



CITY OF LONG BEACH

DEPARTMENT OF COMMUNITY DEVELOPMENT

333 WEST OCEAN BOULEVARD • LONG BEACH, CALIFORNIA 90802

H-1

June 2, 2009

HONORABLE MAYOR AND CITY COUNCIL
City of Long Beach
California

RECOMMENDATION:

Receive supporting documentation into the record and conclude the Public Hearing; adopt a Resolution making certain findings; approving and authorizing the execution of the Disposition and Development agreement between the Long Beach Housing Development Company and LINC Housing Corporation; finding that the consideration for the lease of certain real property in the Central Long Beach Project Area is not less than Fair Market Value in accordance with covenants and conditions governing such lease; and approving the lease of the property and the Disposition and Development Agreement and Lease. (District 4)

DISCUSSION

The Long Beach Housing Development Company (LBHDC) purchased the Palace Hotel located at 2640 E. Anaheim Street (Site) from the City of Long Beach in August 2005 using tax increment housing set aside funds. (Site Map attached as Exhibit A) In May 2008, the LBHDC approved the selection of LINC Housing Corporation and United Friends of the Children as the development team for the rehabilitation of the Palace Hotel. The LBHDC intends to enter into a Disposition and Development Agreement (DDA) to lease the land and convey the improvements to LINC Housing Corporation for the development of affordable transitional housing for Transition Age Youth. Upon termination of the lease, the improvements will revert back to the LBHDC.

The proposed project includes the rehabilitation of the Palace Hotel from a 24-room hotel into a 14-unit affordable housing development, including one unit for an on-site manager, a community room, counseling offices, a management office, laundry facilities, a rooftop patio, and a 980 square foot commercial space that may be used to operate a business that can provide work experience and training for the residents. The project will provide service-enriched transitional housing for very low-

income Transition Age Youth, or youth that are leaving the foster care program, and are at risk of becoming homeless. Services will be provided by United Friends of the Children, a non-profit social services provider, and will include life skills training, personal finance, job training, assistance accessing educational opportunities, counseling and any other service needed to ensure the residents' self sufficiency.

The Redevelopment Plan for the Central Long Beach Redevelopment Project Area, which was originally adopted in September 1993 and re-adopted in March 2001, sets goals to ensure a diversity of housing stock for the growing population; to expand, improve, and preserve the community's supply of housing available to low- and moderate-income persons; to remove blighting influences; and to assure high design standards for the entire Project Area.

Although the Redevelopment Agency (Agency) is not a party to the DDA, Section 33433 of the California Health and Safety Code requires that if a property is acquired in whole or part with tax increment funds, the local Redevelopment Agency must adopt a resolution approving the proposed sale or transfer of the property and make certain findings after a public hearing. Pursuant to the same Section of the California Health and Safety Code, the City Council is also required to hold a Public Hearing and adopt a resolution approving the proposed sale or transfer of the property.

Pursuant to California Redevelopment Law, the Agency has made available for public inspection and reproduction a Summary Report (Exhibit B) that contains the following:

- The estimated value of the interest to be conveyed determined at the highest and best use permitted under the Redevelopment Plan;
- The estimated value of the interest to be conveyed, determined at the use and with the conditions, covenants and development costs required by the Agreement;
- The purchase price;
- The cost of the Agreement to the Agency/LBHDC;
- An explanation of why the transfer of the Site will assist in the elimination of blight; and
- An explanation of why the sale of the Site is consistent with the Agency's AB 1290 Implementation Plan.

Summary of Disposition and Development Agreement

Proposed Agreement

- The proposed Disposition and Development Agreement is between the LBHDC and LINC Housing Corporation.
- The LBHDC will ground lease the land at 2640 East Anaheim Street to the Developer over a 60 to 99-year term.
- The LBHDC will convey the 11,200 square foot improvements on the site to the Developer. Ownership of the improvements will revert to LBHDC upon expiration of the Ground lease.
- The Developer will rehabilitate the improvements and operate 13 income-restricted apartments for Transition Aged Youth, a manager's unit, a community room, ground floor commercial space and existing parking space on the Site.

The attached Summary Report provides a more detailed description of the proposed transaction, including the responsibilities of the LBHDC and the Developer. (Exhibit B)

ENVIRONMENTAL REVIEW

On February 19, 2009, the Planning Commission approved a Historic Landmark Designation for the Palace Hotel, and in accordance with the Guidelines of Implementation of the California Environmental Quality Act, a Categorical Exemption was issued for the proposed project (Categorical Exemption 08-073). (Exhibit C)

COMMUNITY OUTREACH

Presentation and discussion of the project took place at the East Anaheim Street Business Alliance and West Eastside Community Association meetings on January 27, 2009 and February 5, 2009, respectively. The project was also presented at various LBHDC meetings and to the Central Project Area Committee Executive Committee on November 6, 2008.

This letter was reviewed by Assistant City Attorney Heather Mahood on May 12, 2009 and Budget and Performance Management Bureau Manager, David Wodynski, on May 12, 2009.

TIMING CONSIDERATIONS

City Council action on June 2, 2009 will allow the Developer to submit an application for low-income housing tax credits to help fund the proposed project. The application is due to the California Tax Credit Allocation Committee (TCAC) on June 9, 2009. One of the application's threshold requirements is that the developer has control of the site. The City Council's adoption of a resolution approving the ground lease will enable the LBHDC to execute a DDA with LINC Housing. According to TCAC's guidelines, a fully executed DDA is sufficient proof of site control.

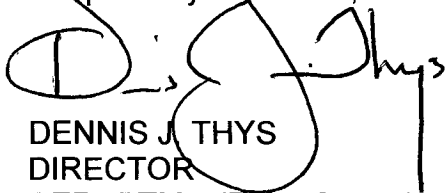
FISCAL IMPACT

There is no fiscal impact related to the proposed action, and there is no impact to the General Fund.

SUGGESTED ACTION:

Approve recommendation.

Respectfully submitted,

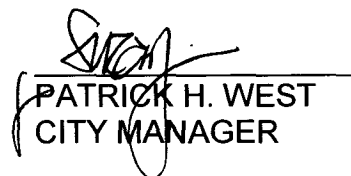


DENNIS J. THYS
DIRECTOR
DEPARTMENT OF COMMUNITY DEVELOPMENT

DJT:ET:PU:ncp
6-2-09 Res for Palace Hotel v4.doc

Attachments: Exhibit A - Site Map
Exhibit B - Section 33433 Summary Report
Exhibit C - Categorical Exemption 08-073
Resolution

APPROVED:



PATRICK H. WEST
CITY MANAGER



LEGEND

-  EXISTING MATURE TREES
-  STOP SIGN
-  SIGNAL
-  BUS STOP
-  STREET LIGHT
-  HYDRANT
-  UTILITY POLE

CONTEXT MAP

SCALE: 1" = 50'-0"

**SUMMARY REPORT PURSUANT TO
SECTION 33433
OF THE
CALIFORNIA HEALTH AND SAFETY CODE
ON A
DISPOSITION AND DEVELOPMENT AGREEMENT
BY AND BETWEEN
THE LONG BEACH HOUSING DEVELOPMENT COMPANY
AND
LINC HOUSING CORPORATION
A CALIFORNIA NON-PROFIT CORPORATION**

The following Summary Report has been prepared pursuant to Section 33433 of the California Health and Safety Code. The report sets forth certain details of the proposed Disposition and Development Agreement (Agreement) between the following parties:

1. The Long Beach Housing Development Company (LBHDC); and
2. LINC Housing Corporation, a California non-profit corporation.

The purpose of the Agreement is to effectuate the Central Redevelopment Project Area Redevelopment Plan (Redevelopment Plan).

The basic disposition terms embodied in the Agreement can be summarized as follows:

1. The LBHDC shall ground lease the land at 2640 East Anaheim Street (Site) to the Developer over a 60 to 99-year term.
2. The LBHDC shall convey the 11,200 square foot improvements on the Site (Improvements) to the Developer. Ownership of the improvements will revert to LBHDC upon the expiration of the Ground Lease.
3. The Developer shall rehabilitate the Improvements and operate 13 income-restricted apartments for Transition Aged Youth (TAY), a manager's unit, a community room, ground floor commercial space and an existing parking space (Project) on the Site.

The following Summary Report is based upon information contained within the Agreement, and is organized into the following seven sections:

- I. **Salient Points of the Agreement:** This section summarizes the major responsibilities imposed on the Developer and the LBHDC by the Agreement.

- II. **Cost of the Agreement to the LBHDC:** This section details the total cost to the LBHDC associated with implementing the Agreement.
- III. **Estimated Value of the Interests to be Conveyed Determined at the Highest Use Permitted under the Redevelopment Plan:** This section estimates the value of the interests to be conveyed determined at the highest use permitted under the Site and Improvements' existing zoning and the requirements imposed by the Redevelopment Plan for the Central Redevelopment Project Area (Project Area).
- IV. **Estimated Reuse Value of the Interests to be Conveyed:** This section summarizes the valuation estimate for the Site and Improvements based on the required scope of development, and the other conditions and covenants required by the Agreement.
- V. **Consideration Received and Comparison with the Established Value:** This section describes the compensation to be received by the LBHDC, and explains any difference between the compensation to be received and the established value of the Site and Improvements.
- VI. **Blight Elimination:** This section describes the existing blighting conditions on the Site and Improvements, and explains how the Agreement will assist in alleviating the blighting influence.
- VII. **Conformance with the AB1290 Implementation Plan:** This section describes how the Agreement achieves goals identified in the Long Beach Redevelopment Agency's adopted AB1290 Implementation Plan.

This report and the Agreement are to be made available for public inspection prior to the approval of the Agreement.

I. SALIENT POINTS OF THE AGREEMENT

A. Project Description

LBHDC owns certain real property at 2640 East Anaheim Street, in the City of Long Beach located in the City's Central Long Beach Redevelopment Project Area acquired solely with Low and Moderate Income Housing Set Aside funds. The Improvements on the Site currently consist of a vacant two story hotel, known as the Palace Hotel, with twenty four (24) rooms and five thousand seven hundred sixty six (5,766) square feet of ground floor commercial space.

The Developer desires to obtain a ground lease for the Site and a fee interest in the Improvements thereon and improve the Site by rehabilitating the Improvements such that upon completion, the Improvements will house a TAY affordable housing facility with fourteen (14)

studio apartments, a community room, counseling room(s), retail space, parking space and other amenities and facilities in accordance with this Agreement.

Thirteen (13) of the studio units shall be held for rent or rented solely to TAY who are also Very Low Income Households at an affordable rent. The affordable units will be restricted to affordable rent for at least a fifty-five (55) year restriction period. In consideration of the conveyance of the Site and the other obligations of LBHDC set forth in the Agreement, the Developer is willing to accept the statutorily authorized occupancy restrictions and other conditions set forth in the Agreement.

B. Developer Responsibilities

The Agreement requires the Developer to accept the following responsibilities:

1. The Developer must lease the Site from the LBHDC over a 60 to 99-year term in accordance with the ground lease terms attached to the Agreement (Ground Lease).
2. The Developer must apply for the following outside public funding sources:
 - a. Low Income Housing Tax Credits (Tax Credits) distributed by the federal government, and competitively allocated by the California Tax Credit Allocation Committee; and
 - b. The Affordable Housing Program (AHP) administered by the Federal Home Loan Bank.
3. The Developer must defer at least \$259,000 of the "Developer Fee" included in the Project's development cost budget. The Developer shall be entitled to receive 100% of the Project's net income after partnership and audit fees until the deferred Developer Fee is repaid.
4. The Developer must rehabilitate the Improvements on the Site in accordance with the Scope of Development attachment to the Agreement.
5. The Developer must fund all Project costs, except the costs expressly defined in the Agreement as the LBHDC's responsibility. The Developer must pay prevailing wages to all the contractors and subcontractors engaged to construct the Project if required by applicable laws governing the payment of prevailing wages.
6. The Agreement requires the Developer to fulfill the following income and affordability requirements over a 55 to 99-year term:
 - a. Thirteen (13) units shall be leased or held for lease to very-low income households in conformance with the California Health and Safety Code Section

50105 definition. It should be noted that the Tax Credit program and the AHP program will also require that 13 units be rented to very-low income households.

- b. Thirteen (13) of the units at the Project may receive United States Department of Housing and Urban Development (HUD) Project-Based Section 8 assistance. These units will be rented to very-low income households, and during such time as Project-Based Section 8 assistance is received by the units, the rent for these units will be set at the Fair Market Rent (FMR) established by HUD. The rent paid by the tenant will be set at 30% of the household's income, and the balance will be paid by HUD.¹
7. The Developer must focus the marketing and advertising effort on TAY and must submit a marketing and lease-up plan to the LBHDC President for approval.
8. The Developer must operate and maintain the Project in conformance with the standards imposed in the Agreement over the entire 99-year Ground Lease period. Specifically, the Developer must comply with the following requirements:
 - a. Brackenhoff Management Group, Inc. shall be the property management company for the Project and United Friends of the Children will be the service provider (Service Provider), or such other companies as may be approved by LBHDC. Any changes to this structure require the approval of the LBHDC President.
 - b. The Project must be served by an on-site manager.
 - c. The Developer must provide supportive services to the residents as defined in the Agreement. However, the costs of these services will initially be paid with outside funding sources raised by the Service Provider and/or Developer.
 - d. The Developer must contribute \$5,530 per year to a capital reserve account.
9. The Ground Lease payments will be considered an operating expense of the Project. The payments are structured as follows:
 - a. The Ground Lease payments will be set at \$1 per year until the deferred Developer Fee and the LBHDC assistance to the Project are repaid.

¹ The Project-Based Section 8 assistance is initially guaranteed for 10 years if approved by the Long Beach Housing Authority. If approved, the Project-Based Section 8 assistance contract will include a provision that will extend the commitment for 20 additional years if the funds continue to be allocated by HUD.

- b. After the income and affordability covenants expire, the Site and Improvements will revert to the LBHDC at no cost.

C. LBHDC Responsibilities

The Agreement imposes the following responsibilities on the LBHDC:

- 1. The LBHDC must enter into a 60 to 99-year Ground Lease with the Developer based on the terms defined in the "Developer Responsibilities" section of this report.

II. COST OF THE AGREEMENT TO THE LBHDC

The costs incurred by the LBHDC to implement the Agreement are estimated as follows:

Site Acquisition Cost	\$244,587
Utility Costs	10,591
Administrative Costs	42,982
Direct Financial Assistance	2,983,000
Total LBHDC Cost	<u>\$3,281,160</u>

Given the nature of the Project, it is not anticipated that the LBHDC will receive significant revenues to off-set the LBHDC costs.

III. ESTIMATED VALUE OF THE INTERESTS TO BE CONVEYED DETERMINED AT THE HIGHEST USE PERMITTED UNDER THE REDEVELOPMENT PLAN

Section 33433 of the California Health and Safety Code requires the LBHDC to identify the value of the interests being conveyed at the highest use allowed by the Site's zoning and the requirements imposed by the Redevelopment Plan. The valuation must be based on the assumption that near-term development is required, but the valuation does not take into consideration any extraordinary use, quality and/or income restrictions that are being imposed on the development by the LBHDC.

The LBHDC obtained a highest and best use appraisal of the Site dated October 28, 2008 and prepared by Ferrigno, LLC that set the value at \$260,000 for the land alone and \$750,000 including the land and improvements. Therefore, the fair market value of the Site and Improvements to be conveyed to the Developer at the highest use permitted by zoning and the Redevelopment Plan is set at \$750,000.

IV. ESTIMATED REUSE VALUE OF THE INTERESTS TO BE CONVEYED

KMA prepared a reuse valuation analysis of the Project based on the financial terms and conditions imposed by the Agreement. The KMA analysis concluded that the fair reuse value of the Site is negative \$2,983,000. This means that the Site and Improvements would have to be donated to the Project, and that \$2,983,000 in direct financial assistance would have to be provided, to make the Project financially feasible.

It is important to note that the reuse value conclusion is predicated on the assumption that the Project will receive \$2,328,000 in net Tax Credit proceeds and \$250,000 in AHP grant. If these competitively awarded assistance funds are not received, the Project's financial gap will increase on a dollar-for-dollar basis.

V. CONSIDERATION RECEIVED AND COMPARISON WITH THE ESTABLISHED VALUE

The Agreement imposes extraordinary controls on the Project. Specifically, the Developer must impose occupancy, income and affordability restrictions on 13 of the 14 units in the Project; and pay prevailing wages to all the contractors and subcontractors employed to construct the Project to the extent required by applicable law. The impacts created by these requirements reduces the value of the Site and Improvements from \$750,000 at the highest use allowed by the Site's zoning and the requirements imposed by the Redevelopment Plan, to the established fair reuse value of negative \$2,983,000.

The Agreement further requires the LBHDC to convey the Improvements to the Developer for \$1. Thus, it can be concluded that the consideration being received by the LBHDC for the Site being conveyed to the Developer pursuant to the Ground Lease and the sale of the Improvements, is greater than the established fair reuse value of negative \$2,983,000.

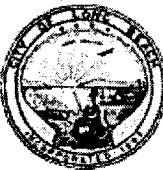
VI. BLIGHT ELIMINATION

The Agreement requires the Developer to provide an affordable housing project restricted to very-low income households on the Site. In accordance with CRL, as portrayed in the California Health and Safety Code Section 33433, the conveyance of property that results in the provision of housing for low or moderate income persons satisfies the blight elimination criteria imposed by Section 33433. Thus, the Project fulfills the blight elimination requirement.

VII. CONFORMANCE WITH THE AB1290 IMPLEMENTATION PLAN

The anticipated Project conforms to the Project Area's Implementation Plan for 2004 – 2009 (Plan). However, the Project is not specifically listed in the Plan. Specifically, the Project meets the following goals:

1. The implementation of the Agreement will eliminate the blighting influence created by the existing structure; and
2. The anticipated rehabilitation project will increase the affordable housing stock within the Project Area.



CITY OF LONG BEACH NOTICE OF EXEMPTION

Department of Development Services
333 W. Ocean Blvd., 5th Floor, Long Beach, CA 90802
Information: (562) 570-6194 Fax: (562) 570-6068
lbds.longbeach.gov

TO: Office of Planning & Research
1400 Tenth Street, Room 121
Sacramento, CA 95814

FROM: Department of Development Services
333 W. Ocean Blvd, 5th Floor
Long Beach, CA 90802

L.A. County Clerk
Environmental Fillings
12400 E. Imperial Hwy. 2nd Floor, Room 2001
Norwalk, CA 90650

Project Location/Address: 2640 Anaheim St., Long Beach, CA 90804

Project/Activity Description: Owner & Applicant propose to convert use from hotel/retail to residential/retail with a Local Historic Landmark designation.

Public Agency Approving Project: **City of Long Beach, Los Angeles County, California**

Applicant Name: LINC Housing

Mailing Address: 110 Pine Ave., Ste. 500, Long Beach, CA 90802

Phone Number: 562.684.1100 Applicant Signature: [Signature]

(TO BE COMPLETED BY CITY STAFF ONLY)

Case Number: 0811-03 Planner's Initials: [Signature]

Required Permits: CUP, Historic Landmark Designation

THE ABOVE PROJECT HAD BEEN FOUND TO BE EXEMPT FROM CEQA IN ACCORDANCE WITH STATE GUIDELINES SECTION 15303, Class 3, Conversion of Small Structures

Statement of support for this finding: Conversion of existing structure with only minor exterior modifications

Contact Person: Craig Chaffin Contact Phone: 562-570-6368

Signature: [Signature] Date: 1/5/09

OFFICE OF THE CITY ATTORNEY
ROBERT E. SHANNON, City Attorney
333 West Ocean Boulevard, 11th Floor
Long Beach, CA 90802-4664

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RESOLUTION NO.

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF LONG BEACH APPROVING THE PROPOSED DISPOSITION AND DEVELOPMENT AGREEMENT AND LEASE BETWEEN THE LONG BEACH HOUSING DEVELOPMENT COMPANY AND LINC HOUSING CORPORATION; FINDING THAT THE CONSIDERATION FOR THE LEASE OF CERTAIN REAL PROPERTY IN THE CENTRAL LONG BEACH REDEVELOPMENT PROJECT AREA IS NOT LESS THAN FAIR MARKET VALUE IN ACCORDANCE WITH COVENANTS AND CONDITIONS GOVERNING SUCH LEASE; AND APPROVING THE LEASE OF THE PROPERTY AND THE DISPOSITION AND DEVELOPMENT AGREEMENT AND LEASE

WHEREAS, the Redevelopment Agency of the City of Long Beach, California (the "Agency"), is engaged in activities necessary to execute and implement the Redevelopment Plan for the Central Long Beach Redevelopment Project Area (the "Project"); and

WHEREAS, the Agency has transferred funds to the Long Beach Housing Development Company ("LBHDC") in order to undertake such activities; and

WHEREAS, in order to implement the Redevelopment Plan, the LBHDC proposes to lease certain real property (the "Property") in the Project pursuant to the terms and provisions of the Disposition and Development Agreement and Lease and which Property is described in Exhibit "A" which is attached and incorporated by reference; and

WHEREAS, LINC Housing Corporation (the "Developer") has submitted to

1 the LBHDC a written offer in the form of a Disposition and Development Agreement and
2 Lease to lease the Property for not less than fair market value for uses in accordance
3 with the Redevelopment Plan and the covenants and conditions of the Disposition and
4 Development Agreement and Lease; and

5 WHEREAS, the proposed Disposition and Development Agreement and
6 Lease contains all the provisions, terms and conditions and obligations required by
7 Federal, State and local law; and

8 WHEREAS, Developer possesses the qualifications and financial resources
9 necessary to lease and insure development of the Property in accordance with the
10 purposes and objectives of the Redevelopment Plan; and

11 WHEREAS, the Agency has prepared a summary setting forth the cost of
12 the Disposition and Development Agreement and Lease to the LBHDC, the estimated
13 value of the interest to be conveyed, determined at the highest uses permitted under the
14 Redevelopment Plan and has made the summary available for public inspection in
15 accordance with the California Redevelopment Law; and

16 WHEREAS, the Agency has determined that the development of the
17 Property is categorically exempt under the California Environmental Quality Act; and

18 WHEREAS, pursuant to the provisions of the California Community
19 Redevelopment Law, the City Council of the City of Long Beach held a public hearing on
20 the proposed lease of the Property and the proposed Disposition and Development
21 Agreement and Lease after publication of notice as required by law; and

22 WHEREAS, the City Council has duly considered all terms and conditions
23 of the proposed lease and believes that the redevelopment of the Property pursuant to
24 the proposed Disposition and Development Agreement and Lease is in the best interests
25 of the City and the health, safety, morals and welfare of its residents and in accord with
26 the public purposes and provisions of applicable Federal, State and local law;

27 NOW, THEREFORE, the City Council of the City of Long Beach resolves as
28 follows:

OFFICE OF THE CITY ATTORNEY
ROBERT E. SHANNON, City Attorney
333 West Ocean Boulevard, 11th Floor
Long Beach, CA 90802-4664

1 Section 1. The City Council finds and determines that the consideration
2 for lease of the Property pursuant to the Disposition and Development Agreement and
3 Lease is not less than fair market value in accordance with covenants and conditions
4 governing the lease, and the Council further finds and determines that the consideration
5 for the lease of the Property, determined at the highest and best use under the
6 Redevelopment Plan, is necessary to effectuate the purposes of the Redevelopment Plan
7 for the Project.

8 Section 2. The lease of the Property by the LBHDC to Developer and the
9 Disposition and Development Agreement and Lease which establish the terms and
10 conditions for the lease and development of the Property are approved.

11 Section 3. The lease and development of the Property shall eliminate
12 blight within the Project Area and is consistent with the implementation plan for the
13 Project adopted pursuant to Health and Safety Code Section 33490.

14 Section 4. This resolution shall take effect immediately upon its adoption
15 by the City Council, and the City Clerk shall certify to the vote adopting this resolution.

16 I hereby certify that the foregoing resolution was adopted by the City
17 Council of the City of Long Beach at its meeting of _____, 2009 by the
18 following vote:

19 Ayes: Councilmembers: _____

20 _____

21 _____

22 _____

23 Noes: Councilmembers: _____

24 _____

25 Absent: Councilmembers: _____

26 _____

27 _____

28 _____

City Clerk

EXHIBIT A
PALACE HOTEL
LEGAL DESCRIPTION

Real property in the City of Long Beach, County of LOS ANGELES, State of California, described as follows:

LOT 6 OF THE NATIONAL STAR TRACT, IN THE CITY OF LONG BEACH, COUNTY OF LOS ANGELES, STATE OF CALIFORNIA, AS PER MAP RECORDED IN BOOK 9 PAGE 25 OF MAPS, IN THE OFFICE OF THE COUNTY RECORDER OF SAID COUNTY

END OF LEGAL DESCRIPTION