



Agenda Report

September 23, 2024

TO: Honorable Mayor and City Council

FROM: Department of Housing

SUBJECT: **APPROVE THE SUBORDINATION OF CITY LOANS TO STATE FINANCING FOR THE REHABILITATION OF THE CENTENNIAL PLACE HOUSING PROJECT AT 235 E. HOLLY STREET, TERMS OF A MEMORANDUM OF UNDERSTANDING WITH ABODE COMMUNITIES REGARDING THE OPERATION OF THE PROJECT AND RELATED MATTERS, SUBMITTAL OF A CITY FUNDING APPLICATION IN THE AMOUNT OF \$1,650,000 TO THE BURBANK-GLENDALE-PASADENA REGIONAL HOUSING TRUST, AND PROGRAMMATIC TRANSITION TO OCCUPANCY FOR VERY LOW-INCOME SENIORS**

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) Approve the subordination of City loans to state financing for the rehabilitation of the Centennial Place project located at 235 E. Holly Street, Pasadena;
- 3) Approve the terms of a Memorandum of Understanding with Abode Communities regarding the operation of Centennial Place and related matters;
- 4) Approve the submission of a funding application in the amount of \$1,650,000 to the Burbank-Glendale-Pasadena Regional Housing Trust to assist the rehabilitation of Centennial Place; and
- 5) Approve the programmatic transition of Centennial Place to occupancy for very low-income seniors.

BACKGROUND:

Centennial Place is a 142-unit single-room occupancy (“SRO”) building located at 235 E. Holly Street which operates as a permanent supportive housing (“PSH”) project serving extremely low-income homeless persons. The property, which was originally built in 1910 and operated by the YMCA as a 125-room SRO hotel, was acquired in 1989 by the Los Angeles Community Design Center, now Abode Communities (“Abode”), and renovated (adding 17 units) as an affordable housing project for low-income persons. In 2010, in order to facilitate a land grant from the federal government of the Desiderio military surplus site, Centennial Place was converted to a PSH project to serve the homeless population. Funding and rental assistance were provided by the City and the County of Los Angeles, and Abode partnered with Union Station Homeless Services to provide supportive services for the residents.

However, the experience over the past few years is that Centennial Place is not working well as permanent supportive housing. The historic building is in poor and declining condition; residents are living in substandard conditions; there are significant housekeeping and pest issues; the level of intensive case management services (“ICMS”) is insufficient for the large number of high-need residents; and operations are financially unsustainable.

These conditions were exacerbated by the impacts of the pandemic: Annual room inspections were suspended, resulting in widespread poor housekeeping conditions. The eviction moratorium prevented evictions for cause, resulting in safety and security issues. And insufficient ICMS case manager levels, property management turnover, and custodial staff reductions were the impacts of the labor shortage during the pandemic.

These outcomes are not specific to Centennial Place. Recent experience in Los Angeles County is that traditional SRO buildings in general have been found to be unsuitable for PSH operation. This is evident in the example of the Skid Row Housing Trust’s SRO properties in downtown Los Angeles: Shared basic needs facilities do not work for high-need residents who are often challenged to properly utilize basic needs communal facilities (bathrooms, cooking and dining spaces), and the inability to provide sufficient ICMS leads to a downward spiral resulting in substandard living conditions and poor outcomes for ICMS-dependent residents.

To address the issues at Centennial Place, staff developed the recommendations which are discussed below, the key objectives of which are to resolve the substandard housing condition; preserve 142 units of existing affordable housing; and increase affordable housing available for very low-income seniors who are inherently at-risk of falling into homelessness.

This initiative also contemplates a City investment totaling an estimated \$3.66 M from a combination of sources including funds from the Burbank-Glendale-Pasadena Regional Housing Trust, the state allocation of Permanent Local Housing Allocation monies, and the City's Inclusionary Housing funds. The funding would be used for capital improvements that are not included in the state-funded rehabilitation scope and security enhancement. Staff will return to Council in the near future with funding recommendations.

To mitigate the loss of PSH that will occur with the transition of Centennial Place to a senior housing project, there are currently two (2) projects with a total of 98 PSH units in the pre-development pipeline: Ramona Senior Housing at 280 Ramona St. (a 100-unit project with 48 PSH units), and the Starr Apartments at 231 N. Hill St. (a 52-unit project with 50 PSH units).

Subordination of City Loans to New State Financing for Rehabilitation

In October 2022, Abode applied to the state for funding under the Portfolio Reinvestment Program to renovate Centennial Place, which resulted in an award of \$26M by the California Department of Housing and Community Development ("HCD"). The funding consists of a construction period loan from Century Housing Corporation which, upon project completion and stabilization, will convert to a permanent loan held by HCD. The lenders require, as a condition of construction closing, the City to enter into subordination agreements for its three (3) trust deed loans (in second, third and sixth priority lien positions with an outstanding principal balance totaling \$10,285,327). If the City does not agree to subordinate its loans, the state funding award would be forfeited. Other soft financing in the Project provided by the County of Los Angeles would also be required to subordinate. The Internal Housing Loan Committee at its meeting on August 8, 2024, unanimously supported the staff recommendation for Council approval of the loan subordination.

Memorandum of Understanding for Project Operations and Related Matters

As recommended, the City and Abode will enter into a Memorandum of Understanding which will contain the following terms:

- 1) Subordination of City loans: The City will subordinate its three (3) existing deed of trust loans and related regulatory agreements to the proposed state financing in the amount of \$26.3M for the renovation of Centennial Place, which financing consists of a construction loan from Century Housing which shall be converted to a permanent loan from the California Department of Housing and Community Development ("HCD").
- 2) Suspension of New Move-Ins: Abode shall continue to abide by the City's guidance provided in February 2024 to suspend new move-ins of residents until the state-financed scope of rehabilitation is substantially completed.

- 3) Management Plan: Abode agrees to provide a plan for the current operation and management of Centennial Place as a permanent supportive housing project (the "Management Plan") for persons experiencing homelessness. The Management Plan shall include (but shall not be limited to) the following operational components: a) case management staffing level; b) security plan; c) pest control; d) identification of on-site personnel; e) management company; f) access to property for City inspections; g) monthly reports on implementation of management plan; h) management plan to be set forth in City loan documents and regulatory agreements; and i) maintenance of property in good condition, and repairs.
- 4) Programmatic Transition: To the extent permitted by existing lender requirements and not in conflict with any regulatory restrictions applicable to the property, Abode agrees to provide a plan for the programmatic transition of Centennial Place from a permanent supporting housing project for persons experiencing homelessness to an affordable housing project for very low-income seniors (the "Transition Plan"). The implementation of this transition will not involve involuntary displacement (with the exception of evictions for cause). Current Centennial Place tenants will be offered voluntary transfers to other available PSH projects; otherwise, tenants in good standing may remain as residents in Centennial Place. The Transition Plan shall be submitted by October 15, 2024, for approval by the City Housing Director. To mitigate the loss of PSH that will occur with the transition of Centennial Place to a senior housing project, there are currently two (2) projects with a total of 98 PSH units in the pre-development pipeline: Ramona Senior Housing at 280 Ramona St. (a 100-unit project with 48 PSH units), and the Starr Apartments at 231 N. Hill St. (a 52-unit project with 50 PSH units).
- 5) Affirmation of Covenants, Regulatory Agreements, Owner Successor: Both parties affirm all prior covenants recorded against the project except as amended and superseded. Abode agrees to comply with all regulatory requirements. Subject to the existing regulatory requirements, Abode will participate in an effort to identify a City-approved affordable housing owner-operator to acquire the property upon completion of the rehabilitation. Without limiting the foregoing, Abode agrees to comply with all provisions of the City's Housing Assistance Payments ("HAP") Contract including but not limited to Section 19.1-19.4 regarding transfer of the HAP Contract and the property. Abode understands that no transferee shall have the right to receive any payment of housing assistance payments or any rights or remedies under the HAP contract without advance consent by the City to the transfer and written documentation of such in a form acceptable to the City.
- 6) Additional City Funding. City will consider additional funding requests from Abode specifically to provide temporary additional security services, rehabilitation of the heating system with new radiators throughout the building, install a second

elevator, replace windows to reduce heat gain and add window screens, and create an outdoor patio for residents.

- 7) Course of Construction Notices: During the renovation phase, Abode agrees to provide course of construction notices to the City. To the extent the City provides funds to Abode to finance additional improvements at Centennial Place, construction loan draws funded by the City and material change orders shall be subject to approval by the City Housing Director or his designee.

Burbank-Glendale-Pasadena Regional Housing Trust Funding Application

As recommended, the City would submit a funding application in the amount of \$1,650,000 to the Burbank-Glendale-Pasadena Regional Housing Trust (“BGP”) to assist the rehabilitation of Centennial Place. If awarded, the City would utilize the BGP funds, combined with an additional \$1,350,000 in City Housing funds, as a deed of trust loan to Abode to address needed physical improvements that are not included in the state-financed rehabilitation scope such as the installation of new radiators throughout the building and an additional (second) elevator. Staff will return to Council at a future date with a recommendation to approve the terms of a loan agreement and a budget amendment.

Programmatic Transition of Centennial Place to Senior Housing

As recommended, the Centennial Place housing program will transition from PSH for persons experiencing homelessness to an affordable housing project for very low-income seniors 55 years of age and older. The implementation of this transition will not involve involuntary displacement (with the exception of evictions for cause). Current Centennial Place tenants will be offered voluntary transfers to other available PSH projects; otherwise, tenants in good standing may remain as residents in Centennial Place. The transition will increase the number of affordable rental units available in Pasadena for very low income seniors which is a population that is inherently at-risk of falling into homelessness. With the proposed transition, Centennial Place, as a non-PSH project for seniors, will not need to rely solely on the County’s CES referral system for prospective residents. This will address the current situation in which too many high-acuity individuals are being assigned by CES to one project than can be adequately managed with existing ICMS levels.

COUNCIL POLICY CONSIDERATION:

The proposed action is consistent with the City’s General Plan – Housing Element. It is also consistent with the City Council’s strategic goals to support and promote the quality of life and the local economy.

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 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.

FISCAL IMPACT:


There is no fiscal impact as a result of this action and the action will not have any indirect or direct support cost requirements.

Respectfully submitted,



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