

Agenda Report

DATE: APRIL 26, 1999

TO: CITY COUNCIL/COMMUNITY DEVELOPMENT COMMISSION

FROM: CYNTHIA J. KURTZ, CHIEF EXECUTIVE OFFICER

SUBJECT: JOINT ACTION: APPROVAL OF THE FOURTH AMENDMENT TO THE HOME LOAN AGREEMENT WITH MOUNTAIN COURT PNHS, LLC, A CALIFORNIA LIMITED LIABILITY COMPANY, ("NEW PARTICIPANT") FOR THE LINCOLN/IDAHO TOWNHOME DEVELOPMENT

RECOMMENDATION:

It is recommended that the City Council and Pasadena Community Development Commission take the following actions, respectively:

- A) The City Council adopt a resolution finding and determining that the use of \$100,000 from the Lincoln Avenue Redevelopment Project Low and Moderate Income Housing Trust Fund for the Lincoln/Idaho Townhome Development located outside the Lincoln Avenue Redevelopment Project Area will be of benefit to the Lincoln Avenue Redevelopment Project,
- B) The Pasadena Community Development Commission ("Commission") adopt a resolution:
- (1) Approving an additional \$100,000 from the Lincoln Avenue Redevelopment Project Low and Moderate Income Housing Trust Fund to the Lincoln/Idaho Townhome Development;
 - (2) Finding and determining that the use of the \$100,000 in funds from the Lincoln Avenue Redevelopment Project Low and Moderate Income Housing Trust Fund for the Lincoln/Idaho Townhome Development located outside the Lincoln Avenue Redevelopment Project Area will be of benefit to the Lincoln Avenue Redevelopment Project, and
 - (3) Approving the terms and provisions of the Fourth Amendment to the HOME Loan Agreement between the Commission and Mountain Court PNHS, LLC, and authorizing the Chief Executive Officer to execute and the Secretary to attest the Amendment.

EXECUTIVE SUMMARY:

The Fourth Amendment to HOME Loan Agreement proposes the provision of \$100,000 of Commission assistance to Mountain Court PNHS, LLC. ("New Participant") for construction of the redesigned Lincoln Townhome Development, eight (8) affordable low and moderate income housing units, in accordance with the terms and conditions stipulated therein. Essentially, the Commission shall extend to the Participant a loan of \$710,500 for acquisition, pre-development and construction purposes to assist implementation of the Development. If the Participant satisfies the requirements of the HOME Loan Agreement, as amended, the Commission shall forgive \$310,500 of the total Commission assistance provided, based on the Reuse Appraisal Report and attached Supplemental Study performed by the Ellis Group, to ensure low and moderate income ownership consistent with the Commission's Homeownership Opportunities Program (HOP).

The total cost for the Lincoln Townhome Development is estimated at approximately \$1,900,000. Financing for the Development will consist of a New Participant secured conventional construction loan, estimated at \$1,190,000 at an interest rate of 10% from Century Development Corporation, a private lender, and Commission assistance in the amount of \$710,500. Sales revenue is estimated at approximately \$1,520,000 (\$190,000 per unit).

BACKGROUND:

On February 17, 1993, the Pasadena Community Development Commission ("Commission") and Pasadena Neighborhood Housing Services, Inc. ("PNHS") entered into that certain HOME Loan Agreement (the "Agreement"). The Agreement provided for the purchase of the property located at 1800 Lincoln Avenue, a 27,750 sq. ft. site within the City of Pasadena ("the Site"), and the development on the Site of thirteen (13) units (the Development) of affordable ownership housing with certain financial assistance from the Commission to achieve the purposes of the Agreement.

Subsequently, the Commission and PNHS entered into the First Amendment to the Agreement on April 22, 1994, the Second Amendment on November 30, 1994 and the Third Amendment on July 10, 1995, providing for additional Commission assistance and making other necessary changes to the Agreement.

During the last five years, the Commission has obligated funds in the amount of \$610,500 (\$376,850 in 1992 HOME funds; \$233,650 in Housing Trust funds) to PNHS as a loan for the land acquisition, construction and pre-development costs associated with the originally proposed Lincoln/Idaho Townhome Development be located at the corner of Lincoln Avenue and Idaho Street.

Unfortunately, based on an earlier downturn in the real estate market, existing site conditions, local residents' opposition to the project density which reduced the number of units to eight (8), as well as limited project management capacity, PNHS was not able to initiate construction of the development. PNHS was in default under the existing Agreement and on January 21, 1999, the Participant was again formally notified of these delinquencies and asked to timely cure the outstanding default or be subject to

termination of the Agreement and foreclosure. Upon receipt of the notification, the Participant entered into an Operating Agreement on March 19, 1999 with Mountain Court, Incorporated, with respect to the formation and operation of Mountain Court PNHS, LLC, a California Limited Liability Company with Mountain Court, Inc. as the Managing partner and PNHS as a limited partner.

This Operating Agreement assigned PNHS's rights under the HOME Loan Agreement, as amended, to Mountain Court PNHS, LLC (New Participant) pursuant to which the Managing Partner has prepared a revised project proforma, provided evidence of preliminary lender interest in construction financing, secured architectural services and commenced schematic drawings for the revised concept design.

Mountain Court PNHS, LLC and staff now seeks the Commission's approval of the Fourth Amendment to the Agreement which essentially a) approves Mountain Court PNHS, LLC, as the New Participant, b) reduces the density of the Development from 13 units to 8 units, c) increases Commission assistance by \$100,000 and d) provides the forgiveness of \$310,500 in Commission assistance upon completion of the Development. Upon evaluation of the revised project proforma and the reuse study conducted by The Ellis Group (see below), staff concluded that the proposed increase in Commission loan assistance (\$100,000) and loan forgiveness (\$310,500) are necessary in order to fill the development financing gap and make this low-moderate income affordable housing project feasible.

CONCEPT DESIGN:

The revised concept design (Attachment A) consists of eight residential units in a scheme which will allow for both ample private and shared common open space. The architectural style of the project will be reminiscent of the craftsman style, and the Participant will utilize exterior materials and paint colors that will be compatible with the character of the existing residential neighborhood. The floor plans for each new 1,650 sq. ft. unit shall contain three bedrooms, 2 1/2 bathrooms, with well designed living, kitchen and dining areas. In addition, each unit will have a covered porch entry and additional porch or patio areas facing either Lincoln Avenue or a main garden. Each unit will have an attached 2-car garage, with access provided via a shared driveway.

Site coverage for this development is anticipated not to exceed 30% of the total Site area, which will allow for extensive landscaping (i.e., variety of trees, shrubs, ground cover, annuals, perennials, and grass) both within the project area and along the perimeter of the Site for privacy purposes. Existing mature trees will be maintained on the Site wherever feasible.

This project design is far superior than the originally approved concept design based in part on the elimination of subterranean parking spaces, the siting of four detached structures each containing two units and the provision of a central garden along the eastern perimeter of the Site. Approval of the revised concept plans for this project is herewith requested, with staff returning to the Pasadena Community Development Committee at a later date with more detailed plans, elevations and material samples for the Committee's final approval

REUSE APPRAISAL:

Based on a competitive selection process, the Ellis Group was selected to provide an appraisal report of the reuse value of the subject property's fee simple interest as of March 1, 1999. This opinion was sought to provide a determination of the diminution in the property's value caused by the aforementioned reduction in allowable development density from 13 to 8 units and changes in the requirements for homebuyer assistance. Under these current circumstances, the land residual analysis was accomplished in four separate valuation steps as follows:

1. Determine the purchasing power of prospective homebuyers under the Commission's Homeownership Opportunities Program (HOP),
2. Determine the most reliable estimate of project revenues,
3. Determine the most reliable estimate of project development costs, and
4. Subtract the estimated project costs from estimated project revenues.

Utilizing this approach, the Ellis Group determined the residual land value for the originally proposed 13 unit development ("highest and best use") to be approximately \$500,000. However, based on the New Participant's design and development proforma (Attachment B) for the proposed 8 unit ownership housing development the Ellis Group concluded that the land residual value of the site is approximately \$160,000 and the diminution in the reuse value of the subject property's fee simple interest is approximately \$340,000. The Ellis Group completed its own reuse appraisal report and a supplemental study (Attachment C) in accordance with the Uniform Standards of Professional Appraisal Practice of the Appraisal Foundation and the Standards of Professional Practice of the Appraisal Institute to arrive at this determination.

TERMS AND CONDITIONS OF THE FOURTH AMENDMENT TO THE HOME LOAN AGREEMENT:

- 1) Pasadena Neighborhood Housing Services, Inc. (PNHS) the current "Participant" shall assign its rights under the existing HOME Loan Agreement to Mountain Court PNHS, LLC, a California Limited Liability Company ("New Participant").
- 2) Mountain Court PNHS, LLC shall assume full responsibility under the Agreement, as amended, to design, finance, construct and sale the Development.
- 3) The total amount of Commission assistance to the New Participant for acquisition, pre-development and construction expenses is increased from \$610,500 to \$710,500. The existing "Commission Loan" shall be increased from \$233,650 to \$333,650 by the amount of \$100,000 from the Lincoln Avenue Redevelopment Project Low and Moderate Income Housing Trust Fund. Both the Commission and HOME Loans shall be combined into a single loan with a single promissory note secured by a Modification to the Commission's First Trust Deed against the property.
- 4) The Commission Loan and the HOME Loan, respectively, as previously stated in Section 204, shall both bear interest at the rate of 4% per annum and payment shall be deferred until the sale of the townhouse units. Additionally, the Deed of Trust securing both the Commission and HOME Loans may be subordinated to Commission

approved construction financing.

- 5) If the Participant fulfills its obligation under the Agreement, as amended, the amount of \$310,500 (Commission Loan - \$173,650; HOME Loan - \$136,850) plus all accrued interest shall be forgiven.

The remaining principal balance of the Commission Loan (\$410,000) and the related outstanding accrued interest shall be repaid as follows:

- a) the Commission Loan in an amount not to exceed \$160,000 shall be recast as subordinate Condominium Loans for 4 moderate income units (\$40,000 each) at an interest rate no greater than 5% with provisions for equity participation by the Commission upon resale;
- b) the difference between the remaining principal balance of the Commission Loan and the amount repaid through conversion to Condominium Loans shall be repaid on a pro-rata basis with the sale of each moderate income unit.

Similarly, the outstanding principal balance of the HOME Loan (\$240,000) shall be repaid as follows:

- a) the HOME Loan in an amount not to exceed \$240,000 shall be recast as subordinate Condominium Loans for 4 low income units (\$60,000 each) at interest rate no greater than 2.5% with provisions for equity participation by the Commission upon resale;
- b) the difference between the remaining principal balance of the HOME Loan and the amount repaid through conversion to Condominium Loans shall be repaid on a pro-rata basis with the sale of each low income unit.

Subject to the maximum amount set forth above for the low and moderate income Condominium Loans, the actual amount of each Condominium Loan shall be determined by the Commission in accordance with the Commission's Homeownership Opportunities Program (HOP), as amended, and the financial needs of the homebuyers.

- 6) Before disbursement of the additional sums under this Fourth Amendment, the Participant must submit evidence of financing for the construction of the Development.
- 7) The Scope of Development (Attachment 4 of the Agreement) is modified to reduce the number units from 13 units to 8 three-bedroom, 2.5 bath, townhome condominium units and incorporate the associated revisions to the design.
- 8) The number of low-income units is reduced from 5 units to 4 units (Restricted Units) and the moderate units are reduced from 8 units to 4 units (Other Units).
- 9) The Schedule of Performance ("Attachment No. 3") is modified to stipulate that the New Participant's time for performance will commence anew with the Commission's approval of this Amendment.

FINDING OF BENEFIT:

The Community Redevelopment Law (commencing with Section 33000 of the Health and Safety Code and hereinafter referred to as the "CRL") requires 20% of the tax increments allocated to the Commission each year from each redevelopment project area to be used by the Commission to increase, improve and preserve the supply of affordable housing for persons or families of low or moderate income. The amount of tax increments to be so used must be placed in a low and moderate income-housing fund ("Housing Trust Fund") for each redevelopment project until used. The CRL allows the Commission to spend monies from the Housing Trust Funds either within redevelopment project areas or outside the redevelopment project areas. However, use of Housing Trust Funds outside of the redevelopment project area which the Housing Trust Funds came is permitted only if the Commission and the City Council find that use of the Housing Trust Funds outside the redevelopment project area will benefit the redevelopment project area from which the Housing Trust Funds came.

Therefore, it is recommended that both the City Council and the Commission find on the basis of the facts setforth herein and any testimony received at the joint meeting at which this matter is to be considered that the use of funds in the amount of \$100,000 from the Housing Trust Fund of the Lincoln Avenue Redevelopment Project to be used as a loan to Mountain Court PNHS, LLC, will expand low and moderate income housing opportunities within the community and is of benefit to the Lincoln Avenue Redevelopment Project.

HOUSING IMPACT:

Approval of this request will allow this proposed Northwest Pasadena affordable housing development, originally sponsored by PNHS, to proceed while meeting the requirements of both the HOME Program and the Low and Moderate Income Housing Trust Fund.

In addition, approval of the subject recommendation and completion of the Lincoln/Idaho Townhome Development shall result in the provision of 8 newly constructed low and moderate income ownership housing units within the northwest community and the associated increase in the city's affordable housing stock. The Lincoln/Idaho affordable Townhome Development is consistent with the goals and objectives of the Commission's Affordable Housing Plan (1995-2000), the Consolidated Plan, the General Plan Housing Element, the Lincoln Avenue Redevelopment Plan and the Housing Element of the Northwest Pasadena Community Plan.

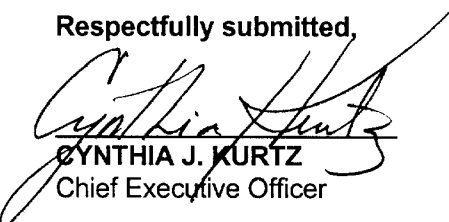
FISCAL IMPACT:

Approval of the subject recommendation will encumber an additional \$100,000 in Commission assistance for the Lincoln/Idaho Townhome Development and authorize expenditure of both the new obligation and previously contracted amounts. The Lincoln/Idaho project account (Account No. 810 6841230 51207) currently has a balance of \$180,000 (\$130,000 which was previously encumbered under the existing Agreement, as amended, and an unobligated balance of \$50,000). The new allocation will be taken \$50,000 from the remaining unobligated project account balance and \$50,000 from the

unobligated Low and Moderate Income Housing Trust Fund which has an existing balance of approximately \$845,045. Additionally, upon completion of the Development, \$310,500 of \$710,500 in Commission assistance will be forgiven due to the diminution of the land value as a result of the reduction in housing units from 13 to 8.


It is anticipated that the City's General Fund sales and property tax bases will be increased upon the construction, sale and occupancy of this Development.

Respectfully submitted,



CYNTHIA J. KURTZ
Chief Executive Officer

Prepared by:



GREGORY ROBINSON
Housing Administrator

Approved by:



STEPHEN G. HARDING
Interim Director, Housing & Development