

DATE: AUGUST 30, 1999

TO: PASADENA COMMUNITY DEVELOPMENT COMMISSION

FROM: CYNTHIA J. KURTZ, CHIEF EXECUTIVE OFFICER

**SUBJECT: HERITAGE SQUARE SENIOR HOUSING PROJECT; PREDEVELOPMENT
LOAN AND LOAN MODIFICATION AGREEMENT**

Recommendation:

It is recommended that the Pasadena Community Development Commission ("Commission") take the following actions:

1. Find that the feasibility and planning studies and related predevelopment items specified in the proposed Predevelopment Loan and Loan Modification Agreement ("Agreement") between the Urban Development Company, Thomas Scott, and the Commission are categorically exempt under the California Environmental Quality Act ("CEQA") and, specifically, under Section 15262 of the State CEQA Guidelines, and authorize the Secretary of the Commission to file with the County Clerk a Notice of Exemption for the Agreement pursuant to Section 15262 of the State CEQA Guidelines;
2. Approve the terms and conditions of the Agreement between The Urban Development Company, Thomas Scott, and the Commission; and
3. Authorize the Chief Executive Officer to execute, and the Secretary to attest, any and all documents necessary to effectuate the proposed Agreement.

Background

On April 13, 1998, the Pasadena Community Development Commission ("Commission") approved conditional funding commitments totaling approximately \$1.6 million and authorized execution of Exclusive Negotiation Agreements ("ENA") for ten affordable housing project proposals submitted in response to the fiscal year 1997-1998 Notice Of Funding Availability ("NOFA"), which was issued in October 1997. One of the ten proposals was submitted by the Urban Development Company ("Developer"), which requested funding assistance for predevelopment costs associated with the proposed Heritage Square affordable senior housing project, located at the 700 block of Fair Oaks Avenue (east side) south of Painter Street (the "Project"). The conditional funding commitment approved by the Commission on April 13, 1998 for the Project was in the amount of \$70,000 to assist the Developer with predevelopment costs, including feasibility and planning studies.

The subject recommendation was approved unanimously by the Fair Oaks Project Area Committee at its meeting on July 28, 1999, and by the Northwest Commission on August 4, 1999. The Northwest Commission action included a recommendation that the financial feasibility study for the Project (to be performed by the Developer) be brought to the Fair Oaks Project Area Committee and the Northwest Commission for review upon its completion. In addition, the Project concept also received a favorable response at the Senior Commission meeting of August 10, 1999. The subject recommendation was taken to the Community Development Committee at its meeting on August 26, 1999; staff will report to the Commission on the action taken by the Community Development Committee.

08/30/99

Heritage Square Project

On January 26, 1999, following preliminary discussions with staff, the Developer and Commission entered into an ENA (ENA No. CDC-295) to negotiate the terms and conditions of the Commission's predevelopment loan for the Project. The Project is proposed to be a four-story, mixed-use development consisting of affordable senior housing and professional office uses. At this preliminary, conceptual stage, the Developer has envisioned a project consisting of 160 dwelling units plus 6,000 square feet of office space on a 2.72 acre site. However, a final determination on the number of dwelling units has not been made. The density will depend on, among other things, the number of parcels that can be obtained for the project, the availability of project financing, as well as any discretionary zoning approvals which may be required from the city. Preliminary architectural renderings of the project are attached to this report.

The development team consists of the Developer; Kaufman and Broad (development and construction consultant); Suarez Architects; Kinsell, O'Neal, Newcomb & De Dios, Inc. (underwriter); and Linton Jackson & Associates (redevelopment consultant).

The Developer's Executive Director is Thomas Scott, an Owner Participant in the Fair Oaks Redevelopment Project Area, who owns two parcels on the proposed Project site, which are located at 738 and 750 N. Fair Oaks Ave. In March 1990 Mr. Scott acquired the 738 N. Fair Oaks parcel from the Commission for the purchase price of \$87,140. This purchase was financed by a loan from the Commission in the amount of \$82,783, which is secured by a first deed of trust (the "Scott Loan"). The Scott Loan interest rate is 9% per annum and the outstanding accrued interest on the Scott Loan is approximately \$102,407. Under the terms of the Scott Loan, no payments were required during the first five years of the 15-year loan term, with amortized monthly payments due and payable beginning on May 1, 1995. To date, no loan payments have been made to the Commission. Mr. Scott acquired the property with the intent of developing it with a commercial project. Subsequently, according to Mr. Scott, the down turn in the real estate market, the comparatively high interest rate charged by the Commission on the Scott Loan, and difficulties in securing conventional financing, made a commercial development economically infeasible. In light of this, Mr. Scott sought financial relief and submitted requests to staff that his loan be modified with more favorable terms as a financial incentive for development of his property. Therefore, in conjunction with the currently proposed Heritage Square senior housing project, Mr. Scott has submitted to staff his request for a modification to the repayment terms of the Scott Loan.

Predevelopment Loan and Loan Modification Agreement

The key terms and conditions of the Predevelopment Loan and Loan Modification Agreement ("Agreement") between the Developer and the Commission are as follows:

1. The Commission shall provide a Predevelopment Loan to the Developer in the amount of \$25,000 to cover costs associated with determining the feasibility of the proposed mixed-use project located on the 700 block of Fair Oaks Avenue, south of Painter Street ("Project"). The Project shall consist of rental housing affordable to low and moderate income senior households, with a professional office component. The Predevelopment Loan funds shall be disbursed only for those items specified in the Agreement (e.g., market study, feasibility analysis, project planning and management, architectural services) and in accordance with the Agreement's Schedule of Performance.
2. The Predevelopment Loan shall bear interest at the rate of 4% per annum compounded, and shall be due and payable in the year 2005. The Predevelopment Loan shall be secured by a second trust deed recorded against one of the two properties owned by Thomas Scott and located within the proposed Project site: a) 738 N. Fair Oaks Ave. (the Predevelopment Loan

trust deed would be junior to the first trust deed securing the Scott Loan); or b) 750 N. Fair Oaks. (the Predevelopment Loan trust deed would be junior to an existing first trust deed securing a \$45,000 loan made by Republic Federal Savings and Loan Association to Thomas Scott in 1978). Appraisals are currently being performed on these two properties.

3. If, after the Developer's expenditure of up to \$25,000 in Predevelopment Loan funds it is determined that the Project is feasible, the Commission shall extend to the Developer additional loan funds in an amount not to exceed \$45,000 for further predevelopment expenses related to the Project. The determination of project feasibility will be based on an examination of, among other things, the Project's market study, concept plans, conditional funding commitments, and purchase options on properties required for the Project. The Predevelopment Loan shall be recast to include the additional \$45,000 in funds disbursed by the Commission, for a total principal loan amount of \$70,000. If the Project is then able to proceed into the development phase and is successfully completed, the Commission shall reduce the principal on the Predevelopment Loan by \$25,000, resulting in a principal loan amount of \$45,000. The Predevelopment Loan would be recast to reflect this modification.
4. On the other hand, if after the Developer's expenditure of up to \$25,000 in Predevelopment Loan funds (described in paragraph 1, above), it is determined that the proposed Project is not financially feasible or viable, the Commission shall have no further obligation to disburse any additional funds to Developer. The Developer shall be obligated to repay, pursuant to the terms and conditions of the Predevelopment Loan, all Commission funds disbursed.
5. The Scott Loan shall be modified as follows: a) the Commission shall forgive \$61,017 of the outstanding accrued interest on the Scott Loan; b) the Scott Loan shall bear interest at the rate of 4% per annum. The proposed amount of forgiveness on the accrued interest (\$61,017) is equal to the difference between the actual amount of accrued interest on the Scott Loan at 9% interest (\$102,407) and what the accrued interest would be had the Scott Loan been originally extended at 4% interest (\$41,390). The original principal amount of the Scott Loan, \$82,783, is not impacted. The proposed forgiveness of accrued interest and reduction in interest rate are being made as a financial incentive to encourage redevelopment by an Owner Participant of underutilized property with affordable housing, and is consistent with previous Commission actions relating to affordable rental housing projects. Without the proposed financial incentive, it is unlikely that the Project would be developed.

The proposed interest rate of 4% on the Predevelopment Loan and the Scott Loan is consistent with previous and current financing extended by the Commission for affordable rental housing developments.

Housing Impact

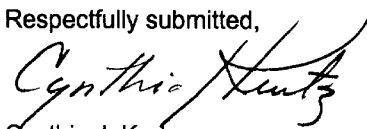
Should the proposed project be successfully developed, up to 160 affordable senior rental housing units would be added to the city's housing stock. The affordability of these dwelling units would be covenanted for a minimum period of 30 years. The need for additional affordable senior housing in Pasadena is specified in the city's Housing Element, Consolidated Plan, and Five-Year Affordable Housing Plan.

Fiscal Impact:

Approval of the Predevelopment Loan Agreement will result in the draw down of HOME funds from the Commission's FY 1999-2000 budget in an amount not to exceed \$70,000. This funding was conditionally committed by the Commission on April 13, 1998. At this time it has not been determined to what extent additional Commission and/or City financial assistance may be required for the Project. In addition, pursuant to the Predevelopment Loan Agreement: a) approximately \$61,017 of the outstanding accrued interest would be forgiven on the first trust deed loan extended by the Commission to Thomas Scott in March 1990 ("Scott Loan"); and b) the

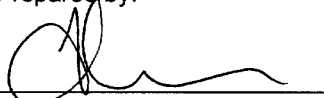
deed loan extended by the Commission to Thomas Scott in March 1990 ("Scott Loan"); and b) the interest rate on the Scott Loan would be reduced to 4% (from 9%). The original principal amount of the Scott Loan, \$82,783, is not impacted.

Respectfully submitted,



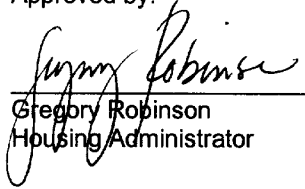
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