

MEMORANDUM

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DATE: MAY 1, 2008 N51020
TO: CRA/LA BOARD OF COMMISSIONERS
FROM: CECILIA V. ESTOLANO, CHIEF EXECUTIVE OFFICER

RESPONSIBLE

PARTIES: CAROLYN HULL, REGIONAL ADMINISTRATOR
WILLIAM CHUN, PROJECT MANAGER
FERNANDO PORTILLO, HOUSING FINANCE OFFICER

SUBJECT: PREDEVELOPMENT LOAN AGREEMENT WITH MERCY HOUSING CALIFORNIA, INC. IN AN AMOUNT NOT TO EXCEED \$250,000 FOR THE MERCY JEFFERSON PARK MODERATE-INCOME HOUSING PROJECT LOCATED AT 3011 - 3023 SOUTH WESTERN AVENUE. NORMANDIE 5 REDEVELOPMENT PROJECT AREA SOUTH LOS ANGELES REGION (CD 10)

COMMITTEE

REVIEW: LOAN COMMITTEE, APRIL 16, 2008
(RECOMMENDED APPROVAL)

RECOMMENDATIONS

That the CRA/LA Board of Commissioners, subject to City Council review and approval:

1. Authorize the Chief Executive Officer or designee to execute a Predevelopment Loan Agreement with Mercy Housing California, Inc. in an amount not to exceed \$250,000 to defray its pre-development costs related to its potential development of Mercy Jefferson Park, a moderate-income homeownership project located at 3011 – 3023 South Western Avenue (“Project”); and
2. Authorize the Chief Executive Officer or designee to execute an Implementation Agreement with the Community Development Department of the City of Los Angeles, (“CDD”) naming CRA/LA as the legal administrator of Community Development Block Grant (“CDBG”) funds made available to the Project in an amount not to exceed \$250,000.

SUMMARY

The recommended actions will further implement one of the South Los Angeles Region’s highest priority goals under CRA/LA’s Normandie 5 Redevelopment Plan (“Redevelopment Plan”) and its Five-Year Implementation Plan: to promote the development of affordable ownership housing for low- and/or moderate-income families. Mercy Housing California, Inc.

("Developer") wishes to develop and is now investigating the feasibility of the above-referenced Project. The Project would consist of an ownership housing development (to be known as Mercy Jefferson Park) with approximately 60 to 75 units reserved for moderate-income households at 3011 – 3023 South Western Avenue in the Project Area ("Site"). (See site map on Attachment "A" hereto.)

The Developer is seeking financial assistance from CRA/LA to help fund certain predevelopment activities to determine the feasibility and scope of the proposed Project. The Developer currently has a Purchase and Sale agreement on the Site and has made a series of monthly deposits required to preserve its option to purchase ("Deposits").

The Developer wishes to borrow from CRA/LA an amount not to exceed \$250,000 (funded by CDD) to support its predevelopment activities ("Loan"). The Loan funds would be used to reimburse Developer for the Deposits, thereby providing it cash to complete a series of pre-development activities on the Site. The CDD funds for the Loan would be sourced from a \$2.5 million CDBG reprogramming that was recently approved under the national objectives of Low & Moderate-Income Housing and Slum & Blight Clearance (Council File 06-0100-S12). However, such allocation is contingent upon CRA/LA's agreement to administer the funds on behalf of CDD. This CRA/LA-CDD arrangement would need to be formalized through the execution of an Implementation Agreement between the two agencies prior to the disbursement of any Loan funds to Developer.

The Developer would be required to execute a Promissory Note, an Assignment of the Purchase and Sale Agreement and an Assignment of Architect's Contract. In the event the Developer acquires fee simple title in the Site during the term of the proposed Loan, Developer is required to execute a Deed of Trust and an Agreement Containing Covenants that would immediately be recorded against the Site.

The Developer plans to close escrow on the Site in the fourth quarter of this year, at which point, it may wish to request an acquisition loan from CRA/LA. If that occurs, staff would return to the Board with a request for approval of such loan.

RE

Initial Action.

SOURCE OF FUNDS

Community Development Block Grant Funds

PROGRAM AND BUDGET IMPACT

The recommended actions are consistent with the CRA/LA's FY'08 Budget and Work Program. There is no impact on the City's General Fund.

ENVIRONMENTAL REVIEW

The proposed action constitutes a feasibility study, which is statutorily exempt from the provisions of the California Environmental Quality Act ("CEQA") pursuant to paragraph 15262 of the State CEQA Guidelines. If approval of a development project is contemplated, the

appropriate CEQA document for that proposal will be prepared and brought to the lead agency at the time the approval is requested.

BACKGROUND

Project

It is anticipated that the Project will have approximately 60 to 75 condominium units made available for sale to households earning up to 120% of Area Median Income according to the income scale specified by State Redevelopment Law. Because of issues related to the feasibility of the Project the exact number of units and the income mix has not yet been determined. Consequently, the pro forma projection of costs and sources of funds is not available at this time.

Loan

The proposed Predevelopment Loan will be for a term of 2 years, and bear 3% simple interest per annum. No payments of interest or principal will be due until maturity. The Loan will be evidenced by a non-recourse note secured by a conditional assignment of work product generated during the predevelopment phase of the Project. In the event that Developer acquires the Site prior to the expiration of the Loan's term, the Loan will be secured by a Deed of Trust on the Site. During the pre-development period of the Loan (when no construction will occur, nor construction workers hired), Developer will be obligated to comply with Responsible Contractor and Equal Opportunity requirements, but not with those for living wage and prevailing wage.

Site

The Site is located on the west side of Western Avenue, north of 31st street and south of 30th street. This abandoned and blighted Site is bounded by an existing auto shop to the north, Western Avenue to the east, abandoned existing store fronts to the south and an existing residential neighborhood to the west. The original Fatburger Hamburger stand is located on the Site, but it no longer operates as a business. Hence, the building has long been abandoned and is not considered historical by any Local, State, or Federal agency.

Developer

The Developer has been developing a wide spectrum of affordable housing products since before 1970. In total, it has built more than 5,000 rental units and more than 3,000 homeownership units in California. The Developer is part of the national affordable housing builder, Mercy Housing. The Developer has a strong track record in developing affordable housing projects of varying tenure and for different populations. Not only have they completed several homeownership projects in California, but they have also constructed many multi-family and senior affordable, rental housing developments for a wide range of income levels.

The Developer currently has one outstanding loan and a grant with CRA/LA. Both are in good standing.

The Normandie 5 Redevelopment Project Area Committee ("PAC") supports the Project and the granting of this loan to facilitate its development. Councilmember Wesson (CD10) is in support of the recommended action.

Cecilia V. Estolano
Chief Executive Officer

By:

Glenn Wasserman
Chief Operating Officer

There is no conflict of interest known to me to exist with regard to any CRA/LA officer or employee concerning this action.

Attachments:

- A. Site Map