

MEMORANDUM

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DATE: OCTOBER 16, 2008 WL1500

TO: CRA/LA BOARD OF COMMISSIONERS

FROM: CECILIA V. ESTOLANO, CHIEF EXECUTIVE OFFICER

RESPONSIBLE PARTIES: LESLIE LAMBERT, REGIONAL ADMINISTRATOR
JERRY HAMMOND, SENIOR HOUSING FINANCE OFFICER
KENYON A. PRICE, ASSISTANT PROJECT MANAGER

SUBJECT: LOAN AGREEMENT WITH 505 BONNIE BRAE PARTNERS, L.P., IN AN AMOUNT NOT TO EXCEED \$1,500,000 FOR DEVELOPMENT OF THE BONNIE BRAE AFFORDABLE APARTMENT PROJECT LOCATED AT 501-511 SOUTH BONNIE BRAE WESTLAKE RECOVERY REDEVELOPMENT PROJECT AREA HOLLYWOOD & CENTRAL REGION (CD 1)

LOAN COMMITTEE REVIEW: APPROVED SEPTEMBER 24, 2008

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 Loan Agreement and ancillary documents with 505 Bonnie Brae Partners, L.P., for the Bonnie Brae Apartment Project in an amount not to exceed \$1,500,000 not sooner than thirty (30) days after the approval of the Replacement Housing Plan.

That the CRA/LA Board of Commissioners:

2. Approve and adopt by resolution ("Attachment B") the Replacement Housing Plan;
3. Approve and adopt the Relocation Plan for the relocation of twenty (20) households who currently reside at the project site;
4. Adopt a resolution making a finding that an economically feasible alternative method of financing the Project on substantially comparable terms without subordination of the CRA/LA's deeds of trust and affordability restrictions is not reasonably available and authorizing subordination of the CRA/LA's deeds of trust, covenants, and use

restrictions to a LAHD loan and a conventional construction loan during the construction phase, and to loans from LAHD, HCD, and CCRC during the permanent phase of the Project.

5. Authorize the Chief Executive Officer or designee to terminate an existing affordable housing covenant and replace it with a new affordable housing covenant in connection with the Bonnie Brae Apartment Project.

SUMMARY

The recommended actions will allow for the demolition of an existing twenty (20) unit apartment building and the construction of a new fifty-three (53) unit affordable housing development through the execution of a Loan Agreement in the amount of \$1,500,000 (the "Loan Agreement") with 505 Bonnie Brae Partners, L.P. ("Developer") for the site located at 501-511 South Bonnie Brae Street (the "Site") (Site map, Attachment A); and the approval and adoption of a Replacement Housing Plan and Relocation Plan.

On June 21, 2007, the CRA/LA Board of Commissioners approved a \$1,500,000 Letter of Loan Commitment with 505 Bonnie Brae Partners, L.P. ("Partnership") and American Communities, LLC ("Developer") for the acquisition and predevelopment activities related to the acquisition, development and permanent financing for the Project which is a proposed affordable apartment complex for families and large families.

Since development of the Project will result in the demolition of an existing building and the removal of twenty (20) low income units, the adoption of a Replacement Housing Plan (the "RHP") is required. The RHP Resolution and RHP, prepared by CRA/LA staff pursuant to Health and Safety Code section 33413.5, attached as Attachment "B," shows that the lost units will be replaced by the development of the Bonnie Brae Apartments. The draft RHP was posted on the CRA/LA's website and was distributed to the Westlake Redevelopment Project Area Committee and the UCLA Labor Center thirty (30) days prior to the scheduled CRA/LA approval and adoption of the RFP. No comments were received. Pursuant to the CRA/LA Housing Policy for Replacement Housing, the Loan Agreement will not be executed sooner than thirty (30) days after adoption of the RHP.

Since tenants were to be moved from the existing building, a Relocation Plan has been prepared by Pearce Consulting, Inc. ("PCI") (Attachment "C") and has been reviewed and approved by CRA/LA staff. In July 2007, PCI completed an initial draft Relocation Plan that estimated the total cost of relocating twenty (20) households on either a temporary or permanent basis at approximately \$621,000. An update to the draft plan was completed in September 2008. It was determined that eighteen (18) households would be relocated – 2 units are vacant. Sufficient replacement housing is available within the surrounding area to provide ample referrals to decent, safe and sanitary housing for the inhabited units. PCI will work closely with the residents to assist them in finding temporary or permanent off-site housing during the construction of the project, including but not limited to: providing transportation, taking them to view potential residential rental units, and advancing them portions of their relocation benefits in order to secure replacement housing of their choice.

Currently, PCI is conducting individual interviews with each household to verify incomes and calculate exact levels of relocation benefits/assistance. Pearce has provided all residents with their Notices of Eligibility for Relocation Assistance (NERA), personally delivered to each household. The NERA marks the point at which those tenants being permanently relocated will be able to voluntarily move within a 120-day period and receive relocation payments. Once the Project's construction schedule is solidified, those tenants who will be temporarily relocated will be given a 60-day notice and 30-day reminder notice to move. At the completion of construction, temporarily relocated households will be given the first priority to move back into the new Bonnie Brae Apartments.

In addition, two relocation meetings were held with the affected tenants in 2007 to explain the relocation process and provide a forum to ask questions and raise concerns. The draft Relocation Plan was also sent to the Westlake PAC in August 2008. Tenants were also given copies of the updated draft Relocation Plan in August 2008 and were given a chance to raise questions and concerns by telephoning PCI's toll free telephone number. At the time of this writing, a tenants' meeting was also scheduled for October 8, 2008. In addition, the CRA/LA's Grievance Procedures as it relates to relocation is also attached (Attachment "D").

The total development cost for the Project is estimated at \$24,697,055 or approximately \$465,982 per unit, with CRA/LA funding comprising 6% of the total source of funds.

The California Department of Housing & Community Development (HCD) has reviewed and approved the Developer's application for a \$4,633,933 permanent loan from HCD's Transit Oriented Development program. The Los Angeles Housing Department (LAHD) has reviewed and approved the Developer's application for a \$6,200,000 loan commitment in response to the LAHD 2008 Round 2 Affordable Housing Trust Fund Program. LAHD's recommendations were approved by City Council on July 23, 2008. The Developer, in conjunction with the City of Los Angeles Housing Department, has applied to the California Debt Limit Allocation Committee (CDLAC) and on September 24th was awarded a bond allocation of \$12,500,000.

Construction is estimated to start February 2009 with completion to occur in September 2010.

Loan Terms and Conditions

The CRA/LA loan will have a term of 57 years from recordation due on sale or transfer of the property or change in the general partner of the owning limited partnership. The \$1,500,000 CRA/LA loan will be used for project soft costs and fees. During the construction phase, the CRA/LA loan will be subordinate to a LAHD loan and a conventional construction lender, secured by a Deed of Trust in 3rd position that will accrue interest at a simple rate of 3%. Upon permanent loan closing, the CRA/LA Deed of Trust will be subordinate to loans from LAHD, HCD, and CCRC, secured by a Deed of Trust in 4th position that will be payable on a residual receipts basis. Given the financial structure of affordable rental housing developments, including long-term restrictions on rents, it is not anticipated that the CRA/LA will recapture its investment plus accrued interest.

PROJECT DESCRIPTION

The proposed development will consist of 53 affordable rental units for large families in a five-story residential elevator-served building constructed over one level of on-grade parking and one level of subterranean parking. One two-bedroom unit will be manager occupied. The residential units are organized in a courtyard configuration with an opening to the south to maximize the amount of natural light and views in the courtyard area. The residential portion of the building will be of Type-III construction with five levels of framing over on-grade and subterranean parking.

The ground and subterranean levels of the project will be of Type-I construction with an entry lobby, mail area and office located on the ground floor. A community room is located on the first floor with an exterior arcaded area around it. This will enable the residents to take advantage of the building's excellent views to the east and south. The lower most level of subterranean parking will include elevator access and various equipment rooms.

The residential unit mix will contain nine (9) one bedroom units containing approximately 550 square feet, twenty-five (25) two bedroom units containing approximately 770 square feet, fifteen (15) three bedroom units containing 1,131 to 1,161 square feet, and four (4) four bedroom units containing 1,471 to 1,551 square feet. Rental rates (based on TCAC's 2008 Area Median Income for Los Angeles County) will range from \$459 to \$814 for the one bedroom units, \$546 to \$973 for the two bedroom units, \$629 to \$1,122 for the three bedroom units, and \$692 to \$1,241 for the four bedroom units.

The common amenities will include a spacious community room on the ground level of the building with direct access off the building entry lobby, secured building access and a laundry room. The proposed building also features exterior walk-ways to each unit, trash chute, and recycling area. The second level main courtyard will feature a play area as well as seating and landscaping. Additionally, there will be separate terrace levels at the top floor offering outstanding views of the City. Unit features will include energy star rated appliances, central air conditioning, window coverings, and free high speed Internet service.

The project design has been reviewed and approved by the Westlake Redevelopment Project Area planning staff.

Excluding the manager's unit, 100% of the rental units will be restricted by TCAC for a period of 55 years with rents at or below 60% of the Los Angeles County Area Median Income ("AMI"). The unit affordability and bedroom count is as follows based upon TCAC's rental and income definitions and HCD's rental and income definitions that are consistent with CRA/LA practice:

TCAC RENT MATRIX:

UNIT TYPE	Income per TCAC AMI 35%	Income per TCAC AMI 40%	Income per TCAC AMI 50%	Income per TCAC AMI 60%	TOTAL UNITS
1Bedroom	1	3	2	3	9
2Bedroom	3	4	3	14	24
3Bedroom	3	3	2	7	15
4Bedroom	1	1	1	1	4
MGR2BR	0	0	0	0	1
TOTAL	8	11	8	25	53

TCAC INCOME MIX:

Income Category	# of units	% of Total	CRA/LA Required
Extremely Low (<30% AMI)	0	0%	15% Min (when feasible)
Very Low (31%-50% AMI)	27	51%	30% Min
Low (51%-80% AMI)	25	47%	
Moderate (81-120% AMI)	0	0%	30% Max
Unrestricted	1	2%	
Total	53	100%	

The CRA/LA Housing Policy requires that a minimum of 30% of all assisted units shall be for very low income households, of which at least 50% shall be for extremely low-income households (if feasible), and not more than 30% shall be for moderate income households. Although 51% of the units are for very low income households, none are for extremely low income households.

The Inclusionary Production table below based on HCD rents indicates the units the CRA/LA can take credit for according to the California Redevelopment Law:

Income Category	Inclusionary Production Units		Housing Funds Allocation	
	# of Units	% of Total	Funds	% of Total
Very Low (0%-50% AMI)	11	21%	\$317,308	21%
Low (51%-80% AMI)	10	19%	\$288,462	19%
Moderate (81%-120% AMI)	31	60%	\$894,231	60%
TOTAL	52	100%	\$1,500,000	100%

An application of the maximum rents used by the HCD levels results in a unit mix of eleven (11) very low-income units, ten (10) low-income units, and thirty-one (31) moderate-income units.

Project Sources and Uses of Funds

Sources of Funds	<u>Construction</u>	<u>Permanent</u>
Conventional Loan (CDLAC/Wells/CCRC)	\$12,500,000	\$2,700,000
Community Redevelopment Agency	1,500,000	1,500,000
Los Angeles Housing Department	4,960,000	6,200,000
HCD Transit Oriented Development	0	4,633,933
4% Tax Credit Equity	3,422,520	8,280,353
Deferred Fees and Costs	<u>2,314,535</u>	<u>1,382,769</u>
	\$24,697,055	\$24,697,055

Uses of Funds (Project Cost)

Acquisition and Offsites	\$3,276,500
Fees, Permit and Studies	1,252,232
Direct Construction Costs	14,908,000
Indirect Construction Costs	3,430,594
Rent-up Costs	223,130
Financing Costs	<u>1,606,599</u>
Total Uses of Funds	\$24,697,055

RE

On June 21, 2007 and November 30, 2007, the CRA/LA Board of Commissioners and City Council respectively approved authorization to execute a Letter of Commitment with 505 Bonnie Brae Partners, L.P. and American Communities, LLC, in an amount not to exceed \$1,500,000 for the Bonnie Brae Apartment Project.

SOURCE OF FUNDS

Westlake Housing Trust Funds

PROGRAM AND BUDGET IMPACT

This action is consistent with the adopted FY09 CRA/LA Work Program and Budget for the Westlake Recovery Redevelopment Project Area.

ENVIRONMENTAL REVIEW

On June 21, 2007, the CRA/LA Board of Commissioners adopted a resolution certifying that it had reviewed and considered the environmental effects of the Project as shown in the City of Los Angeles Mitigated Negative Declaration (MND). There are no changes to the Project or its circumstances, and no new information has become available since the adoption of the MND, therefore no further environmental documentation is necessary.

BACKGROUND

In 1986, the CRA/LA loaned the Bonnie Brae Partnership \$842,000 for the rehabilitation of a vacant two story building, which was formerly used as a school and converted into 20 apartment units. The Agreement Containing Covenants Affecting Real Property, dated October 7, 1986, stipulated 100% of the units for occupancy exclusively by person or families of low or moderate income, and provided priority in the selection of tenants to CRA/LA displaces, including those displaced as a result of the Convention Center expansion, if such persons meet the Developer's tenant selection process. The Covenants remain in effect for thirty (30) years after initial occupancy or 2017.

On December 23, 1993 the CRA/LA Loan was written-off due to a senior lien foreclosure.

The proposed Project will be a 53-unit affordable apartment targeted to very low and low-income families on the site of the twenty (20) unit building. The new development entity, 505 Bonnie Brae Partners L.P. has agreed to record new covenants against the site for a period of 64 years (approximately 9 years left on the existing covenant) for the proposed 53-unit development in exchange for the termination of the existing covenants for the 20-unit development.

The existing twenty (20) unit building contains one, two and three bedroom units with rental rates varying from \$850.00 to \$1,000.00 per month. The building is in a significantly deteriorating condition and will be demolished and replaced with the new Bonnie Brae Apartment Homes. The project will provide a much needed comfortable, affordable and safe living environment for the Westlake community, and will have a catalytic impact in conjunction with other redevelopment activities occurring in the immediate area of Sixth and Bonnie Brae Streets.

The development team and proposed development was selected under the 2008 Affordable Housing Trust Funds Notice of Funding Availability issued by the Los Angeles Housing Development (LAHD).

The for-profit developer responsible for completion of the Project is American Communities, LLC of Los Angeles. This firm has developed six (6) developments (three of which are located in the City of Los Angeles) consisting of 404 units. The firm also has three projects under construction in Los Angeles consisting of 130 units. The principals of American Communities are Frank Fonseca and Mark Walther.

The nonprofit General Partner is Central Valley Coalition For Affordable Housing, A California Non-profit Public Benefit Corporation (Central Valley). Central Valley is a general partner in more than 85 tax credit affordable housing developments throughout California. Based in

Merced California, Central Valley Coalition maintains a local office at 5846 Carlton Way, Suite A, Los Angeles, California 90028.

CVCAH is the managing general partner, and Frank Fonseca and Mark Walther are the administrative general partners on three affordable housing developments that have received CRA/LA financial assistance: Carondelet Court, The Hobart, and The Ardmore. All three are current and in good standing with the Agency.

Councilman Ed Reyes and the Westlake Project Area Committee support this project.

Cecilia V. Estolano
Chief Executive Officer

By

Glenn F. Wasserman
Chief Operating Officer

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

- Attachment A: Site Map
- Attachment B: Replacement Housing Plan
- Attachment C: Relocation Housing Plan
- Attachment D: CRA/LA's Grievance Procedures
- Attachment E: Resolution Adopting Replacement Housing Plan
- Attachment F: Subordination Resolution