

M E M O R A N D U M

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DATE: JUNE 5, 2008

TO: CRA/LA BOARD OF COMMISSIONERS

FROM: CECILIA V. ESTOLANO, CHIEF EXECUTIVE OFFICER

RESPONSIBLE
PARTIES:

DAVID RICCITIELLO, REGIONAL ADMINISTRATOR
LILLIAN BURKENHEIM, PROJECT MANAGER
JOHN LUJAN, SENIOR HOUSING FINANCE OFFICER

SUBJECT: CONSTRUCTION AND PERMANENT LOAN AGREEMENT WITH
DOWNTOWN WOMEN'S CENTER IN AN AMOUNT NOT TO EXCEED
\$3,450,000 FOR THE DEVELOPMENT OF THE RENAISSANCE
BUILDING LOCATED AT 434 SOUTH SAN PEDRO STREET
CENTRAL INDUSTRIAL REDEVELOPMENT PROJECT AREA
DOWNTOWN REGION (CD9, 14)

COMMITTEE

REVIEW: APPROVED BY LOAN COMMITTEE, MAY 21, 2008

RECOMMENDATIONS:

1. That the CRA/LA Board of Commissioners, subject to City Council review and approval, authorize the Chief Executive Officer, or designee, to execute a Construction and Permanent Loan Agreement with Downtown Women's Center in an amount not to exceed \$3,450,000 for the adaptive reuse of the Renaissance Building located at 434 S. San Pedro Street.
2. That the CRA/LA Board of Commissioners adopt a Subordination Resolution making findings and authorizing the subordination of the CRA/LA's covenants and use restrictions to construction and permanent loans to be provided for the project in an amount not to exceed the total costs at Certificate of Occupancy.

SUMMARY

Downtown Women's Center (the "DWC") proposes to develop the Renaissance Building located at 434 S. San Pedro Street (the "Site") (Site Map, Attachment "A") for permanent supportive housing for formerly homeless women. Authorization is requested to increase the existing predevelopment grant by \$2,500,000, and allow for the conversion of the predevelopment grant in the amount of \$950,000 to a Construction and Permanent Loan in an amount not to exceed \$3,450,000.

CRA/LA entered into a Disposition and Development Agreement with Downtown Women's Center on May 31, 2007, which will allow DWC to relocate from its current site at 325 S. Los Angeles Street to the Renaissance Building at 434 S. San Pedro Street, providing it the opportunity to increase units from 47 to 72 (66 for very low income; 5 for women in jeopardy of homelessness and 1 management unit) and expand their services for homeless women. The interior of the Renaissance building will be completely demolished except for major structural elements and existing stairs and elevators. An 880 square foot retail space will be provided for lease to a tenant, who has yet to be identified and who is a good fit within the community. Surface parking is adjacent to the building for use of the building employees and tenants. To assist in the relocation to the Site, the CRA/LA previously approved a predevelopment grant in the amount of \$950,000, which has enabled DWC to work diligently on site assessment, design, environmental studies and securing funding.

The appraised market value for the Renaissance Building is \$6,450,000. The City will sell the Site to the CRA/LA for \$1 with the provision of permanent supportive housing. CRA/LA, in accordance with the DDA, will sell the Site to DWC for \$1 and the provision of permanent supportive housing.

The total estimated development cost of the project is \$24,550,055, or approximately \$340,973 per unit. The construction and permanent sources of funding are as follows:

SOURCES AND USES		
SOURCES	CONSTRUCTION	PERMANENT
Bank of America*	\$ 7,330,000	
Los Angeles Housing Department**	4,847,914	\$4,847,914
Community Redevelopment Agency	3,450,000	3,450,000
County Loan*** or Building Sale Proceeds	2,000,000	2,000,000
Multifamily Housing Program*	0	7,985,143
DWC Grants/Donations*	6,266,998	6,266,998
Deferred Fees/Reserves	655,143	
TOTAL	\$ 24,550,055	\$ 24,550,055
USES		
Acquisition Costs	\$ 32,001	
Hard Construction Costs	16,214,772	
Relocation	50,000	
Architectural/Engineering	1,464,895	
Construction Interest/Fees	1,112,960	
Soft/Other Costs	4,175,427	
Developer Costs	1,500,000	
TOTAL	\$ 24,550,055	
Cost per Unit	\$340,973	

- *Financing committed
- **Permanent Supportive Housing Program - Loan request currently being processed. LAHD staff is prepared to recommend a loan, to be forwarded to City Council following approval of HACLA project-based Section 8 vouchers (approval expected 5/08).
- ***City of Industry Special Needs Program - Recommendation for funding expected 5/08. As DWC does not have an agreement for sale of the current site at this time, and as the status of the Medallion project is uncertain, the sale proceeds for the new Site are not guaranteed to develop the Site. If DWC is able to sell the current site, the sale proceeds may be used for an endowment DWC will establish for provision of services.

In addition to the financing above, a backup financing plan is contemplated as follows: DWC has applied for a grant of \$800,000 from the Federal Home Loan Bank’s Affordable Housing Program that could be utilized in the event that a portion of the above funding is not approved or development costs increase. Additionally, DWC could utilize proceeds from sale of its existing property for development costs, secure additional grants and donations, or seek funding under the Mental Health Services Act if necessary to complete the project.

State law permits a redevelopment agency to subordinate its income and use restrictions to a lender’s financing where an economically feasible alternative method of financing the project on substantially comparable terms and conditions is not available without subordination, and where the lender agrees to provide specific notice and cure provisions. Subordination of the CRA/LA housing covenants and use restrictions is required by the construction and permanent lenders as a condition of funding their loan. Prior to agreeing to such subordination, the CRA/LA will require that the Subordination Agreement contains notice and cure provisions which reasonably

protect the CRA/LA’s covenant in the event of DWC’s default under any of the senior loans (Subordination Resolution, Attachment “B”). The CRA/LA loan, housing covenants and use restrictions will be subordinated to those of the construction and permanent lenders where required.

RE

January 18, 2007 – Public Hearing on the Disposition and Development of the Renaissance Building Located at 434 S. San Pedro St. for the Downtown Women’s Center; Increase of Predevelopment Loan from \$500,000 to \$950,000 and Approval to Enter into Agreements with the Skid Row Development Corp.

May 25, 2007 – City Council approval of CRA/LA Board action

August 16, 2007 – Adopt the CRA/LA Budget and Work Program for the Fiscal year ending June 30, 2008 including approval of a Finding of Benefit for the Use of Bunker Hill Housing Tax Increment for the Downtown Women’s Center.

SOURCE OF FUNDS

Bunker Hill Replacement Housing Trust Funds

PROGRAM AND BUDGET IMPACT

The proposed action is consistent with the approved Work Program and Budget for the Central Industrial Redevelopment Project under budgeted line item “Affordable Housing.” Disbursement of funds will take place in FY2008-09.

ENVIRONMENTAL REVIEW

In connection with the CRA/LA Board of Commissioners approval of the acquisition of the Renaissance Building and an amendment to the Predevelopment Grant Agreement, the project was determined to be exempt from the provisions of the California Environmental Quality Act. As the project has not changed from that which was previously approved, no additional environmental documentation is needed.

BACKGROUND

The Downtown Women’s Center (“DWC”) is a community-based nonprofit public benefit corporation formed in 1978 and committed to providing indigent women and children with social services, including permanent housing, showers and bathroom facilities, free clothing, meals, daytime bed-rest, recreation, referrals, shelter and legal counseling. DWC has operated at its current location since its inception in 1978.

Throughout the course of the past four years the number of indigent women within the downtown Los Angeles area has increased by 40%. Because these women are younger than homeless women seen in previous years, they have not only different needs, but require different services than those provided in the past. In order to accommodate this new population, the DWC must not only expand their number of available residential units, but additionally provide significantly altered services.

The Renaissance Building, occupied by SRDC, was in need of major repair and upgrade to be able to continue to be used as an industrial resource. SRDC proposed to transform the building into market rate housing. While the CRA/LA was working with Volunteers of America (“VOA”) and SRDC to consolidate their operations, DWC negotiated with the developers of the Medallion project, bounded by 3rd, 4th, Main and Los Angeles Streets. The Medallion project, as originally

proposed, partly encompassed property currently used by the DWC, although never owned or leased by DWC. Although accommodations were made for DWC to allow them to remain in place, there were long term disadvantages to DWC’s volunteer base remaining at their current site. The advantages for the DWC in acquiring the Renaissance Building is that it would provide increased square footage sufficient to expand the DWC’s permanent housing, supportive services, and health and medical care. As DWC did not want to be surrounded by the new Medallion development, the Renaissance Building was identified as a potential site because of its size and location.

During the same period of time that the DWC and Medallion project have been under consideration, the CRA/LA staff has been working with VOA and SRDC to consolidate their operations, partially due to SRDC’s inability to continue to meet all of its local job creation goals. Due to its size and location, the Renaissance Building was identified as a potential site for occupancy by DWC. A tentative agreement has been reached by the parties involved that SRDC will terminate their lease, the City will sell the Site to the CRA/LA, which in turn will sell the Site to the DWC. This transaction will also include the sale of an adjacent parking lot currently owned by SRDC to the CRA/LA.

The Renaissance Building’s approximately 18,000 square-foot site is developed with a 6-story, 67,000 square-foot light industrial building (Building Photo, Attachment “C”). DWC proposes the following uses for the ground floor:

- 871 square feet of commercial/retail use
- 8 day-bed dormitory
- Multi-stall toilets and showers
- Commercial kitchen and dining room for daytime meal service
- Conference Room
- Medical clinic
- Laundry rooms
- Lobby areas
- Offices, including computer learning center
- Multi-purpose rooms

The following are the proposed uses for the 2nd floor:

- Computer Learning Center
- Art Room
- Garden Room
- Conference Room
- Roof Garden

Single-room dwelling units with private bathroom and kitchenette are proposed for the 3rd through 6th floors (with a total of 72 single-room dwelling units). The following are the proposed uses for these residential floors:

- Community Room (3rd through 6th)
- Laundry Room (3rd and 5th floors)
- Community Kitchen (3rd floor)
- Exercise Room (4th floor)
- Shared Spa Bathroom (4th and 6th floors)
- Community Reading Room (5th floor)
- Community Lounge (6th floor)

A new Day Center will also be located on the first floor and a dormitory with eight beds for non-residents to rest during the day time. The Day Center will serve both the residents of the housing as well as other homeless women, and will serve about 175 persons per day.

Housing funds can be utilized for a variety of costs associated with permanent supportive housing. However, creating a multi-use building that works with the neighborhood by providing ground floor retail, as well as the many different types of programs offered by the DWC, stretches the uses of housing funds beyond their guidelines. To address that issue, \$2.5 million was allocated to DWC to pay for these construction costs as part of the Transfer of Floor Area Rights Community Benefits Program for the Park Fifth Project. The funds are anticipated to be provided to DWC at the time the building permit of Park Fifth is approved or within two years. DWC will find other funding to cover these costs in the meantime.

A 55-year affordability covenant will be recorded against the Site for sixty-six (66) units of extremely low-income housing (up to 30% of Area Median Income for the Los Angeles Metropolitan area as defined by the Housing and Community Development Department of the State of California) and against the adjacent parking lot (501 East 5th Street). The resident manager’s unit and up to five (5) residential units available to women at risk of homelessness will not be income-restricted (Unit Mix and Rents and Cash Flow Analysis sections of the proforma are attached as Attachment “D”).

The loan will be secured by a subordinate deed of trust on the Site and CRA/LA funds will not be disbursed until the Site transfer is completed. CRA/LA funding will be increased by \$2,500,000 and the existing grant will be converted and rolled over into a permanent loan in the amount of \$2,500,000, for a new loan in the amount of \$3,450,000. The loan will accrue interest at 3% and will be payable in exchange for services to be provided by DWC to the downtown homeless women population over a 20 year period, with an annual credit to be applied against the outstanding principal until the balance is paid in full. DWC will be required to comply with all applicable CRA/LA requirements, including prevailing wage, local hiring, Living Wage, Responsible Contractor, Service Worker Retention, Equal Benefits, design guideline standards and insurance.

DWC will select a contractor through a competitive bid process. It is anticipated that construction will begin in the summer of 2008 and that construction will be completed within 18 months.

Councilmembers Jan Perry and Jose Huizar support the project and the recommended actions.

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 – Subordination Resolution
Attachment C – Building Photo
Attachment D – Unit Mix and Rents and Cash Flow Analysis