

REPORT FROM

OFFICE OF THE CITY ADMINISTRATIVE OFFICER

Date: January 12, 2009

CAO File Nos. 0220-00013-2217

Council File No. 08-3075

Council District: 9

To: The Council
The Mayor

From: Raymond P. Ciranna, Interim City Administrative Officer

RPC
EW

Reference: Community Redevelopment Agency (Agency) Transmittal dated November 6, 2008;
Received by the City Administrative Officer on November 12, 2008

**Subject: LOAN AGREEMENT WITH NEW GENESIS APARTMENTS, L.P. FOR
DEVELOPMENT OF THE NEW GENESIS APARTMENTS PROJECT**

SUMMARY

The Community Redevelopment Agency (Agency) requests authority to execute a new loan agreement in an amount not to exceed \$2,100,000 with New Genesis Apartments, L. P. (Developer) for the New Genesis Apartments Project (Project), a mixed-use, 106-unit, affordable housing development, not sooner than 30 days after the approval of the Replacement Housing Plan (RHP), subject to the following conditions with respect to the Agency loan for the Genesis Hotel located at 452 S. Main Street (Loan #875441): a) cancellation of the existing loan agreement, loan amendments and promissory note with Church and Temple Housing Partnership I (Church and Temple); b) release of the housing covenant agreement concurrent with the recording of new housing covenants on the Project; c) forgiveness of the loan principal (\$803,291.51) and accrued interest (\$16,043.82) in the approximate total amount of \$819,335 for the Genesis Hotel; and, d) reconveyance of the deed of trust. The Agency states that the Genesis Hotel requires a major systems overhaul and due to the substandard condition of the building, the Developer feels the costs for upgrades would exceed the cost and utility of demolishing and replacing the structure. The Developer proposes to construct a five-story structure containing 98 affordable studio units, six affordable one-bedroom units, two unrestricted one-bedroom manager units, ground floor retail and subterranean parking with approximately 29 parking spaces to be located at 452-458 S. Main Street in the City Center Redevelopment Project Area (CCRPA).

In addition, the Agency requests authority to:

- a) Amend its Fiscal Year 2008-09 Budget and Work Program to transfer \$2,100,000 from the Central Industrial Redevelopment Project Area to CCRPA within the Affordable Housing budgeted line item. The Agency states that there will be no impact to existing projects due to the fund transfer.
- b) Adopt a joint Finding of Benefit Resolution (Attachment One) by Council and the Agency Board (Board) of Commissioners finding that the use of \$2,100,000 in Bunker Hill

HOUSING, COMMUNITY &
ECONOMIC DEVELOPMENT

Redevelopment Project Area (BHRPA) Replacement Housing Trust Funds for the Project is of benefit to the BHRPA. California Redevelopment Law (Section 33334.2) permits a redevelopment agency to spend a project area's affordable housing funds outside of the geographic boundaries of the project area as long as findings that the housing project benefits the project area acting as the beneficiary are adopted.

- c) Approve a Subordination Resolution (Attachment Two) finding that an economically feasible alternative of financing on substantially comparable terms but without subordination of the Agency covenants and use restrictions is not reasonably available and authorize the subordination of the Agency's Deed of Trust, covenants and use restrictions to the construction and permanent loans provided for the Project.

On November 6, 2008, the Agency Board adopted an Environmental Resolution; acknowledged and authorized the replacement of Church and Temple with the Developer as the new limited partnership entity; approved and adopted by resolution the RHP for the Project; and approved and adopted the Relocation Plan for the Genesis Hotel. The Agency states that all of the Genesis Hotel replacement housing obligations (in terms of units and affordability level) under the Residential Hotel Development Guidelines and Wiggins Settlement Agreement will be achieved onsite by the Project.

New Genesis Apartments Project

The Developer intends to develop two contiguous sites which are owned by the Developer. The first site is improved with the Genesis Hotel consisting of 30 single room occupancy (SRO) units and ground floor commercial space. The second site is a 9,800 square foot unimproved parking lot (acquired by the Developer in December 2007). An appraisal of the parking lot dated October 11, 2007 was prepared by Pacific Realty Associates, Inc. pursuant to Uniform Standards of Professional Appraisal Practice. The appraisal was reviewed by Hampstead Appraisal Company in October 2007 on behalf of the Agency. Both the appraiser and the Hampstead review appraiser concur that the Fair Market Value of the parking lot is \$2,100,000. The Developer acquired the Site for \$2,050,000. The Agency's new loan of \$2,100,000, which translates to \$19,811 per unit of Agency investment in the Project, will be used to reimburse the Developer for its acquisition financing costs (\$2,050,000) with the balance (\$50,000) to be used to pay for eligible predevelopment expenses.

The Project's estimated development cost is \$33,735,133, or approximately \$318,256 per unit. The proposed funding sources are estimated to be as follows:

- \$881,633 in private equity (deferred fees).
- \$5,587,486 in Los Angeles Housing Department (LAHD) funds. The Developer has received a loan commitment for LAHD Permanent Supportive Housing Program funds.
- \$13,191,914 - The Developer received a nine percent low-income housing tax credit allocation in the July 2008 round. The Agency states that this amount is a conservative equity figure based on the Developer running credit prices in the very low \$.70's.
- \$9,668,100 - In October, 2008, the Developer received a Multifamily Supportive Housing Program (MHP) funding allocation.

- \$2,309,000 in total supportable debt.
- \$2,097,000 is the identified financial gap to be filled by the \$2,100,000 Agency loan.

The Developer is a California limited partnership with Skid Row Housing Trust (SRHT) as the managing general partner. SRHT received an allocation of up to \$2,500,000 in the Community Benefits Program (C.F. No. 08-1031) from the Transfer of Floor Area Rights (TFAR) proceeds to be derived from the Park Fifth project. It was anticipated that the TFAR proceeds would provide the gap funds for the Project. However, Park Fifth does not make their Community Benefits payments until the building permit is ready for approval or two years from the final approval of the transfer (May 28, 2008). The Agency states that SRHT needs funding now to proceed with the Project.

As a result, the repayment for the \$2,100,000 Agency loan will be structured as follows:

- Since the majority of funding sources for the Project have not been secured, the loan will be due and payable at zero percent interest in one lump sum no later than two years from the date of the Note if the construction and permanent financing have not been secured by that time in order to minimize the risk to the Agency. If and when the Park Fifth TFAR proceeds funds are received, the Developer will be required to repay the loan in full.
- Should the Park Fifth funds not become available, the loan will convert to permanent financing at three percent interest for a 55 year term, payable through residual receipts on a pro rata basis with the other Project lenders. Any Park Fifth TFAR proceeds will be used to pay down the loan prior to or after conversion of the loan to permanent financing.

The Agency requests approval of a Subordination Resolution (Attachment Two) for 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 Agency housing covenants and use restrictions is required by LAHD, MHP and conventional lenders as a condition of funding their loan. The agreement to pay down the Agency loan using TFAR proceeds will not be subordinated to the rights of the senior lenders.

The Developer has applied for Permanent Supportive Housing Program operating subsidies that are tied to capital financing which include a 10-year commitment of Section Eight Project Based Vouchers. A commitment for 79 vouchers for a 10-year term has been received. As the Project will have Project Based Vouchers, the actual rent paid by New Genesis tenants will be determined by these vouchers, not the proposed net rents, as long as the New Genesis remains in the Section Eight Program.

The Agency states that the purpose of the new Agency 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 Agency will recapture its investment and/or accrued interest.

Genesis Hotel

Church and Temple was formed in 1988 with SRHT as the nonprofit managing general partner. The Pennsylvania Hotel (later renamed Genesis Hotel) was acquired by Church and Temple in 1988 and a rehabilitation loan was provided by the Agency as follows: \$598,000 total funding to date, including a grant of \$175,000. The original loan agreement was executed June 1988. Subsequently there were first and second amendments to the loan agreement resulting in a reduction of the principal loan amount by \$130,000 to \$468,000. The Agency states that the original Loan was structured so that if payment of accrued interest through residual receipts in any given year was not available, then the accrued interest would be added to the outstanding principal balance on an annual basis. No interest payments have been made, which has resulted in an increased principal loan balance totaling \$803,291.51 as of July 2008 with accrued interest of \$16,043.82 from July through August 2008. As proposed, the Agency states that the total loan amount of \$819,335 for the Genesis Hotel will be forgiven.

The Agency recorded an Agreement Containing Covenants in 1988 as part of the original loan agreement deed restricting the property for not less than 30 years (restrictions expire August 11, 2018). The Covenant Agreement restricts 30 SRO units to 100 percent very low income tenants (household income not to exceed 50 percent of area median income [AMI] as determined by the California Department of Housing and Community Development). Under the terms of the proposed loan agreement, the existing affordability covenants on the Project site will be released and new covenants will be recorded for a period of 55 years commencing with receipt of a Certificate of Occupancy. The Project will have 104 affordable units (98 efficiency and six one-bedrooms) targeted to extremely low income tenants at 30 percent of AMI, very low income tenants at 50 percent of AMI, and low income tenants at 60 percent of AMI. Although the Project will not result in a reduction in units, the Agency will not sign off on any demolition permits until construction plans have been submitted and approved.

The Developer is a California limited partnership with SRHT as the managing general partner. SRHT is a California nonprofit public benefit corporation formed in 1989 and is dedicated to charitable and educational purposes, including service-enriched affordable housing for the City's homeless and special needs population. Since its incorporation, SRHT has acquired, renovated or built 20 projects and operates over 1,200 units of permanent, affordable, service-enriched housing. SRHT's most recent projects contain 155 efficiency units and 60 SRO units. SRHT currently has three projects in construction with a total of 282 efficiency units.

The Project will be required to adhere to all applicable Agency policies and guidelines, including Prevailing Wage and Living Wage requirements, Community Outreach, Equal Opportunity and Affirmative Action, Local Hiring, insurance and design guideline standards for the Project. In addition, the Project will adhere to the Construction Careers Program requirements (Attachment H of the Agency transmittal dated November 6, 2008) unless prohibited by law, in which case the Wiggins Settlement Agreement would apply. The Agency is bound by the City's Debt Management Policies and the proposed actions will not impact the City General Fund. The City Financial Policies are not applicable to the Agency.

RECOMMENDATIONS

That the Council:

1. Amend the Fiscal Year 2008-09 Community Redevelopment Agency (Agency) Budget and Work Program to transfer funds in the amount of \$2,100,000 from the Central Industrial Redevelopment Project Area to the City Center Redevelopment Project Area (CCRPA) within budgeted line item "Affordable Housing";
2. Adopt a joint Finding of Benefit Resolution (Attachment One) which finds that the use of \$2,100,000 of Bunker Hill Replacement Housing Trust Funds for the creation of 104 units of affordable housing at the New Genesis Apartments Project (Project) to be located at 452-458 S. Main Street in the CCRPA is of benefit to the Bunker Hill Redevelopment Project Area;
3. Authorize the cancellation of the existing loan agreement, loan amendments and promissory note with Church and Temple Housing Partnership I, reconveyance of the deed of trust, release of housing covenants concurrent with recording of new housing covenants on the Project, and forgiveness of loan principal and accrued interest in the approximate amount of \$819,335, all with respect to the Agency loan for the Genesis Hotel located at 452 S. Main Street (Agency Loan #875441), subject to the review and approval of the City Attorney as to form;
4. Authorize the Agency Chief Executive Officer, or designee, to execute a new Loan Agreement with New Genesis Apartments, L. P. for the Project in an amount not to exceed \$2,100,000, not sooner than 30 days after the approval of the Replacement Housing Plan by the Agency Board of Commissioners, subject to the following conditions: a) cancellation of the existing loan agreement, loan amendments and promissory note; b) release of the covenant agreement with the concurrent recording of new covenants, c) forgiveness of loan principal and accrued interest; and d) reconveyance of the deed of trust, all with respect to the Agency loan for the Genesis Hotel, and to take such other actions as may be necessary to carry out the new Loan Agreement, subject to the review and approval of the City Attorney as to form; and,
5. Approve a Subordination Resolution (Attachment Two) making the finding that an economically feasible alternative of financing on substantially comparable terms but without subordination of the Agency covenants and use restrictions is not reasonably available, and authorize the subordination of the Agency's Deed of Trust, covenants and use restrictions to the construction and permanent loans provided for the Project. The agreement to pay down the Agency loan using Transfer of Floor Area Rights proceeds will not be subordinated to the rights of the senior lenders.

FISCAL IMPACT STATEMENT

There is no impact on the General Fund. Approval of the proposed actions will commit up to \$2,100,000 of Bunker Hill Replacement Housing Trust Funds for the creation of 104 units of affordable housing at the New Genesis Apartments Project. The Community Redevelopment Agency (Agency) is only bound by the disclosure provisions of the City Debt Management Policies; the City Financial Policies are not applicable to the Agency.

RPC/LJS:02090136c

Attachments

Attachment One

NEW GENESIS APARTMENTS PROJECT

THE COMMUNITY REDEVELOPMENT AGENCY OF THE CITY OF LOS ANGELES, CA

RESOLUTION NO. _____

A RESOLUTION OF THE COMMUNITY REDEVELOPMENT AGENCY OF THE CITY OF LOS ANGELES, CALIFORNIA AND OF THE CITY COUNCIL OF THE CITY OF LOS ANGELES TRANSFERRING \$2,100,000 INTO THE LOW AND MODERATE INCOME HOUSING TRUST FUND, TO PROVIDE FINANCIAL ASSISTANCE FOR THE DEVELOPMENT OF 106 UNITS OF AFFORDABLE HOUSING LOCATED AT 452-458 S. MAIN STREET OUTSIDE OF THE BUNKER HILL REDEVELOPMENT PROJECT AREA FOR THE CITY CENTER REDEVELOPMENT PROJECT AREA AND OF THE FINDING THAT THE DEVELOPMENT OF THIS AFFORDABLE HOUSING PROJECT IS OF BENEFIT TO THE BUNKER HILL REDEVELOPMENT PROJECT AREA FOR CITY CENTER REDEVELOPMENT PROJECT AREA

WHEREAS, the Agency desires to provide for creation of dwelling units restricted to low and very low income persons during the existence of City Center Redevelopment Project Area implementation; and

WHEREAS, the Agency has established the City Center Redevelopment Project Area Low and Moderate Housing Trust Fund into which funds may be appropriated and expended by the Agency to develop dwelling units for low and very low income persons within said Project Area:

NOW, THEREFORE, THE COMMUNITY REDEVELOPMENT AGENCY OF THE CITY OF LOS ANGELES, CALIFORNIA, AND THE CITY COUNCIL OF THE CITY OF LOS ANGELES, CALIFORNIA DO HEREBY RESOLVE AS FOLLOWS:

1. The City Council of the City of Los Angeles and the Agency do hereby transfer the sum of \$2,100,000 from CI1200 ("Downtown Women's Center") to CT1090 ("Downtown Housing Opportunities").

2. Such funds shall be held in the City Center Redevelopment Project Area Low and Moderate Income Housing Fund until expended by the Agency to provide financial assistance for the development of 106 units of affordable family housing located at 452-458 S. Main Street in the City Center Redevelopment Project Area.

3. By adopting this resolution, the City Council and the Agency hereby find that the housing described hereinabove in Section 2 of this Resolution is of benefit to the Bunker Hill Redevelopment Project Area for City Center Redevelopment Project Area in conformity with the legal requirements of Health & Safety Code Sections 33334.2(g), 33334.6 and 33413 to the extent set forth herein. The payment of funds into the City Center Redevelopment Project Area Low and Moderate Income Housing Trust Fund as required by this Resolution pursuant to said Sections 33334.2 and 33334.6 shall constitute an obligation

and indebtedness of the Agency for the City Center Redevelopment Project Area Low and Moderate Income Housing Trust Fund to the extent of providing for the development of up to 106 units, as generally described in Section 2 hereinabove.

4. The City Council and the Agency hereby find, determine and resolve that the use of Bunker Hill Low and Moderate Housing Trust Funds outside of the Bunker Hill Redevelopment Project area as described hereinabove in Section 2 of this Resolution is of benefit to the Bunker Hill Redevelopment Project Area. This finding is based on the finding and declaration of the California State Legislature set forth in said Section 33334.2(g) that the provision of affordable housing pursuant to said Section 33413 is always of benefit to a project.

5. The Agency's Chief Executive Officer or designee is hereby authorized to retain or pay all interest income earned on this appropriation into the City Center Redevelopment Project Area Low and Moderate Income Housing Trust Fund. The Chief Executive Officer or designee is further authorized to pay all other income, loan repayments, sale proceeds or revenues received by the Agency arising from the expenditure of the funds appropriated by this resolution, into the City Center Redevelopment Project Area Low and Moderate Income Housing Trust Fund.

PASSED AND ADOPTED THIS ____ DAY OF _____.

I hereby certify that the foregoing Resolutions were adopted by the City Council of the City of Los Angeles, California, at its regular meeting held _____, 2008.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed the official seal of the City of Los Angeles on this _____, 2008.

Attachment Two

NEW GENESIS APARTMENTS PROJECT

THE COMMUNITY REDEVELOPMENT AGENCY OF THE CITY OF LOS ANGELES, CA

RESOLUTION NO. _____

A RESOLUTION OF THE COMMUNITY REDEVELOPMENT AGENCY OF THE CITY OF LOS ANGELES, CALIFORNIA REGARDING THE SUBORDINATION OF ITS USE RESTRICTIONS PURSUANT TO SECTION 33334.14 OF THE COMMUNITY REDEVELOPMENT LAW.

WHEREAS, the Community Redevelopment Agency of the City of Los Angeles, California ("Agency") entered into a Loan Agreement and subsequent Amendments to Loan Agreement (the "Loan Agreement") with Church and Temple Housing Partnership I pursuant to which the Agency loaned to the Developer funds for the purpose of developing housing that is affordable to persons or families of low and very low income (the "Project"); and

WHEREAS, a new limited partnership, New Genesis Apartments, L. P. ("Developer"), was formed in 2008 to structure the land so that both the Genesis Hotel and the contiguous parking lot are part of the same partnership; and

WHEREAS, the Loan Agreement requires covenants to be recorded against the Project placing certain limits on the maximum rents that can be charged, and the maximum income that can be earned by tenants qualified to rent such housing (the "Income and Rent Restrictions"); and

WHEREAS, Section 33334.14 of the Community Redevelopment Law permits the Agency, under certain circumstances, to subordinate the Income and Rents Restrictions to the lien of a lender providing financing for the Project; and

WHEREAS, the Developer has obtained commitments of financing from lenders conditioned upon the subordination of the Agency's Income and Rent Restrictions; and

WHEREAS, there has been presented to the Agency evidence sufficient on which to find that an economically feasible alternative method of financing the Rental Project on substantially comparable terms and conditions, but without subordination, is not reasonably available.

NOW, THEREFORE, THE COMMUNITY REDEVELOPMENT AGENCY OF THE CITY OF LOS ANGELES, CALIFORNIA, DOES HEREBY RESOLVE AS FOLLOWS:

1. The Agency hereby finds that an economically feasible alternative method of financing the Project on substantially comparable terms and conditions, but without subordination, is not reasonably available.
2. The Agency hereby authorizes the Administrator of the Agency, or such other official of the Agency as the Administrator may designate, to take such actions as may be necessary in order to subordinate the Agency's Income and Rent Restrictions to the lien of the lenders providing financing for the Project, but only upon receipt by the Administrator or such designee of written commitments from such lender, reasonably designated to protect the Agency's investment in the event of default, such as the following:

- (a) a right of the Agency to cure a default on the loan;
- (b) a right of the Agency to negotiate with the lenders after a notice of default has been issued by the lenders;
- (c) a right of the Agency to purchase the project from the Developer at any time after a default on the loan; and
- (d) an agreement that if, prior to foreclosure of the loan, the Agency takes title to the project and cures the default on the loan, the lender will not exercise any right it may have to accelerate the loan by reason of the transfer of title to the Agency.

ADOPTED BY AGENCY ON: