

Agenda Report

September 23, 2024

TO: Honorable Mayor and City Council

THROUGH: Finance Committee

FROM: Department of Housing

SUBJECT: APPROVE KEY BUSINESS TERMS OF AN AFFORDABLE HOUSING LOAN AGREEMENT WITH HHP-WALNUT, LLC FOR A SHORT-TERM CITY CONSTRUCTION LOAN IN AN AMOUNT NOT-TO-EXCEED \$3,250,000 IN BURBANK-GLENDALE-PASADENA REGIONAL HOUSING TRUST FUNDS FOR AN AFFORDABLE HOUSING PROJECT AT 1878 E. WALNUT STREET AND AMENDMENTS TO THE HOUSING DEPARTMENT'S FISCAL YEAR 2025 OPERATING BUDGET

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 certain key business terms, as described in this agenda report, of the proposed Affordable Housing Loan Agreement with HHP-WALNUT, LLC in connection with the development of an affordable housing project at 1878 E. Walnut Street (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 Burbank-Glendale-Pasadena Regional Housing Trust for a funding award in the amount of \$3,250,000, which is designated to support the Project; and
- 4) Amend the Housing Department's Fiscal Year (FY) 2025 Operating Budget by recognizing revenue and appropriating \$3,250,000 in the Other Housing Funds (Fund 238).

BACKGROUND:

1878 E. Walnut Street Project

The 1878 E. Walnut Street project (the “Project”) is a mixed-income for-sale condominium project located on Walnut Street between Parkwood Avenue and Greenwood Avenue. 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, six (6) Moderate Income units, and twenty-nine (29) unrestricted units.

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 needs a short-term construction loan to help defray the costs associated with a delay receiving its awarded funding from the State of California’s Affordable Housing and Sustainable Communities (“AHSC”) program.

The Project has a total construction cost of just under \$49 million, plus post-completion costs including sales commission, holding costs, title and escrow costs, reserves for post-completion repairs, and developer fee. Other committed funding sources include funding from the AHSC program, State of California CalHome funds, a conventional construction loan, and developer equity.

Staff reviewed the funding proposal and identified Burbank-Glendale-Pasadena Regional Housing Trust Fund (“BGPRHT”) funds as a potential source to provide the requested construction financing 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.

Per BGPRHT’s Funding Policy, Council approval must be secured before a member City applies to the BGPRHT for a funding award. On August 19, 2024, Council authorized staff to apply to the BGPRHT for construction funding in the amount of \$3,250,000 for the Project.

At its September 11, 2024 meeting, the BGPRHT Board approved the City’s funding application and awarded \$3,250,000 to assist the Project. The award will be subject to a funding agreement between BGPRHT and the City. The City will utilize these funds as a short-term construction loan to HHP, with a twenty-four (24) month term. When the City loan is repaid, the funds would be deposited as program income into Fund 238 (Other Housing Fund) and would be available to assist other affordable housing projects in Pasadena. As a condition of BGPRHT funding approval, HHP agreed to provide an additional three (3) Moderate Income units, bringing the total number of Moderate units

from three (3) to six (6). Overall, a total of thirty-one (31) affordable ownership units will be added 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.

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. HHP 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.

On September 19, 2024, the Internal Housing Loan Committee reviewed and approved the following key business terms of an Affordable Housing Loan Agreement for a \$3.25 million construction loan to HHP.

KEY BUSINESS TERMS OF THE AFFORDABLE HOUSING LOAN AGREEMENT

The proposed Affordable Housing Loan Agreement (the "Loan Agreement") between the City and HHP-WALNUT LLC ("Developer"), in connection with the development of affordable homeownership units at the project, includes the following key business points:

- 1) **Development Entity.** The ownership and development entity for the Project is HHP-WALNUT LLC ("Developer"), a California limited liability company. HHP is the sole managing member.
- 2) **Project Budget.** The estimated total project construction cost is \$48,936,682, comprised of site acquisition cost, architectural and engineering costs, permits and fees, construction costs, insurance, property taxes, general and administrative, and other soft costs. Additional post-completion costs including sales commissions for the market rate units, escrow and title costs, and developer fee shall be paid out of sales proceeds. With the City loan, the Developer has secured all of the necessary funding for construction period costs.
- 3) **City Loan funding, interest, term.** City funding assistance for the Project shall be in the form of a short-term loan in an amount not to exceed \$3,250,000 ("City

Loan”) drawn from the Department’s Other Housing Fund (\$3,250,000). The City Loan shall bear simple interest at the fixed rate of 1.00% per annum, with a 24-month term, and one (1) twelve (12) month extension, if required. City Loan funds shall be used to pay project costs as set forth in the Project Budget, and will be disbursed as construction progress payments to Developer through a mutually acceptable third-party fund control agent.

- 4) **City Loan payment.** Developer shall make payments on the City Loan from the Project’s net sales proceeds once the first lien position construction lender has been fully repaid. Payments received on the City Loan will be program income, to be deposited into Fund 238 (Other Housing Fund).
- 5) **City Loan security.** The City Loan shall be secured with a deed of trust in the second lien position, subordinate only to the conventional construction loan, 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 shall be performed in accordance with a Scope of Development. The Scope of Development will contain certain City conditions on the building materials (including windows) utilized for the Project.
- 7) **Schedule of Performance.** Project milestones and timeframe for their completion shall be performed in accordance with a Schedule of Performance.
- 8) **Regulatory Agreement; Approval of Transfers, Encumbrances.** Developer shall comply with recorded affordable housing deed restrictions in favor of the City for the term of the loan (“Regulatory Agreement”). In the event of a sale of the Property by Developer, City shall have the right of first refusal to acquire the Property. The Regulatory Agreement ultimately shall be released in favor of individual homebuyer affordability covenants as affordable units close escrow.
- 9) **Marketing, Tenant Selection, and Management Plans.** Developer shall submit to the City for approval a Marketing and Homebuyer Selection Plan, which shall comply with the City’s Local Preference and Priority Guidelines.
- 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.

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.

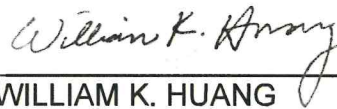
ENVIRONMENTAL ANALYSIS:

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 (approving key business terms of a loan agreement, authorizing staff to execute a funding agreement, and amending the Department’s budget) 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 amend the Housing Department's FY 2025 Operating Budget by recognizing revenue and appropriating \$3,250,000. The proposed City financing to implement the Project will be drawn from the Other Housing Fund (Fund 238) utilizing new revenues from a grant in the amount of \$3,250,000 awarded to the City by the Burbank-Glendale-Pasadena Regional Housing Trust. There is no impact to the General Fund.

Respectfully submitted,



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