

# Agenda Report

June 3, 2024

**TO:** Honorable Mayor and City Council

**FROM:** Housing Department

**SUBJECT: APPROVAL OF KEY BUSINESS TERMS 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 2318 E. FOOTHILL BOULEVARD FOR OPERATION AS A TEN-UNIT AFFORDABLE RENTAL HOUSING PROJECT FOR TRANSITION AGE YOUTH AND AMENDMENTS TO THE HOUSING DEPARTMENT'S FISCAL YEAR 2024 OPERATING BUDGET**

## **RECOMMENDATION:**

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

- 1) Find that the proposed development of the 10-unit affordable housing project for transition age youth at 2318 E. Foothill Boulevard (the "Project") is exempt from environmental review pursuant to the California Environmental Quality Act (CEQA) per Administrative Code, Title 14, Chapter 3, Article 19, §15332, Class 32 (In-Fill Development Projects), and Article 12.5, §15194 (Affordable Housing Exemption);
- 2) Approve certain key business terms, as described in this agenda report, of the proposed Affordable Housing Loan Agreement with Heritage Housing Partners in connection with the development of the Project;
- 3) Authorize the City Manager to execute any and all documents necessary to effectuate the staff recommendation, including a funding agreement with the County of Los Angeles for a grant in the amount of \$1,000,000 which is designated to support the Project;
- 4) Approve a budget amendment appropriating \$1,000,000 from the Other Housing Funds Unappropriated Fund Balance (Fund 238) to the Housing Department's Fiscal Year (FY) 2024 Operating Budget for the Project; and
- 5) Approve a budget amendment appropriating \$1,000,000 in HOME-ARPA funds from the HOME Investment Partnerships Program (HOME) Unappropriated Fund

Balance (Fund 221) to the Housing Department's FY 2024 Operating Budget for the Project.

**BACKGROUND:**

The proposed project is the second affordable housing project for transition age youth who are homeless or at-risk ("TAY") to be undertaken by Pasadena-based nonprofit housing developer Heritage Housing Partners ("HHP"). HHP's first TAY project is located at 2322 E. Foothill Blvd. consisting of six studio units which, with City loan assistance pursuant to Contract No. 23651, HHP commenced acquisition and development activities in May 2022. HHP partnered with a social service provider, First Place for Youth ("FPFY") which will provide social services for the TAY residents. HHP and FPFY each entered into agreements with Pasadena City College ("PCC") which provide for a project operating subsidy from PCC and a process for selecting TAY-eligible PCC students to occupy the project. It is anticipated that the units will be ready for occupancy by the end of June 2024.

The site of the HHP's proposed second TAY project is located at 2318 E. Foothill Blvd. (the "Project") which is adjacent to and east of the first project. The property consists of two residential buildings, both of which are vacant. HHP, FPFY, and PCC all recognized the opportunity to acquire the property in order to develop a second, neighboring project and provide additional units for TAY clients. As in the first TAY project, FPFY will provide case management, supportive services and property management, and PCC will enter into a grant agreement with HHP in consideration of the Project units being made available for TAY-eligible PCC students.

HHP entered into escrow in May 2023 to acquire the property and had anticipated to close the purchase transaction by May 31, 2024, after the seller agreed to four escrow extensions. HHP has negotiated a fifth extension with a closing deadline of June 14, 2024. The Project scope of work includes rehabilitating the existing single-family building into two units, demolishing the existing rear structure, and constructing a new eight-unit building with two floors of four studios each. The Project will provide ten units consisting of one unit for an on-site property manager/social worker employed by FPFY and nine units for TAY residents. The resident selection process will include a local Pasadena preference including TAY-eligible Pasadena City College students.

The total project development cost is estimated to be \$5,475,000 including \$1,300,000 in acquisition costs. As recommended, City loan assistance in the total amount of \$2,000,000 will be provided to assist the Project, including funds in an amount not to exceed \$1,000,000 from federal HOME-American Rescue Plan Act ("ARPA"). ARPA is critical to the City's financial assistance for the Project. The other funding sources typically utilized for affordable housing activities and administered by the Department (HOME entitlement, Inclusionary, and Housing Successor) do not have unencumbered or unprogrammed balances that are adequate to fund the City's proposed loan for the Project.

An additional \$1,000,000 in City loan funding will be from the available fund balance of the Department's Other Housing Fund (Fund 238). The County of Los Angeles has

committed to provide pass-through grant funds to the City in the amount of \$1,000,000 from the Interim Housing Capital Funding Pool; these funds are restricted for HHP's Project acquisition costs. Upon execution of the County/City funding agreement, the funds will be recognized as revenue in Fund 238 of the Department's Operating Budget through a future budget clean-up action by Council. Other proposed Project funding sources include a contribution from FPFY of federal grant funds (\$500,000), HHP equity, privately raised monies including foundation grants, and conventional construction financing.

HHP submitted a funding proposal to the City on January 31, 2024. 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 Project. The staff recommendation was not reviewed by the Internal Housing Loan Committee due to lack of a quorum at its regular meeting scheduled on May 6, 2024.

There is a critical need for TAY housing. Per the City's Housing Element, "*Pasadena continues to have a large resident population with special housing needs. This includes seniors, large families, people with disabilities, people who are unhoused, college students, and **transitional at-risk youth.***" Additionally, Program #18 (Family, Youth and Student Housing) of the Housing Element's Housing Plan speaks to the need for housing for emancipated youth and student housing.

According to a recent UCLA study "State of Crisis: Dismantling Student Homelessness in California," it is 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. Critical interventions for youth experiencing homelessness include early and immediate access to emergency shelter beds, along with a clear pathway to long-term housing that will end their homelessness and allow them access to resources such as employment and education support. 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.

The two projects at 2318 and 2322 E. Foothill Blvd., which represent a total of 15 units of interim housing for TAY clients plus one manager's unit will help meet this critical need.

### **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, development, and operation of the Property as affordable rental housing for transition age youth (the "Project"), includes the following key business points:

- 1) **Requirements on Building Contractor and Materials.** In recognition of recent concerns that have been raised in connection with a separate, unrelated multifamily housing project developed by HHP during the period 2020-2023, the City deems it appropriate and prudent to set forth certain conditions on the building contractor and building materials to be utilized for the subject Project. HHP has agreed that City's written approval of HHP's choice of construction contractor is required before HHP's execution of a contract with the construction contractor, which approval will not be unreasonably withheld. Additionally, HHP has agreed not to utilize the same window materials and installation methods for the Project that were utilized by HHP from September 3, 2020 through March 30, 2023, for projects in Pasadena recently associated with construction defects.
- 2) **Development Entity.** The ownership and development entity for the Project is proposed to be a to-be-formed limited liability company in which HHP ("Developer") will be the sole managing member.
- 3) **Project Budget.** The estimated total project cost is \$5,475,000 comprised of site acquisition costs; architectural and engineering costs; permits and fees; construction costs; insurance, property taxes, general and administrative, and other soft costs; and capitalized replacement and operating reserves. The total project cost shall be financed with the City Loan and other funding to be secured by the Developer.
- 4) **City Loan funding, interest, term.** City funding assistance for the Project shall be in the form of a loan in an amount not to exceed \$2,000,000 ("City Loan") drawn from the Department's Other Housing Fund (\$1,000,000) (to be replenished from County grant funds), and HOME-ARPA monies (\$1,000,000) which reside in the Department's HOME Fund. The City Loan shall bear simple interest at the fixed rate of 1.50% per annum, with a 55-year term. City Loan funds shall be used to pay project costs as set forth in the Project Budget.
- 5) **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%.
- 6) **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.
- 7) **Scope of Development.** Acquisition and development of the 10-unit Project shall be performed in accordance with a Scope of Development.
- 8) **Schedule of Performance.** Project milestones and timeframe for their completion shall be performed in accordance with a Schedule of Performance.
- 9) **Regulatory Agreement; Approval of Transfers, Encumbrances.** Developer

shall comply with recorded rental housing deed restrictions in favor of the City for a term of 55 years (“Regulatory Agreement”). Pursuant to the Regulatory Agreement, occupancy of nine (9) of the Project units shall be restricted to Transition Age Youth (TAY) tenants at Very Low income with rents paid by tenants not to exceed Very Low-income affordability. In the event operation of the Project as TAY housing becomes financially unsustainable at the City’s determination, the Project 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.

10) **Marketing, Tenant Selection, and Management Plans.** Developer 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.

11) **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.

12) **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 ordinance; 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 State California Environmental Quality Act (CEQA) Guidelines require the preparation of environmental documents to assess and report the environmental impacts of certain types of projects that could result in adverse effects on the environment. Pursuant to CEQA Section 21084, the CEQA Guidelines (Section 15300 et seq.) also define classes of projects that are found by the Secretary of the California Natural Resources Agency to not have a significant effect on the environment and thus are declared to be categorically exempt from the requirement for the preparation of environmental documents. These types of projects are exempt from CEQA, provided that none of the exceptions to the use of categorical exemptions apply (CEQA Guidelines §15300.2).

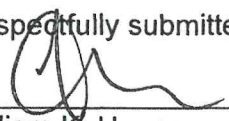


The proposed development of the 10-unit project at 2318 E. Foothill Blvd. to serve transition age youth (the "Project") meets the requirements of Class 32 exemption (CEQA Guidelines §15332), as it meets the definition of infill development; would be consistent with the applicable General Plan designation and all applicable General Plan policies as well as with the applicable zoning designation and regulations; occurs within City limits on a Project Site of no more than 5 acres substantially surrounded by urban uses; would be located on a site that has no habitat for endangered, rare, or threatened species; would not result in any significant effects relating to traffic, noise, air quality, or water quality; and could be adequately served by all required utilities and public services. Further, none of the exceptions to the use of a categorical exemption apply to the Project. Therefore, the proposed Project has been determined to be categorically exempt under Class 32 (In-Fill Development Projects) of the State CEQA and, specifically, Section 15332 of the CEQA Guidelines. In addition, the proposed Project has been determined to be statutorily exempt under Administrative Code, Title 14, Chapter 3, Article 12.5, §15194 (Affordable Housing Exemption). Section 15194 specifically applies to residential housing projects consisting of 100 or fewer units that are affordable to low-income households.


**FISCAL IMPACT:**

Approval of the recommended actions will amend the Housing Department's FY 2024 Operating Budget by the amount of \$2,000,000. The proposed City financing to implement the Project will be drawn from the Other Housing Fund (Account No. 23816047-816700-51054) in the amount of \$1,000,000, and the HOME Fund (Account No. 22116002-816700-51054) utilizing HOME-ARPA funds in the amount of \$1,000,000. The action will reduce the available uncommitted balances of the Other Housing Fund to approximately \$3,400,986, and HOME-ARPA funds to approximately \$758,000.

Respectfully submitted,

  
for William K. Huang  
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