

MEMORANDUM

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DATE: MARCH 7, 2011 MD1550
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TO: CRA/LA BOARD OF COMMISSIONERS

FROM: CHRISTINE ESSEL, CHIEF EXECUTIVE OFFICER

STAFF: LESLIE LAMBERT, REGIONAL ADMINISTRATOR
MICHELLE BANKS-ORDONE, PROJECT MANAGER
JERRY HAMMOND, SENIOR HOUSING FINANCE OFFICER

SUBJECT: **Jefferson Boulevard and 5th Avenue Apartments.** Environmental Action, Loan Agreement and Commitment Letter for Jefferson Boulevard Housing Partners, L.P. not to exceed a total of \$3,000,000 for development of Jefferson Boulevard and 5th Avenue Apartments at 2401, 2415, 2421 and 2425 W. Jefferson Boulevard in the Mid-City Recovery Redevelopment Project Area HOLLYWOOD & CENTRAL REGION (CD 10)

INVESTMENT COMMITTEE: Approved January 12, 2011

RECOMMENDATIONS

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

1. Adopt a resolution certifying that it reviewed and considered the environmental effects of the subject affordable housing project ("Project") as shown in the City of Los Angeles Mitigated Negative Declaration ENV 2008-3252-MND-DB-REC-1 ("MND") pursuant to California Environmental Quality Act ("CEQA") Guidelines set forth in California Code of Regulations Section 15096(f);
2. 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 deed of trust and affordability restrictions on the subject property is not reasonably available, and authorizing subordination of CRA/LA's deed of trust, covenants, and use restrictions to conventional loans during both the construction and permanent phases of the Project; and
3. Adopt a resolution making findings required by Sections 33131, 33132, 33133, and 33445 of the California Health & Safety Code, and request that the City Council adopt said resolution.

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

4. Execute a loan agreement and related documents with Jefferson Boulevard Housing Partners, L.P. ("Borrower") to provide a loan totaling not more than \$1,500,000 from the Mid-City Recovery Redevelopment Project Area Low and Moderate Income Housing Funds ("CRA/LA Loan") and take such other actions as are necessary to carry out said Loan Agreement; and

5. Issue a commitment letter to Borrower in an amount not to exceed \$1,500,000 for State Department of Housing and Community Development ("HCD") Proposition 1C Infill and Infrastructure Grant funds to be reflected in budget line items Affordable housing (Objective Code MD1550) and Public Improvements (MD3300) and take such other actions as are necessary to carry out said commitment letter.

SUMMARY

Approval of the Loan Agreement and the commitment letter would provide a total of \$3 million (\$1.5 million in Project Area Low and Moderate Income Housing Funds ("LMIHF Loan") and \$1.5 million in HCD Proposition 1C IIG funds ("Prop 1C Commitment") to the Project. The recommended actions are necessary to permit Borrower to demonstrate a CRA/LA funding commitment needed to apply for other Project funding sources with application deadlines in the first quarter of 2011. Release of the described CRA/LA funds (except for \$100,000 retained for relocation purposes) will occur concurrently with the close of other Project construction loans. Additionally, such release of CRA/LA funds is conditioned on Borrower's securing other funding commitments in an aggregate amount sufficient to allow it to acquire the Site and construct the Project. The total acquisition price for the Site is \$2.25 million, and the estimated Project construction cost is \$15.55 million. The Project is comprised of 39 affordable family units and one two-bedroom manager's unit. It includes three residential levels over one ground level of parking, office space and community space (including a community service area for residents). Restrictive income and use covenants will be recorded and in effect for a period not less than 55 years.

PREVIOUS ACTIONS

Initial Action.

DISCUSSION & BACKGROUND

Project Site

The Site is located near stations along the Exposition Light Rail Line and the proposed Crenshaw/LAX Transit Corridor. Development of this Project helps implement the Proposition 1C IIG award (to CRA/LA) from HCD. This award funds in-fill and infrastructure projects in contiguous portions of the Project Area (and the Crenshaw Amended Redevelopment Project Area). Such projects in these two Areas would not occur without these HCD funds.

The Project implements well the HCD grant because (1) its affordable housing units contribute to the existing level of grant funding (the total \$14.67 million grant award was based in part on the number of units and their affordability levels), (2) HCD has specifically requested that its Prop 1C funds subsidize transit oriented housing development, and (3) infrastructure improvements built with Prop 1C funds must be constructed by December 31, 2012, or the award will be reduced. The Project includes eligible on-site infrastructure improvements under the grant such as site clearance, grading and parking, which will be developed within the required time frame.

There are currently four structures on the Site. Three are former residential structures converted to commercial use and operated as the Cornerstone Learning Academy. The fourth structure is an abandoned service station. In July-August 2007, Borrower entered purchase agreements with the owners of the lots comprising the Site (i.e., Lacy and Leilani McAllister, and Michelle McGinnis). These agreements were extended through September 30, 2011 to give Borrower additional time to obtain all funding commitments necessary to move forward with Project construction.

Project History and Developer

The Project genesis occurred in 2008 when New Urban Partners, LLC - comprised of Global Housing Development and DN AM Construction Company ("DN AM") ("Project Sponsor") - brought the Project concept to CRA/LA staff. Over the past several years competition among affordable housing developers for limited public funds has been fierce due to the financial downturn. To improve the Project prospects in upcoming funding application rounds, New Urban Partners LLC sought a partnership with Thomas Safran Associates, Inc. ("TSA"). TSA is a well-established developer with a strong track record and excellent reputation in both affordable housing development and management. TSA has successfully partnered with Housing Corporation of America ("HCA") on fifteen affordable housing projects, providing non-profit status for the Borrower, and will play the same role in this deal. Jefferson Boulevard Housing Partners, L.P. is the "Borrower" of the subject CRA/LA Loan and "Developer" of the subject Property. A diagram of the organizational structure is presented in Attachment H.

Constituent Members of Developer

The roles of the constituent members of Developer are contained in Memoranda of Understanding ("MOU") between the Project Sponsor and TSA to construct and operate the Project. As general partner of Developer, TSA will manage the overall operation of the Project and consult with Global Housing Development, Inc., the co-administrative general partner, on major decisions. TSA will also provide supportive services to Project residents. HCA will be brought in at a later date as the managing general partner, and its non-profit status will improve competitiveness for public funding of the Project. DN AM will also be a co-administrative general partner, and per the MOU, shall become the Project's prime contractor only if all of the following conditions are complied with:

- A competitive bid process (acceptable to CRA/LA) is conducted for the Project contractor, and DN AM wins the bid;
- DN AM provides a payment and performance bond; and
- DN AM agrees to submit to TSA's final decision-making authority with regard to the Project (including Project construction).

A final MOU and/or Partnership Agreement executed by all parties must reflect the aforementioned conditions prior to disbursement of any CRA/LA funds.

The Developer's general partner (TSA) has the highly experienced and successful Thomas Safran as its principal. TSA has developed 35 affordable housing projects, of which five were CRA/LA financed: Hollywood El Centro, La Brea Franklin Apartments, Montecito Apartments, Rittenhouse Square, and Strathern Park. TSA has two other CRA/LA funded projects in the pipeline: Canby Woods, and Dunbar Hotel Apartments (rehabilitation). In addition, TSA manages more than 3,000 units in Southern California with a reputation for very attentive maintenance and care of its residents.

As stated above, Global Housing Development, Inc. ("Global Housing") is part of New Urban Partners LLC. With Kaifa Tulay as its President, Global Housing has developed Arlington-Rodeo Apartments, Fumbah Manor and Benton Green (all affordable housing projects, the first two funded in part by CRA/LA). DN AM Construction, with Dae Woo Nam as its principal, has over two decades of experience in affordable rental housing built with prevailing wage workers. HCA has developed and/or owned 55 affordable housing complexes. Its total work consists of 5,341 units (mostly located in California), and it has partnered with TSA on Rittenhouse Square, Skyline Village and Casa Lucerna.

All constituent members of Developer are currently in good standing with the exception of DN AM Construction ("DN AM"). DN AM has four outstanding liens related to a housing rehabilitation project at 9th and Broadway in downtown Los Angeles. Once a final Certificate of Occupancy ("C of O") is

issued (in the near future) for this project, construction retention should be released to permit payment of the outstanding liens. Funding of the CRA/LA Loan will be conditioned upon satisfactory release of these liens.

Developer Selection Process

This Project was Developer-initiated with the support of Council District 10.

Proposed Project

The Site is generally situated south of the Santa Monica Freeway and north of Exposition Blvd. midway between Crenshaw Blvd. and Western Avenue. It fronts on Jefferson Blvd., a commercial thoroughfare comprised mostly of a mix of older commercial structures and residential structures converted into commercial uses. The surrounding area is predominantly residential and is characterized by small, single-family residences dating from the 1920's and 1930's.

The proposed Project is a 48,802 SF, 4-story development with 9 one-bedroom apartments (705 sq. ft.), 19 two-bedrooms (917 sq. ft.), and 12 three bedrooms (1,171 sq. ft.). Based on HCD rents, 18 units will be restricted to Very Low Income households, 10 units to Low Income households, and 11 units to Moderate Income households (the two-bedroom manager's unit will be unrestricted). The Project will include approximately 9,542 sq. ft. of circulation, lobby, office and restroom space, 1,456 sq. ft. of community and social service space, and 71 at-grade secured, covered parking spaces. The existing structures on the Site will be demolished.

A relocation plan is not required because only one small business currently operates on-site with few employees. However, after the CRA/LA Loan is fully executed, the existing business will be provided relocation benefits consistent with all applicable laws and requirements. A CRA/LA-approved relocation consultant, Del Richardson and Associates, was selected to administer the relocation process which will be overseen by CRA/LA Real Estate staff. Relocation funds totaling \$100,000 will be withheld from the total \$1.5 million LMIHF loan amount and deposited in a separate CRA/LA retention account. Once relocation activities/payments have been made by Developer to the satisfaction of staff, the withheld funds will be released to Developer or his vendors based on invoices. In the event relocation costs exceed the amount withheld, Developer will not be compensated by CRA/LA for the overage. Instead, Developer will be responsible for absorbing such overage.

Community Benefits

The proposed Project will eliminate existing dilapidated and deteriorated structures, site conditions, as well as provide sound and safe housing for families and large families. Additionally, it will plant six trees. Also, Developer will comply with all applicable CRA/LA Policies, which are listed in the Project Summary Report (Attachment G). The Project will also provide much needed public improvements within the contiguous portion of the Project Area and the Crenshaw Amended Redevelopment Project Area as a result of the HCD Prop 1C IIG Award preserving the \$14.7 million allocation.

Financial Analysis

The proposed Project is slated to commence construction after the Borrower successfully obtains commitments/awards for all funding sources. The other sources of funding are contingent upon the total \$3 million commitment comprised of \$1.5 million from LMIHF and \$1.5 million from Prop IC funds. If LAHD and TCAC commitments/awards are successfully obtained in the upcoming rounds, construction could commence in late summer 2011. Developer will be allowed up to two attempts to obtain LAHD and TCAC commitments/awards. If unsuccessful, the CRA/LA will reconsider whether the funds should be reprogrammed for other use(s).

Upon approval of the recommendations, CRA/LA will enter into the CRA/LA Loan and a Commitment Letter with Borrower, which will provide a total of \$3 million in construction loan funds that will, upon satisfaction of the CRA/LA conditions precedent set forth in the CRA/LA Loan Agreement (“Loan Agreement”), automatically convert to a permanent loan. Upon execution of the contract with the State of California for the Prop 1C funds, a second Loan Agreement will be executed which incorporates the requirements of this funding. Of the total \$3 million, \$1.5 million of LMHF will have a 55-year term and 3% simple interest accruing from the date of the promissory note, payable based on CRA/LA’s prorata share of residual receipts loans (see Attachment B, Project Term Sheet). The remaining \$1.5 million in Prop 1-C funds was awarded to CRA/LA for development of projects in a defined geographical area in which the subject Site is situated. These Prop 1C Loan funds will have a 55 year loan term and 0% interest payable from the date of the C. of O., also payable from residual receipts and will only be spent for eligible off-site and on-site expenses as identified in the approved Project proforma and required under the terms of grant.

The Project’s total development cost is \$15.55 million, or approximately \$398,707 per affordable unit (\$191,970 per bedroom). These figures are inclusive of 71 parking spaces, approximately 11,000 sq. ft. of circulation and community space, open space, LEED sustainability features and other project amenities. Each of the \$1.5 million CRA/LA administered Loans as a percentage of total development cost is 9.7%, and the per-unit contribution to the Project for the 39 affordable units from each source is \$38,462.

CRA/LA is authorized to administer the use of Proposition IC IIG funds under the guidelines of the grant. HCD executed the Award Letter for the Crenshaw Corridor on May 20, 2010 (Attachment I), which was received by CRA/LA in August 2010.

ECONOMIC IMPACT

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

Estimated Economic Impacts Created by this Project*	
Estimated Construction Jobs Created	86
Estimated Permanent Jobs Created	2

*The figures provided in the table about 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.

In addition to the creation of these construction and permanent jobs, redevelopment of the site will eliminate the existing deteriorated structures and improve the neighborhood by replacing them with a new, high-quality apartment building that will benefit 39 low and moderate income households.

SOURCE OF FUNDS

Mid-City Recovery Redevelopment Project Area Low and Moderate Income Housing Funds and State Department of Housing and Community Development Proposition 1C Infill and Infrastructure Grant

PROGRAM AND BUDGET IMPACT

This action is consistent with the Amended FY2011 Budget and Work Program relating to the Mid-City Recovery Redevelopment Project Area. Following the approval of this Project, \$1,725,900 of \$5,526,900 will remain for Affordable Housing. There are sufficient funds to make any required State ERAF payments. There is no impact on the City's General Fund.

ENVIRONMENTAL REVIEW

The City of Los Angeles is the lead agency for the Proposed Project for purposes of the California Environmental Quality Act (CEQA). The City Planning Department acting through its Planning Commission adopted ENV-2008-3252-MND-DB-REC-1 (MND) and approved the Proposed Project on August 13, 2009. The CRA/LA's environmental responsibility, as a Responsible Agency under CEQA, is to consider the environmental effects of the Proposed Project as shown in the MND prepared by the lead agency prior to acting on the Proposed Project.

The California Environmental Quality Act ("CEQA") Guidelines set forth in California Code of Regulations Section 15096(f) permit the CRA/LA to adopt a resolution certifying that it has reviewed and considered the environmental effects of the Project as shown in the City of Los Angeles Mitigated Negative Declaration ENV 2008-3252-MND-DB-REC-1 ("MND"). CRA/LA staff has completed its review and considered the environmental effects of the Project (findings are set forth in Attachments E-2 – Environmental Resolution, and E-3 - MND Attachment to Environmental Resolution).

FINDINGS

The California Environmental Quality Act ("CEQA") Guidelines set forth in California Code of Regulations Section 15096(f) permit the CRA/LA to adopt a resolution certifying that it has reviewed and considered the environmental effects of the Project as shown in the City of Los Angeles Mitigated Negative Declaration ENV 2008-3252-MND-DB-REC-1 ("MND"). CRA/LA staff has completed its review and considered the environmental effects of the Project (findings are set forth in Attachments E-2 – Environmental Resolution, and E-3 - MND Attachment to Environmental Resolution).

Staff recommends that the CRA/LA Board of Commissioners make a finding that an economically feasible alternative method of financing or refinancing without subordination of CRA/LA's deed of trust and affordable housing covenant is not reasonably available, but only when the CRA/LA obtains written commitments reasonably designed to protect the CRA/LA's investment in the event of default (see Attachment E-1 – Subordination Resolution). The Subordination Agreement will contain notice provisions such as one or more of the following rights as set forth in the statute:

- A. A right of the CRA/LA to cure a default on the loan(s).
- B. A right of the CRA/LA to negotiate with the lender after notice of default from the lender.
- C. An agreement that if prior to foreclosure of a loan, the CRA/LA takes title to the property and cures the default on the loan(s), the lender will not exercise any right it may have to accelerate the loan(s) by reason of transfer of title to the CRA/LA.
- D. Right of the CRA/LA to purchase property from the owner at any time after a default on the loan(s).

Staff recommends that the CRA/LA Board of Commissioners make findings as required by Sections 33131, 33132, 33133, and 33445 of the California Health & Safety Code regarding public infrastructure improvements to be financed with HCD Proposition 1C IIG proceeds awarded to the CRA/LA (Attachment E-4 Joint Resolution).

As Indicated in Attachment C, Affordable Housing Information, with the approval of this proposal, the Mid-City Redevelopment Project will not have provided sufficient affordable housing units to comply with the 15% Inclusionary Housing requirement. CRA/LA staff expects to come into compliance on or before the December 31, 2014 statutory compliance deadline as the result of the development of one or more proposed affordable family projects on CRA/LA-owned sites that are currently under consideration.

As indicated in Attachment C, with the approval of this proposal, the Mid-City Recovery Redevelopment Project will not have spent funds from the Low and Moderate Income Housing Fund in proportion to need, in that the amount of LMIHF spent to date on Senior Housing will exceed the allowable percentage. CRA/LA staff expects to come into compliance on or before the December 31, 2014 statutory compliance deadline as a result of funding the development of one or more proposed non-age restricted affordable housing projects currently under consideration.

AUTHORITY GRANTED TO CEO OR DESIGNEE

The State Redevelopment Law was amended in 1989 (Section 33334.14) to allow subordination of income and use restrictions. The subordination is permitted when the CRA/LA makes a finding that an economically feasible alternative method of financing or refinancing without subordination is not reasonably available and when the CRA/LA obtains written commitments reasonably designed to protect the CRA/LA's investment in the event of default.

Currently, CRA/LA staff is not aware of any domestic lending institutions willing to provide conventional financing without subordination of covenants, as well as CRA/LA loans. Such well-margined low-risk loans are still eligible for credit under the Community Reinvestment Act. The conventional construction and permanent lender has indicated that subordination of the CRA/LA's covenants will be required.

It is anticipated that the Loan Agreement will authorize the CRA/LA Chief Executive Officer or designee to take such actions as may be necessary to implement it, including, but not limited to, executing related 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 Loans 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 Agreements; (4) approving certain non-material revisions to the terms of the Loan Agreements reasonably requested by a Permitted Lender or Tax Credit Equity Investor; and (5) administrative actions such as disbursement agreements and reporting procedures necessary to secure and reimburse HCD Proposition 1C IIG funds.

PROJECT SUPPORT

Councilmember Herb Wesson and the Mid-City Project Area Committee support the recommended actions.

Christine Essel
Chief Executive Officer

By:

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.

- Attachment A: Location Map
- Attachment B: Project Term Sheet
- Attachment C: Affordable Housing Information
- Attachment D: Sources/Uses
- Attachment E: Resolutions
 1. Subordination Resolution
 2. Environmental Resolution
 3. MND Attachment to Environmental Resolution
 4. 33131, 33132, 33133 and 33445 Resolution
- Attachment F: Elevation
- Attachment G: Project Summary Report
- Attachment H: Organizational Structure
- Attachment I: HCD Prop 1C IIG Award Letter