

MEMORANDUM

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**DATE:** MARCH 3, 2011 HW1780  
100624

**TO:** CRA/LA BOARD OF COMMISSIONERS

**FROM:** CHRISTINE ESSEL, CHIEF EXECUTIVE OFFICER

**STAFF:** LESLIE LAMBERT, REGIONAL ADMINISTRATOR  
NEELURA BELL, PROJECT MANAGER  
SUZAN LUU, ASSISTANT PLANNER

**SUBJECT:** **Step Up on Vine.** Loan Agreement for up to \$2,000,000 with Step Up on Second Street, Inc. for the rehabilitation and development of the Step Up on Vine permanent supportive housing project, located at 1057 Vine Street, adjacent to the Hollywood Redevelopment Project Area.  
HOLLYWOOD & CENTRAL REGION (CD 4)

**INVESTMENT COMMITTEE:** Approved at the Investment Committee on February 9, 2011

**RECOMMENDATION(S)**

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

1. Adopt a resolution making a finding that an economically feasible alternative method of financing construction on comparable terms without subordination of the CRA/LA's loan, Deed of Trust, and Income and Rent Restrictions is not reasonably available, and authorize said subordination to the conventional lender's loans; and

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

2. Adopt a resolution, pursuant to Section 33334.2 of the Health and Safety Code, making the finding that the provision of \$2,000,000 in Low and Moderate Income Housing Funds from the Hollywood Redevelopment Project Area (objective HW1780) to assist the Step Up on Vine affordable housing project, which is located outside the Hollywood Redevelopment Project Area ("Project Area"), is of benefit to the Project Area, and request the City Council to adopt said resolution; and
3. Authorize the Chief Executive Officer or designee to execute a loan agreement with Step Up on Second Street, Inc. for \$2,000,000 for the rehabilitation and development of an affordable housing project at 1057 Vine Street and to take necessary action to carry out the loan agreement.

**SUMMARY**

The recommended actions will provide a \$2,000,000 construction and permanent loan to Step Up on Second Street, Inc. ("SUOSS"), in partnership with the Hollywood Community Housing Corporation ("HCHC"), to rehabilitate a dilapidated structure to develop Step Up on Vine ("Project"), a 34-unit affordable housing project in Hollywood that would provide permanent supportive housing for very low-income persons with serious mental illness, including homeless adults and transitional-aged youth.

## **PREVIOUS ACTIONS**

Initial Action.

## **DISCUSSION & BACKGROUND**

### Location

Known in the past as the Stage Inn and later the Turnaround House, the project site is located at 1057 Vine Street, one-half block south of Santa Monica Boulevard in Hollywood. The project site is outside the Hollywood Redevelopment Project Area, 1/4 mile south of the southern boundary (approximately 2 blocks). The gross building area for the project is 20,700 square feet on a project site of 8,276 square feet. The three-floor existing masonry structure was built in 1924 with hotel rooms on the second and third floors. The ground floor has since been divided up into multiple retail spaces. The building is currently vacant and is in poor condition. The site has been acquired by SUOSS.

The neighborhood is currently characterized by a mix of older commercial retail and neighborhood services, including gas stations and auto repair shops, storage facilities, a dental clinic, a laundromat, and fast food outlets.

Current zoning on the project site is C2-1D: limited commercial, height district 1, with a "D" overlay which strictly limits density. In this zone, R3 residential densities are permitted by right and would allow for a development on the subject site of up to 42 units (58 units could be developed with a density bonus). The HCHC has indicated that all entitlements are in place and that no variances or conditional use permits will be required to redevelop the structure as proposed.

### Developer Entities

The project site is currently owned by SUOSS and will be developed in partnership with HCHC. At a later point, HCHC will create Step Up on Vine, LP, a California limited partnership. This transfer will be permitted in the proposed loan agreement. The limited partnership will be a single-asset entity whose sole purpose is the development and operation of Step Up on Vine. The general partners of the new limited partnership will be HCHC and SUOS.

#### *Step Up on Second Street, Inc (SUOSS):*

SUOSS is a California nonprofit corporation formed in 1984 for the purpose of providing long-term support to persons with serious mental illness. Initially, SUOSS's activities focused on supportive services, but, since 1994, SUOS has been providing permanent supportive housing as well. To date, SUOSS has completed three permanent supportive housing projects encompassing 85 units. All three of SUOSS's projects to date are located in the City of Santa Monica.

President and CEO, Tod Lipka, has been with SUOSS for 9 years and has 25 years' experience in managing nonprofits.

#### *Hollywood Community Housing Corporation (HCHC):*

HCHC is a California nonprofit corporation formed in 1989 for the purpose of preserving and expanding the supply of affordable housing for lower income households in the Hollywood area. It is now a very highly regarded developer and operator of affordable rental housing.

Executive Director, Bill Harris, has been with the organization for 9 years and has more than 2 decades' experience in the affordable housing field, including work with the Crescent Bay Land Company and the City of Los Angeles Housing Department.

Housing Director, Maura Johnson, has been with HCHC for 6 years, but has a total of 17 years experience in affordable housing development.

Over its 21-year operating history, HCHC has received CRA/LA financial support for numerous projects. All of those projects have been satisfactorily completed and are operating as agreed. More recently, HCHC has obtained financial assistance from CRA/LA for 3 prior affordable housing projects totaling \$15,250,000 as follows: \$7,500,000 for Hollywood Bungalow Courts; \$2,550,000 for Alexandria House; and most recently, \$5,027,000 for Coronel Apartments.

### Selection Process

SUOSS identified this potential development opportunity and requested CRA/LA funding support for construction and permanent financing. Given the organization's limited development experience, CRA/LA requested that SUOSS partner with an experienced developer, and SUOSS selected HCHC.

### Description and Project Context

CRA/LA previously made loans to Volunteers of America (VOA) to provide affordable housing at this location and recorded a 30-year covenant in 1990. In 1999, in violation of CRA/LA's loan agreement with VOA, title to the property was transferred. In 2006, the hotel was closed as a nuisance abatement action taken by the City. The owner put the property on the market and made several attempts to have CRA/LA release its covenants. However, the covenants were not released, and in 2009 the property was acquired by SUOSS.

HCHC and SUOSS are planning a complete rehabilitation of the existing structure to create 32 efficiency units and 2 manager's units (one 1-bedroom unit and 1 efficiency unit) on the second and third floors. Each of the units will include a kitchenette and a full bathroom. The ground floor will be reconfigured to be used for services for residents and the broader community, including showers, mail services, and a community kitchen. The rehabilitated building would provide 34 units of supportive housing for very low-income persons with serious mental illness, including homeless adults and transition-aged youth.

Amenities at Step Up on Vine will include laundry facilities, a large roof-top courtyard and garden, classroom and meeting space, multiple supportive services, job training, and a community kitchen and cafe. In addition, to enhance the outward appearance of the building, the facades facing Vine Street and Eleanor Avenue will be covered with green screens for trailing vines.

There is no parking associated with the structure and the developers do not intend to add parking. Given the target population, this is not expected to impose a burden on the surrounding community. Metered street parking is available in front of the building on Vine Street and non-metered street parking is located within easy walking distance.

### Community Benefits

The subject property has been shut down since 2006 when it was closed due to its nuisance abatement. It is a tremendous eyesore and blight at a significant intersection – southwest corner of Santa Monica and Vine Boulevards. The rehabilitation of the property will significantly contribute to the physical improvement of the neighborhood. Additionally, the provision of supportive housing addresses a key concern in Hollywood to increase the availability of housing for the most vulnerable populations – the dually diagnosed homeless individuals. In 2008, the coalition group Hollywood 4RWD (“4 Walls, a Roof and a Door”), in collaboration with the nonprofit Common Ground, conducted a homeless count over one night and identified approximately 500 visible homeless people. Subsequently, the Hollywood Registry was created and a list established using a vulnerability index.

The key strategic objective of that effort is increasing the supply of permanent supportive housing units in the Hollywood area. The Step Up On Vine Project will contribute 32 units towards this goal. Maintaining affordable covenants is also one of CRA/LA’s goal, and the existing covenants on the property expire in 9 years. The new loan agreement will include a new 55-year covenant ensuring long-term affordability.

The property will be retrofitted with many “green” features, including a gray water system, roof-top solar panels, new energy efficient windows, high-recycled-content modular flooring, as well as new, energy-efficient fixtures and appliances. The project site is located within one block of the Santa Monica Boulevard bus lines and within three quarters of a mile of the Metro Red Line station at Hollywood and Vine.

All applicable CRA/LA policies apply to this project, and are listed in the Project Summary Report (Attachment G).

### Financial Analysis

Total development costs for Step Up on Vine are estimated to be \$14,424,857 (\$424,260/unit including the ground floor services space). CRA/LA’s proposed \$2,000,000 loan represents 14% of the costs (\$62,500 per restricted unit). The other proposed permanent financing includes: \$500,000 (13%) raised from the “Step Up Capital Campaign;” \$250,000 (2%) CDC Housing Grant; \$640,000 (4%) FHLB Affordable Housing Program Grant; \$500,000 (3%) LAHD EEC Block Grant; \$3,328,000 (23%) Mental Health Services Act Capital Grant; and \$7,206,857 (50%) in tax credit equity. See Attachment D for the Sources & Uses Chart.

CRA/LA’s loan will be secured by a 3<sup>rd</sup> Deed of Trust behind the Conventional Construction Lender and Cal HFA’s MHSA during the construction phase. CRA/LA’s investment loan will only come in at construction closing, in order to mitigate risk. In the permanent financing structure, the AHP lender will have the 1<sup>st</sup> position, Cal HFA 2<sup>nd</sup>, and CRA/LA will remain in 3<sup>rd</sup>.

### **ECONOMIC IMPACT**

The following table\* describes the economic impacts estimated to be created by this project.

<b>Estimated Economic Impacts Created by this Project*</b>	
<b>Estimated Construction Jobs Created</b>	<b>47</b>
<b>Estimated Permanent Jobs Created</b>	<b>2</b>
<b>Estimated Gross Property Tax Increment (TI) Revenue</b> (Year 1 of Tax Increment Generated)	<b>n/a</b>

<b>Estimated Economic Impacts Created by this Project*</b>	
<b>Estimated Net Present Value (NPV) of Net Property TI Generated</b> (Revenue to the CRA/LA Project Area through the last Tax Increment Receipt Date)	n/a
<b>Estimated NPV of Property TI for Affordable Housing</b> (25% set-aside towards the CRA/LA Low and Moderate Income Housing Fund through the last Tax Increment Receipt Date)	n/a
<b>Estimated NPV of Utility User Tax Revenue</b> (Revenue to City of Los Angeles)	<b>\$144,000</b>
<b>Estimated NPV of Sales Tax Revenue</b> (1% portion of taxable sales to City of Los Angeles)	n/a
<b>Estimated NPV of Business Tax Revenue</b> (Revenue to City of Los Angeles)	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, US Department of Housing and Urban Development, CRA/LA, and the City and County of Los Angeles.

### **SOURCE OF FUNDS**

Hollywood Redevelopment Project Area Low and Moderate Income Housing Funds.

### **PROGRAM AND BUDGET IMPACT**

The proposed action is consistent with the Amended FY11 Budget and Work Program relating to Hollywood Redevelopment Project Area. Following the approval of this Project, \$24,472,000 of \$36,204,900 will remain for Affordable Housing. Sufficient funds are available to make any legally required State ERAF payments. There is no impact on the City's General Fund.

### **ENVIRONMENTAL REVIEW**

The rehabilitation of the building is categorically exempt from provisions of the California Environmental Quality Act (CEQA) pursuant to Sections 15301 (a) and 15194 (Affordable Housing Exemption) of the State CEQA Guidelines.

### **HOUSING INCLUSIONARY AND PROPORTIONALITY REQUIREMENTS**

As indicated in Attachment C, Affordable Housing Information, with the approval of this proposal, the Hollywood 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 Hollywood Redevelopment Project will not have spent funds from the Low and Moderate Income Housing Fund (LMIHF) in proportion to need, in that the amount of LMIHF spent to date on Senior housing will currently exceed the allowable percentage, but staff expects to come into compliance on or before the December 31, 2014 statutory compliance deadline by using all existing and future funds for non-Senior housing projects. There are currently four projects in the pipeline totaling approximately \$9 million in proposed funding which will leave a \$10 million of carryover and projected new funds to spend on future projects.

**AUTHORITY GRANTED TO CEO OR DESIGNEE**

If the Loan Agreement is approved, the CRA/LA Chief Executive Officer or 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) extending the Initial Term of the Loan by up to one additional year for a total not to exceed three years; (2) 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; (3) 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; (4) 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 (5) 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:

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Calvin E. Hollis  
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.

**ATTACHMENTS**

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