

MEMORANDUM

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DATE: MARCH 3, 2011 CT1090
100660

TO: CRA/LA BOARD OF COMMISSIONERS

FROM: CHRISTINE ESSEL, CHIEF EXECUTIVE OFFICER

STAFF: DAVID RICCITIELLO, REGIONAL ADMINISTRATOR
DAVE NEUBECKER, ASSISTANT PROJECT MANAGER
ARMANDO PENA, SENIOR HOUSING FINANCE OFFICER

SUBJECT: **Gateways Apartments.** Construction and Permanent Loan Agreement with Single Room Occupancy Housing Corporation in the amount of \$1,000,000 and adoption of a Mitigated Negative Declaration for proposed new construction of approximately 107 units of permanent supportive housing at 505 S. San Pedro Street in the City Center Redevelopment Project Area.
DOWNTOWN REGION (CD 9)

INVESTMENT
COMMITTEE: Approved at the Investment Committee on February 23, 2011

RECOMMENDATIONS

That the CRA/LA Board of Commissioners take the following actions:

1. Adopt a Resolution making a finding of no significant effect on the environment, adopting a Mitigated Negative Declaration and a Mitigation Monitoring Program for the proposed Gateway Apartments Project;
2. Adopt a Resolution making the findings that an economically feasible alternative of financing on substantially comparable terms but without subordination of the CRA/LA Deed of Trust, covenants and use restrictions is not reasonably available, and authorize the subordination of the CRA/LA Deed of Trust, covenants and use restrictions to the construction and permanent loans provided for the proposed project; and

That the CRA/LA Board of Commissioners, subject to City Council approval, authorize the Chief Executive Officer (CEO) or designee to:

3. Execute a Construction and Permanent Loan Agreement with Single Room Occupancy Housing Corporation to provide gap financing in the amount of \$1,000,000 of City Center Low and Moderate Income Housing Funds in Budget Line Item Affordable Housing (Objective CT1090) for development of the Gateways Apartments Project located at 505 S. San Pedro Street.

SUMMARY

Single Room Occupancy Housing Corporation (the “Developer” or “SRO Housing”) has proposed development of the Gateways Apartments (the “Project”) on an underdeveloped parcel at the southwest corner of 5th and San Pedro Streets in the Central City East subarea of the City Center Redevelopment Project Area. The development site was acquired in 2008 by SRO Housing, which owns and operates several other properties on the same block, including the James Wood Apartments, Southern Hotel and James M. Wood Community Center. The proposed Project will develop a new 6-story structure containing 107 units of permanent supportive housing for chronically homeless individuals. These 107 units will have rent subsidies through the Section 8 Project-Based Voucher Program and the Shelter Plus Care Program. 55-year covenants will be recorded to ensure the long-term affordability of these units.

The recommended actions will help SRO Housing secure financing for the Project by satisfying specific requirements in the funding applications submitted to the Los Angeles Housing Department (“LAHD”) and the California Tax Credit Allocation Committee (“TCAC”). The CRA/LA Loan can be terminated if the Project does not receive an award of Low Income Housing Tax Credits within two rounds.

PREVIOUS ACTIONS

Initial Action.

DISCUSSION & BACKGROUND

Location

The development site is located at 505 S. San Pedro St. in the Central City East subarea of the City Center Redevelopment Project Area.

Developer Entity

SRO Housing is a California nonprofit public benefit corporation founded by the CRA/LA in 1984 and is dedicated to building healthy communities for homeless and very low-income individuals. SRO Housing currently owns and operates 28 projects with 2,000 units of affordable, permanent supportive, transitional and emergency housing, and has 4 projects in various stages of development with a total of 396 units. These 32 projects are all located within or adjacent to the Central City East subarea, which spans portions of both the City Center and Central Industrial Redevelopment Project Areas. SRO Housing also owns and operates the James M. Wood Community Center, which is named after the late former chair of the CRA/LA Board of Commissioners, who was for many years a strong advocate of the CRA/LA’s housing program in Central City East. On a daily basis, the James M. Wood Community Center serves approximately 100 senior meals, hosts 10 to 12 substance abuse recovery programs, and provides health screenings, life skills training, and other community building activities. In addition, SRO Housing maintains and operates under contract with CRA/LA the two public parks in Central City East, San Julian Park and Gladys Park. SRO Housing has a proven track record in dealing with complex financing arrangements involving multiple funding sources.

Selection Process

SRO Housing contacted CRA/LA to request environmental clearances and financial assistance.

Description and Project Context

SRO Housing acquired the approximately 24,450 square foot development site in November 2008 with financing provided by the New Generation Fund. The site is improved with a surface parking lot and a small, one-story concrete block structure built in 1983 that is currently vacant. The adjacent property to the west contains the Southern Hotel, a 53-unit permanent supportive housing facility owned and operated by SRO Housing. The adjacent property to the south contains the recently-completed Charles Cobb Apartments, a 74-unit permanent supportive housing facility owned and operated by Skid Row Housing Trust.

The proposed Project would remove the existing improvements in order to construct a new 68,250 square foot 6-story building containing 108 housing units, including 107 efficiency studio units and 1 manager unit. 55-year covenants will restrict the affordability levels under California Department of Housing and Community Development (“HCD”) standards to 54 units at Very Low Income and 43 units at Low Income levels. However, the actual income levels and rents will be lower due to the rent subsidies through the Section 8 Project-Based Voucher Program and Shelter Plus Care Program.

Preservation and rehabilitation of the existing residential hotels remains a high priority in the City Center Project Area. However, new construction is often more viable for permanent supportive housing because the projects are designed to incorporate space for onsite social services, provide interior courtyards or common areas that result in social interaction, and utilize natural light and fresh air flow. There have been six newly-constructed permanent supportive housing projects in City Center since 2006: the Rainbow Apartments, Abbey Apartments, New Carver Apartments, James Wood Apartments, Charles Cobb Apartments and Renato Apartments; in addition, the New Genesis is currently under construction.

Community Benefits

The Project will help reduce homelessness by providing much-needed permanent supportive housing for chronically homeless individuals. All applicable CRA/LA Policies apply to this project, and are listed in the Project Summary Report (Attachment G). In addition, the Project will adhere to the Local Hiring Responsibilities for Construction Employers and Permanent Employers on CRA/LA Assisted Projects in the City Center Redevelopment Project Area, although the CRA/LA Construction Careers Policy may be applied instead pending the outcome of the current trial program.

Findings

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 Union Bank and LAHD as a condition of funding their loans. 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 the Developer’s default under any of the senior loans (Subordination Resolution, Attachment F). The CRA/LA Loan, housing covenants and use restrictions will be subordinated to those of the construction and permanent lenders where required.

Financial Analysis

As indicated in Attachment B, Project Term Sheet, the total development cost of the Project is \$28,553,695 and the cost per unit is \$264,386. The CRA/LA Loan of \$1,000,000 equates to an investment of \$9,259 per unit (\$9,346 per restricted unit) and covers approximately 3.5% of the total development cost.

As indicated in Attachment D, Sources and Uses, the CRA/LA Loan will be used to reimburse the Developer for the acquisition financing costs. The other proposed sources of construction and permanent financing for the Project include LAHD, Union Bank, Low Income Housing Tax Credits, Affordable Housing Program (“AHP”) funds and the City’s allocation of federal stimulus funds.

The CRA/LA Loan will be secured by a subordinate deed of trust on the Site, will accrue interest at 3% for a 55 year term, and will be payable from a pro rata portion of residual receipts, the percentage of which is undetermined at this time. The purpose of the CRA/LA Loan is to make possible the development of rental housing that will remain affordable to low and very low income households for at least 55 years. It is not an investment for the purpose of realizing financial gain. Given the financial structure of affordable rental housing, including long-term restrictions on the maximum amount of rent that may be charged, it is not anticipated that CRA/LA will recapture its investment and/or accrued interest.

The CRA/LA Loan can be terminated if the Project has not received an award of Low Income Housing Tax Credits within two rounds, in order to minimize the risk to the CRA/LA. However, based on SRO Housing’s track record in securing complex construction and permanent financing arrangements involving multiple funding sources, staff believes they will be successful in securing financing for this Project.

ECONOMIC IMPACT

The following table* describes the economic impacts estimated to be created by the proposed Project.

Estimated Economic Impacts Created by this Project*	
Construction Jobs Created	156
Permanent Jobs Created	3.5
Gross Property Tax Increment (TI) Revenue	n/a**
Net Property TI Generated - Net Present Value (NPV)	n/a**
Property TI for Affordable Housing - NPV	n/a**
Utility User Tax Revenue - NPV	n/a
Sales Tax Revenue - NPV	n/a
Business Tax Revenue - NPV	n/a

* The figures provided in the table above are for estimation purposes only; actual fiscal impact or job creation may be higher or lower than these estimates. Standardized formulas were used to generate these figures and are based on accepted econometric practices and basic tax calculations taken from research performed by a variety of sources, including the Los Angeles Economic Roundtable, California Redevelopment Association, United States Department of Housing and Urban Development, CRA/LA, City of Los Angeles, and the County of Los Angeles.

** Tax increment revenue will not be impacted because the development site is located within the portion of the City Center Redevelopment Project Area that had previously been part of the Central Business District Redevelopment Project Area. Under the terms of the consolidated settlement agreement approved by the CRA/LA Board on April 3, 2008, the CRA/LA receives tax increment only for those parts of the City Center Redevelopment Project not previously part of the original CBD Redevelopment Project.

SOURCE OF FUNDS

City Center Low and Moderate Income Housing Fund.

PROGRAM AND BUDGET IMPACT

The proposed action is consistent with the amended Fiscal Year 2011 City Center Budget and Work Program. Following approval of this program, \$2,898,600 of \$4,961,100 will remain for the Affordable Housing budget category for the City Center Project Area. Sufficient funds exist to make any legally-required State Educational Revenue Augmentation Fund ("ERAF") payments in Fiscal Year 2011.

There is no impact on the City's General Fund as a result of the recommended action.

ENVIRONMENTAL REVIEW

In accordance with the California Environmental Quality Act ("CEQA"), and State and CRA/LA Guidelines pursuant thereto, CRA/LA staff caused to be prepared an Initial Study and Mitigated Negative Declaration ("IS/MND") for the proposed Project. The Initial Study and MND were made available to the public for review and comment for a 20-day period from October 13, 2010 through November 2, 2010. One written comment letter was received from the City of Los Angeles Bureau of Sanitation, Wastewater Engineering Services Division; the comments were related to the potential effects of the Project on wastewater, sewer availability, and solid waste. All these comments have been responded to in full within the Final MND.

HOUSING INCLUSIONARY AND PROPORTIONALITY REQUIREMENTS

As indicated in Attachment C, Affordable Housing Information, with the approval of this proposal, the City Center Redevelopment Project will be on target to comply with the 15% Inclusionary Housing requirement.

As indicated in Attachment C, Affordable Housing Information, with the approval of this proposal, the City Center Redevelopment Project will be on target to comply with the statutory obligation to spend funds from the Low and Moderate Income Housing Fund in proportion to need.

AUTHORITY GRANTED TO CEO OR DESIGNEE

If the Loan Agreement is approved, the CRA/LA Chief Executive Officer or his/her designee would be authorized to take such actions as may be necessary to carry out the Agreement, including, but not limited to, executing the CRA/LA Loan Documents and taking the following actions: (1) approving revisions to the Project Budget, so long as the changes do not increase the amount of the CRA/LA Loan or otherwise have a material adverse impact on the feasibility of the project; (2) negotiating and executing subordination agreements meeting the

requirements of California Health and Safety Code Section 33334.14, and making reasonable modifications to the CRA/LA Loan Documents that may be requested by any Senior Lender or Tax Credit Equity Investor, so long as such changes do not adversely affect the receipt of any material benefit by CRA/LA; (3) negotiating and executing Inter-creditor Agreements with and Estoppel Certificates to other lenders, to the extent such Inter-creditor Agreements and Estoppel Certificates are consistent with the terms of the Loan Agreement; and (4) approving certain non-material revisions to the terms of the Loan Agreement reasonably requested by a Permitted Lender or Tax Credit Equity Investor.

Christine Essel
Chief Executive Officer

By:

Calvin E. Hollis
Chief Operating Officer
Real Estate and Economic Development

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

ATTACHMENTS

- Attachment A: Location/Site Map
- Attachment B: Project Term Sheet
- Attachment C: Affordable Housing Information
- Attachment D: Sources and Uses
- Attachment E: Environmental Resolution
- Attachment F: Subordination Resolution
- Attachment G: Project Summary Report