



CRA/LA

Building communities with jobs & housing

Community Redevelopment Agency
of the CITY OF LOS ANGELES

DATE / **DEC 18 2008**

FILE CODE /

354 South Spring Street / Suite 800
Los Angeles / California 90013-1258

T 213 977 1600 / F 213 977 1665
www.crala.org

CRA File No. **8983**
Council District: **9**
Contact Person: David Riccitiello
Lillian Burkenheim
Dave Neubecker
(213) 977-2601

Honorable Council of the City of Los Angeles
John Ferraro Council Chamber
200 N. Spring Street
Room 340, City Hall
Los Angeles, CA. 90012

Attention: Alan Alietti, Office of the City Clerk

COUNCIL TRANSMITTAL:

Transmitted herewith, is a Board Memorandum adopted by the Agency Board on December 18, 2008 City Council review and approval in accordance with the "Community Redevelopment Agency Oversight Ordinance" entitled:

VARIOUS ACTIONS RELATED TO:

RECORDATION OF NEW COVENANTS AND SBUORDINATION OF EXISTING CRA/LA FINANCING IN THE AMOUNT OF \$5,740,140.70 (AS OF DECEMBER 31, 2008) TO FACILITATE THE PROPOSED PANAMA HOTEL/WINSTON APARTMENTS REHABILITATION PROJECT AT 403 EAST FIFTH STREET IN THE CITY CENTER REDEVELOPMENT PROJECT AREA.
DOWNTOWN REGION (CD 9)

RECOMMENDATION

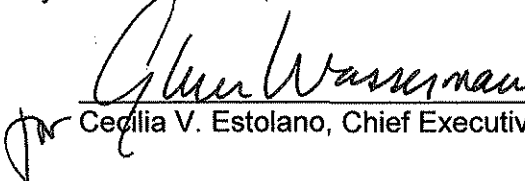
That City Council approves recommendations on the attached Board Memorandum.

ENVIRONMENTAL REVIEW

The recommended actions together with the subsequent rehabilitation/reconfiguration work are categorically exempt from the California Environmental Quality Act ("CEQA") pursuant to Article VII. 1. a. (1) of the CRA/LA CEQA Guidelines.

FISCAL IMPACT STATEMENT

There is no fiscal impact to the City's General Fund, as a result of this action.



Cecilia V. Estolano, Chief Executive Officer

HOUSING, COMMUNITY &
ECONOMIC DEVELOPMENT

DEC 23 2008



CRA/LA

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Council Transmittal

cc: Alan Alietti, Office of the City Clerk (Original & 3 Copies on 3-hole punch)
Lisa Johnson Smith, Office of the CAO
Ivania Sobalvarro, Office of the CLA
Helmi Hisserich, Office of the Mayor
Noreen Vincent, City Attorney's Office
Jan Perry, Councilmember

MEMORANDUM

7

DATE: DECEMBER 18, 2008 CT1090

TO: CRA/LA COMMISSIONERS

FROM: CECILIA V. ESTOLANO, CHIEF EXECUTIVE OFFICER

RESPONSIBLE PARTIES: DAVID RICCITIELLO, REGIONAL ADMINISTRATOR
LILLIAN BURKENHEIM, PROJECT MANAGER
DAVE NEUBECKER, ASSISTANT PROJECT MANAGER

SUBJECT: RECORDATION OF NEW COVENANTS AND SUBORDINATION OF EXISTING CRA/LA FINANCING IN THE AMOUNT OF \$5,740,140.70 (AS OF DECEMBER 31, 2008) TO FACILITATE THE PROPOSED PANAMA HOTEL/WINSTON APARTMENTS REHABILITATION PROJECT AT 403 EAST FIFTH STREET IN THE CITY CENTER REDEVELOPMENT PROJECT AREA.
DOWNTOWN REGION (CD 9)

RECOMMENDATION

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

1. Adopt a Resolution making the finding 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's Deed of Trust, covenants and use restrictions to the construction and permanent loans already awarded to SRO Housing Corporation for the proposed project; and
2. Authorize the Chief Executive Officer or designee to record new 55-year covenants against the Panama Hotel/Winston Apartments to replace the existing covenants; and
3. Authorize the Chief Executive Officer or designee to negotiate and execute a Memorandum of Understanding with SRO Housing Corporation to make referral units available to eligible former tenants of the Alexandria Hotel project on a priority basis.

SUMMARY

The recommended actions will subordinate the CRA/LA's first-position Deed of Trust and covenants and use restrictions, which will allow SRO Housing Corporation ("SROHC") to access construction and permanent financing already awarded for the proposed rehabilitation of the Panama Hotel's rear section into 40 units (plus 1 manager unit) of much-needed permanent supportive affordable housing for chronically homeless persons. The actions will also authorize recordation of new 55-year covenants restricting use of the property's rear section to 40 units of very low- and low-income permanent housing plus 1 manager unit, and for the front section to

remain as emergency or transitional housing. The new covenants will replace the existing amended covenants recorded in 1993, which do not accurately reflect the Board Memorandum approved by the CRA/LA Board on March 18, 1993. In addition, the actions will enable the CRA/LA to provide an available supply of referral units to eligible former Alexandria Hotel tenants on a priority basis.

From 1984 to 1987, SRO Housing Corporation ("SROHC") acquired the Panama and seven other residential hotels (Russ, Florence, Leo, Golden West, Harold, Ward and Annex) to launch the initial phase of the CRA/LA's SRO Hotel Rehabilitation Program, which provided acquisition and rehabilitation loans from the Bunker Hill Housing of Benefit Trust Funds and Central Business District Housing Trust Fund. On November 18, 1985, the CRA/LA Board approved terms for a Memorandum of Understanding with SROHC establishing occupancy goals for these hotels, which designated the Panama and Russ as "voucher hotels" and the other six hotels as permanent housing.

SROHC has operated the Panama and Russ as emergency or transitional housing for the past 23 years, with the majority of rooms at each hotel reserved by contracts with the Los Angeles Homeless Services Authority ("LAHSA") for various voucher programs. In 2006, however, a CDBG-funded contract for 70 shelter beds at the Panama was not renewed by LAHSA so that those vouchers could be allocated to a less expensive, dormitory-style facility operated by the Salvation Army. The rear section of the Panama Hotel has been vacant since that contract expired, which led SROHC to pursue other funding options for that space. Eventually, SROHC secured a \$4,588,000 construction loan with Union Bank and a \$4,888,040 permanent loan from the Governor's Chronic Homeless Initiative Program administered by the California Department of Housing and Community Development ("HCD"), which will provide the funding necessary to rehabilitate and reconfigure the rear section of the Panama Hotel into 41 permanent housing units.

The CRA/LA is not providing any new financial assistance, but the existing loan drawn from the Bunker Hill and Central Business District Housing Trust Funds with a current balance of \$5,470,140.70 (as of December 31, 2008) will remain with the property to facilitate the development of the 40 permanent affordable housing units, which will be restricted for occupancy by low/very low-income residents and put the CRA/LA assistance for this property in compliance with California Community Redevelopment Law regarding the use of Housing Trust Fund monies.

The recommended actions will correct past inconsistencies involving the covenants and the use of housing trust fund monies for the Panama Hotel. Since these actions will not affect the Russ Hotel, the same inconsistencies with that property may need to be corrected at some point in the future. With the recent emphasis on permanent supportive housing to address chronic homelessness, the Panama's proposed conversion from emergency to permanent housing will likely be replicated at other properties that currently operate as emergency or transitional housing, including the Russ Hotel and the front section of the Panama.

State law permits a redevelopment agency to subordinate its deed of trust and income and use restrictions to a private 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 private lender agrees to specific notice and cure provisions. Attachment "B" contains a resolution making these findings. Subordination of the CRA/LA Deed of Trust, housing covenants and use restrictions is required by the construction and permanent lenders as a condition of funding their loan. The CRA/LA will require that to the greatest extent

feasible, the Subordination Agreements will contain the following notice and cure provisions which reasonably protect the CRA/LA's investment in the event of the developer's default under any of the senior loans:

- 1) A right of the CRA/LA to cure a default on the Loan;
- 2) A right of the CRA/LA to negotiate with the lenders after a Notice of Default has been issued by the lender;
- 3) A right of the CRA/LA to purchase the project from the developer at any time after a default on the loan; and
- 4) An agreement that if, prior to foreclosure of the loan, the CRA/LA 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 CRA/LA.

RE

December 31, 1984 – CRA/LA authorized execution of a Development and Loan Agreement with SRO Housing Corporation to provide \$2,600,000 to acquire the Panama and Russ Hotels.

March 18, 1993 – CRA/LA Board authorized the Administrator to execute a Third Implementation Agreement to refinance existing loans against the Panama (principal balance of \$590,468) and the Russ (principal balance of \$594,705).

SOURCE OF FUNDS

No CRA/LA funds are required for this action.

PROGRAM AND BUDGET IMPACT

There is no impact on the CRA/LA's Work Program or Budget. The proposed action is consistent with the FY09 Budget and Work Program for the City Center Redevelopment Project. There is no fiscal impact on the City's General Fund as a result of the recommended action.

ENVIRONMENTAL REVIEW

The recommended actions together with the subsequent rehabilitation/reconfiguration work are categorically exempt from the California Environmental Quality Act ("CEQA") pursuant to Article VII. 1. a. (1) of the CRA/LA CEQA Guidelines.

BACKGROUND

Location

The Panama Hotel is located at 403 E. 5th Street in the Central City East sub-area of the City Center Redevelopment Project Area (see Attachment A – Site Map). The property consists of two long narrow lots along 5th Street and two short broad lots along Winston Street, which together form an irregularly-shaped, eight-sided site. The structure is accessible from both streets via the front entrance at 403 E. 5th Street and the rear door at 324 E. Winston Street.

Developer Entity

SROHC is a California nonprofit public benefit corporation that was founded in 1984 to implement the CRA/LA's SRO Hotel Rehabilitation Program. By 1987, SROHC had launched the initial phase by acquiring eight residential hotels – the Panama, Russ, Florence, Leo,

Golden West, Harold, Ward and Annex (now known as the Angelus Inn) – located in the so-called Fifth and San Julian Streets Priority Intervention Area. SROHC has owned and operated the Panama Hotel since 1985. The organization currently owns and operates nearly 25 residential properties in addition to operating two public parks.

Project Description

The proposed project affects only the rear section of the existing Panama Hotel, which has been vacant since June 2006 following the expiration of a multiyear CDBG-funded contract for 70 shelter beds at the Panama that the Los Angeles Homeless Services Authority (“LAHSA”) had reassigned to a less expensive, dormitory-style facility operated by the Salvation Army. SROHC has secured financing from the Governor’s Chronic Homeless Initiative Program through the California Department of Housing and Community Development (“HCD”) to rehabilitate and reconfigure the Panama Hotel rear section from emergency housing into 40 units of permanent support housing units plus 1 manager unit. All 40 will be efficiency units with kitchenettes and private bathrooms that specifically target Chronic Homeless Adults with severe mental illness at 25% of Area Median Income. The rear section of the building will receive substantial upgrades, including new laundry rooms, security and sprinkler systems, new plumbing, electrical and mechanical systems and a new community room with a full kitchen. SROHC will serve as the developer, service provider and property manager.

The front section of the Panama Hotel would remain as emergency housing under contract to LAHSA. SROHC intends to construct partition walls with emergency exit doors to separate the two sections; the emergency housing in the front section would retain the Panama Hotel name and 5th Street front entrance, and the permanent supportive housing in the rear section would be named the Winston Street Apartments with the existing Winston Street door serving as its entrance.

Project History

The four-story Panama Hotel building was completed in 1911. In January 1985, SROHC acquired the Panama and Russ Hotels for \$4,048,000, of which \$2,600,000 was funded by the CRA/LA and the remainder was in the form of liens against the Panama (\$722,000) and Russ (\$726,000) that were assumed by SRO Housing Corporation. The two properties were combined as one project in the CRA/LA loan documents as well as the covenants, since the hotels had been bought at the same time from the same owner and both were designated to be “voucher hotels” by the CRA/LA and SROHC.

In 1993, CRA/LA approved an amended loan in the amount of \$3,771,655.66, which represents the total amount paid for acquisition, predevelopment and rehabilitation costs. Also at that time, the CRA/LA approved the conversion of the loan from a balloon payment loan to a residual receipts payment loan at 3% interest for a 40 year term. That loan has a current balance of \$5,470,140.70 (as of December 31, 2008), which includes \$1,698,485.04 in accrued interest. SROHC has complied with the CRA/LA loan repayment terms and is in compliance with all the conditions of the existing loan agreement.

Proposed Financing

The Union Bank loan in the amount of \$4,588,000 will fund the development of the project, and the HCD loan in the amount of \$4,888,040 will take out the Union Bank loan upon completion of the project. The Union Bank loan has a term of 18 months and is at 9.75% interest. The HCD loan will be at 3% interest for 55 years. Both loans must have first lien position on the Site, which is why subordination of the CRA/LA loan is required. The terms of the existing CRA/LA loan will remain unchanged.

Other than the CRA/LA loan, no other liens exist against the Site. The development budget for the renovations is \$5,351,102. SROHC had the Site appraised in November 2008. The appraiser concludes that the estimated market value of the fee simple estate of the Site as proposed and completed is \$9,500,000. The loan-to-value ratio with the CRA/LA loan in the amount of \$5,470,141 (principal and interest) and the proposed Union Bank loan during construction will be 106%. The loan-to-value ratio with the CRA/LA loan and the proposed permanent loan from HCD will be 109%. The CRA/LA Loan Monitoring Administrative Procedures states that the loan-to-value ratio may not exceed 100%. This high loan-to-value ratio as a result of additional debt to which the CRA/LA loan will be subordinate will not materially affect payment of the CRA/LA loan as the repayment terms are 100% of residual receipts. SROHC's track record and financial capacity, together with the investment of the additional funds in the building, offset any increased risk. In addition, a loan-to-value ratio slightly above the maximum allowed is more than offset by the redevelopment benefits provided by the project.

Subordination of the CRA/LA housing covenants and use restrictions will be required by Union Bank and HCD 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 the Developer'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 the proposed loan from a) Union Bank in an amount not to exceed \$4,588,000 at construction period funding, and b) the California Department of Housing and Community Development (Multifamily Housing Program/Governor's Homeless Initiative) in an amount not to exceed \$4,888,040 at permanent funding.

Covenants

Upon the execution of the Development and Loan Agreement for the Panama and Russ Hotels on January 15, 1985, the CRA/LA recorded an Agreement Containing Covenants Affecting the Panama and Russ Hotels, which stated that "...the dwelling units remain available at affordable rents to lower income persons, as defined by California Health and Safety Code Section 500079.5..." but did not specify the number of dwelling units.

The CRA/LA recorded an Amendment to those covenants on December 27, 1993, upon the execution of a Third Implementation Agreement to the Development and Loan Agreement. The Board Memorandum to authorize this action referred to the Panama being designated as a voucher hotel and stated that the existing covenants would be "...amended and recorded to restrict use of the property to occupancy by very low income persons for the longest feasible time, but not less than forty (40) years from the effective date of the Implementation Agreement." However, the amended covenants require that "...the 219 SRO residential units remain available for the longest period economically feasible but in no event less than forty (40) years from the date of issuance of (a) Certificate of Occupancy, or, (b) Certificate of Completion for the Project whichever comes first and be rented and occupied at affordable rents to very low income persons...and only the very low income persons shall be eligible to rent such units...", which does not match the intent of the Board Memorandum and potentially conflicts with the designated use of the property cited in the Board Memorandum.

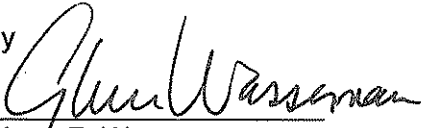
The existing amended covenants recorded in 1993 will be replaced by new 55-year covenants recorded by the CRA/LA. These new covenants will cover both the rear and front sections. Use of the rear section will be restricted to 40 units permanent housing for very low- and low-income persons plus 1 manager unit. The front section will be restricted to continued use as emergency

housing under contract to the Los Angeles Homeless Services Authority, with provisions for conversion to permanent housing for very low- and low-income persons if the voucher contracts end.

Another issue that needs to be addressed is how the CRA/LA's Development Guidelines and Controls for Residential Hotels should account for the long-term use of the Panama and Russ as emergency housing rather than permanent housing; this topic will be discussed during a meeting with the interested community members later this month.

Cecilia V. Estolano
Chief Executive Officer

By



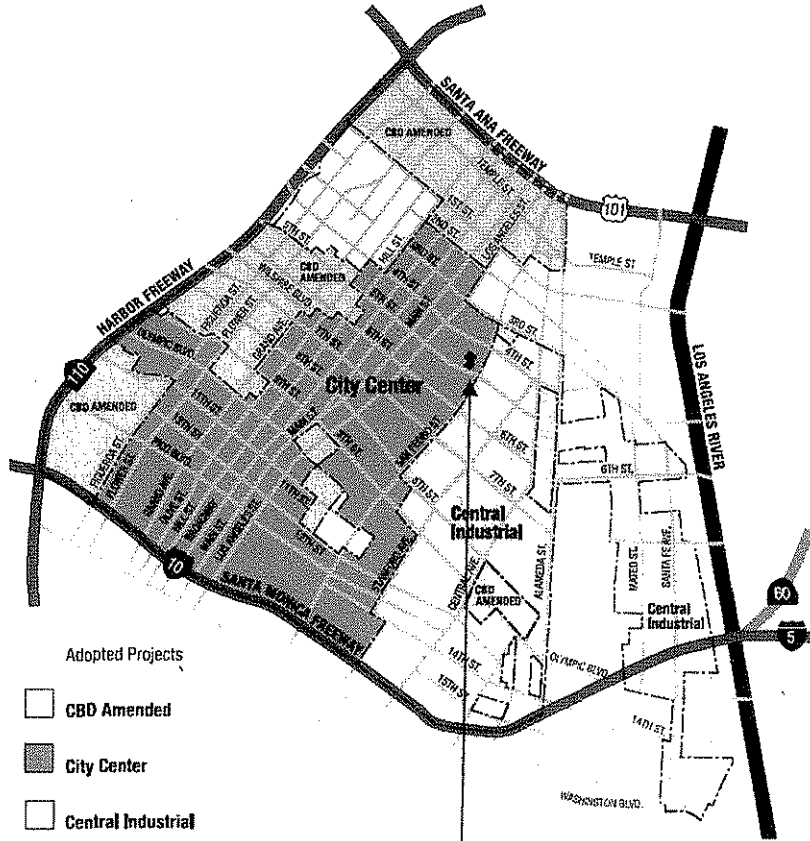
Glen F. Wasserman,
Chief Operating Officer

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

Attachment A: Location Map of Proposed Project
Attachment B: Subordination Resolution

ATTACHMENT A

Location Map of Proposed Project
403 East Fifth Street



Panama Hotel
Rear Section
(future Winston
Apartments)

Panama Hotel
Front Section



ATTACHMENT B

THE COMMUNITY REDEVELOPMENT CRA/LA 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 ("CRA/LA") entered into a Loan Agreement and subsequent amendments (the "Loan Agreement") with Single Room Occupancy Housing Corporation ("Developer") pursuant to which the CRA/LA loaned to the Developer funds for the purpose of developing emergency or transitional housing (the "Project"); and

WHEREAS, the Developer proposes to rehabilitate and reconfigure the rear section of the Project into 41 units of permanent supportive affordable housing for low and very low income persons; 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 CRA/LA, 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 CRA/LA's Income and Rent Restrictions; and

WHEREAS, there has been presented to the CRA/LA 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 CRA/LA 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 CRA/LA hereby authorizes the Chief Executive Officer of the CRA/LA, or such other official of the CRA/LA as the Chief Executive Officer may designate, to take such actions as may be necessary in order to subordinate the CRA/LA's Income and Rent Restrictions and deed of trust to the lien of the lenders providing financing for the Project, but only upon receipt by the Chief Executive Officer or such designee of written commitments from such lender, reasonably designated to protect the CRA/LA's investment in the event of default, such as the following:

- (a) a right of the CRA/LA to cure a default on the loan;
- (b) a right of the CRA/LA to negotiate with the lenders after a notice of default has been issued by the lenders;
- (c) a right of the CRA/LA 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 CRA/LA 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 CRA/LA.

ADOPTED BY CRA/LA ON: