Transitional Housing Program. Onsite supportive services for residents include case management, housing navigation, life skills, and children's programs. The average length of stay for residents is anticipated to be approximately eight (8) months.

A community meeting was held by Door of Hope at the Orange Grove Gardens Community Room (252 E. Orange Grove Blvd.) on September 21, 2023, to solicit neighborhood feedback on the proposed transitional housing project. No objections were raised concerning the proposed project by community members who attended the meeting.

Door of Hope is a nonprofit religious organization that was founded in 1985 to address homelessness and housing for victims of domestic violence in Pasadena. Their experience as a housing provider includes the development and operation of four (4) projects which serve up to 36 unhoused families - two projects are located in Pasadena (Los Robles House and Villa House), and the other two are located in nearby cities. Door of Hope estimates that for every family they are able to serve, 23 families remain unhoused on the waiting list. Data collected through the 2023 Pasadena Point-In-Time homeless count indicates that first-time homelessness disproportionately impacts families (13% of first-time homeless in families vs. 6% of homeless population in families). The proposed Lee Home transitional housing project will increase the capacity to serve an additional 20 unhoused families and address a critical unmet need.

Door of Hope submitted a funding proposal for the subject project to the City on August 10, 2023. The project budget totals \$6,453,121 consisting of \$1.20M for acquisition, \$3.42M for construction, and \$1.83M for predevelopment, design, soft costs, contingency, and furnishings. The project is proposed to be financed in part with a City loan in the amount of \$1,903,121. To date, grant commitments for the balance of the project financing totaling \$4.55M (70% of the project budget) have been secured by Door of Hope from the Los Angeles Board of Supervisors (\$250,000), private foundations (\$1.2M), and individual donors (\$3.1M).

Staff analyzed the proposal and believe that the project financial assumptions are reasonable, the proposed City funding amount (\$95,156 per unit) compares favorably with City subsidy levels on other affordable housing projects, and that the proposed loan assistance is an appropriate use of City housing funds. Accordingly, staff recommends that the City enter into an Affordable Housing Loan Agreement with Door of Hope for the proposed transitional housing project. The staff recommendation was reviewed by the Internal Housing Loan Committee on December 7, 2023, which recommended approval.

The Northwest Commission, at its special meeting of January 17, 2024, unanimously recommended to City Council that it approve the key business terms of an Affordable Housing Loan Agreement with Door of Hope and the provision of a City loan in the amount of \$1,903,121 to assist the development of a transitional housing project at 724 N. Marengo Avenue.

KEY BUSINESS TERMS OF THE AFFORDABLE HOUSING LOAN AGREEMENT

The proposed Affordable Housing Loan Agreement (the "Loan Agreement") between the City and Door of Hope ("Developer"), in connection with the construction and operation of the Property as transitional housing (the "Project"), includes the following key business points:

- 1) **Project Budget:** The estimated total project cost is \$6,453,121 includes property acquisition, predevelopment and design, construction, soft costs, contingency and furnishings. This amount shall be financed with City funds in the amount of \$1,903,121 plus other funds totaling \$4,550,000 which have been secured by the Developer.
- 2) **Federal HOME Funds:** City shall formally award and disburse an amount not to exceed \$500,000 in federal HOME funds subject to the following conditions being satisfied: 1) completion of a NEPA environmental review; 2) HUD approval of the City's Request for Release of Funds; and 3) the Developer securing conditional commitments from all other proposed funding sources necessary to make the Project financially feasible.
- 3) **City Loan funding, interest, term, uses:** City funding assistance for the Project shall not exceed \$1,903,121 in the form of a loan ("City Loan") drawn from the Inclusionary Housing Trust Fund, HOME Fund, and the Housing Successor

Fund. The City Loan shall bear simple, non-compounded interest at the fixed rate of 1.50% per annum, with a 55-year term. The use of City Loan funds shall be limited to the eligible costs specified in the Project Budget which consists of acquisition costs incurred by Developer (but not to exceed \$600,000), design and predevelopment, and construction.

- 4) **Payments on City Loan:** Developer shall make annual interest-only 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).
- 5) **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.
- 6) **Scope of Development:** Development of the Project entails the conversion of the existing single-family residential structure on the Property and the construction of a five-story, transitional housing complex with 20 dwelling units for persons and families. Project amenities shall include a courtyard, a community room, and management offices. The development of the Project, including project construction and lease-up, shall be performed in accordance with a Scope of Development.
- 7) **Schedule of Performance:** Project milestones and completion timeframe shall be set forth in a Schedule of Performance.
- 8) **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 20 units in the Project shall be restricted to persons or families experiencing homelessness with household incomes not exceeding the Extremely Low Income limit (up to 30% of the area median income for Los Angeles County). Any sale, transfer, refinance, or encumbrance of the Property by Developer shall require the approval of the City.
- 9) **Resident Selection, Project Management, and Property Maintenance Plans:** Developer shall submit to the City for approval a plan for the selection of residents referred through the Coordinated Entry System (CES), which plan shall provide a Pasadena local preference. Developer shall also submit to the City for approval plans for the management of the Project and maintenance of the Property.
- 10) **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.
- 11) **Federal HOME policies:** Developer shall comply with all applicable federal HOME policies including but not limited to accessibility standards, lead-based

paint testing and remediation, and Section 3 labor hiring.

- 12) **Reporting:** Developer shall submit to the City the following reports: a) during the Scope of Development period - monthly compliance reports for the City's First Source local hiring and HUD Section 3 labor program; b) during the City Loan term - annual operating budget and audited financial statements; c) during the Regulatory Agreement term - annual client eligibility 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 development of the subject property does not have a significant effect on the environment and has been determined to be categorically exempt under Class 1 (Existing Facilities) of the State California Environmental Quality Act ("CEQA"), (Section 15301 of the State CEQA Guidelines). Class 1 applies to the repair, maintenance and minor alteration of existing facilities, and subsection (e)(2) specifically applies to additions to existing structures of less than 10,000 square feet if: (A) the project is in an area where all public services and facilities are available to allow for maximum development permissible under the General Plan, and (B) the area in which the project is located is not environmentally sensitive. This project meets both of those requirements. In this instance, the proposed City financing and the development of the Project will not have a significant effect on the environment. There are no exceptions to the use of an exemption identified in Section 15300.2 of the State CEQA Guidelines that apply to the Project. There are no features that distinguish the Project from others in the exempt class and, therefore, there are no unusual circumstances. Accordingly, no further CEQA review is required for this activity.

FISCAL IMPACT:

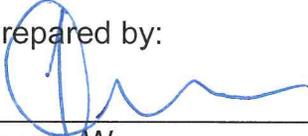
Approval of the recommended actions will increase the Housing Department's FY 2024 Operating Budget by the amount of \$1,903,121 from the unappropriated fund balances of the Inclusionary Housing Trust Fund, the Housing Successor Fund, and the HOME Fund. The proposed City financing to implement Door of Hope's acquisition and construction of the subject property will be drawn from the: a) Inclusionary Housing Trust Fund (Account No. 23916003-816700-53435) in the amount of \$1,200,000, b) HOME Fund Balance (Account No. 22116002-816700-53435) in the amount of \$500,000, and c) Housing Successor Fund (Account No. 23716003-816700-53435) in the amount of \$203,121. Approval of this action will leave unappropriated fund balances of approximately \$1.29M in the Inclusionary Housing Trust Fund and

\$800,000 in the Housing Successor Fund. The HOME fund will have approximately \$2M available to commit to new activities.

Respectfully submitted,


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