

The Long Beach  
**COMMUNITY**  
INVESTMENT Company

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## M E M O R A N D U M

**DATE:** February 26, 2014

**TO:** Board of Directors  
The Long Beach Community Investment Company

**FROM:** Amy J. Bodek, President *Patricia D. / FOR*

**SUBJECT:** Loan Agreement between The Long Beach Community Investment Company and Immanuel Community Housing, L.P. for the Development of Immanuel Church at 3215 E. Third Street into a Senior Affordable Housing Project (CD 2)

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### **RECOMMENDATION:**

1. Approve additional funding in the amount of \$800,000 to provide a total loan of up to \$1,650,000 in HOME funds to Immanuel Community Housing, L.P., to provide gap financing for the development of Immanuel Church at 3215 E. Third Street into a 25-unit affordable senior rental project;
2. Authorize the President to negotiate with Immanuel Community Housing, L.P. on alternative financing structures that may provide additional funding for the project, provided that the LBCIC loan does not exceed \$1,650,000;
3. Authorize the President to negotiate and enter into a Loan Agreement with Immanuel Community Housing, L.P.; and
4. Authorize the President to execute any and all documents necessary to implement the Loan Agreement.

### **DISCUSSION**

On November 7, 2012, The Long Beach Housing Development Company (LBHDC) approved a loan of up to \$850,000 in HOME funds to Immanuel Community Housing, L.P. (Developer), to provide gap financing for the adaptive reuse of the vacant Immanuel Church as a 25-unit senior (55+) rental project. The loan amount was based on available funds at the time, and was contingent upon the award of Low-Income Housing Tax Credits. A copy of the LBHDC staff report is attached for your information (Attachment 1).

Since the 2012 LBHDC loan approval, the project has received entitlements, but the Developer was not awarded the Low-Income Housing Tax Credit allocation necessary to finance the project. During that time, development costs have increased, but the Developer has been working diligently to identify ways to reduce costs and identify a viable financing structure.

The Developer is preparing to submit a revised application for the latest round of Low-Income Housing Tax Credits, which is due March 5, 2014. Due to changes in the project's costs, and in an effort to submit a competitive tax credit application, the Developer has revised the project budget and is requesting additional financing from the LBCIC in the amount of \$800,000, which will increase the total loan to \$1,650,000.

Staff asked Keyser Marston Associates, Inc. (KMA) to review the Developer's revised budget, and update the Subsidy Layering Review they originally prepared in October 2012 (Attachment 2). The revised Subsidy Layering Review indicates that the Developer's development costs are estimated to be \$40,000 higher than the KMA estimates. However, KMA points out that the difference should be considered inconsequential for a project of this size, and indicates that the project demonstrates that the requested assistance in the amount of \$1,650,000 is necessary to provide the proposed affordable housing units.

The chart below provides a comparison of the 2012 and 2014 KMA budgets:

2012 KMA Budget		2014 KMA Budget		Change
<b>Development Costs</b>		<b>Development Costs</b>		
Acquisition Costs	1,740,000	Acquisition Costs	1,755,000	15,000
Direct Costs	4,214,000	Direct Costs	4,741,000	527,000
Indirect Costs	1,711,000	Indirect Costs	1,207,000	(504,000)
Financing Costs	696,000	Financing Costs	921,000	225,000
		Developer Delta *	40,000	40,000
<b>Total Development Costs</b>	<b>\$8,361,000</b>	<b>Total Development Costs</b>	<b>\$8,664,000</b>	<b>303,000</b>
				0
<b>Funding Sources</b>		<b>Funding Sources</b>		0
Permanent Loan	1,166,000	Permanent Loan	664,000	(502,000)
Tax Credit Equity	5,668,000	Tax Credit Equity	5,122,000	(546,000)
AHP	240,000	AHP	240,000	0
Deferred Developer Fee	384,000	Deferred Developer Fee	0	(384,000)
		HCD Infill Grant	988,000	988,000
<b>Total Funding Sources</b>	<b>\$7,458,000</b>	<b>Total Funding Sources</b>	<b>\$7,014,000</b>	<b>(444,000)</b>
LBHDC Financial Gap	903,000	LBCIC Financial Gap	1,650,000	747,000
Less LBHDC Shortfall **	53,000	LBCIC Shortfall	0	(53,000)
<b>Adjusted LBHDC Gap</b>	<b>\$ 850,000</b>	<b>Adjusted LBCIC Gap</b>	<b>\$1,650,000</b>	<b>800,000</b>

\* The KMA budget has been adjusted to include the Developer's higher development costs.

\*\* In 2012 the gap was actually \$903,000, but the LBHDC only had \$850,000 available to lend.

The following summarizes the changes to the project's financing structure:

- Acquisition costs have increased slightly.
- Construction costs have increased.
- Indirect costs, such as architecture, engineering, and insurance have decreased, and the developer has eliminated the developer fee.
- Financing costs have increased.
- The permanent loan amount has decreased due to reduced rental income.
- Tax credit equity has been reduced in order to be more competitive in the next round of the tax credit application process.
- The deferred developer fee is no longer available as a financing source because the developer fee has been eliminated.
- The Developer received an award of Infill Infrastructure Grant funds from the State Department of Housing and Community Development.
- The LBCIC gap has increased from \$850,000 to \$1,650,000, demonstrating the need for additional funding.

It is important to note that in order to make this budget work, the Developer had to completely eliminate the developer fee, which was previously set at \$768,000. This is unusual, and of concern to the Developer, because there is a cost to the Developer to develop the project. In addition, the hard cost contingency is set at 5% of direct costs, which is lean for a project of this type.

The Developer has been looking for other sources of funds to backfill the lost developer fee and provide a larger hard cost contingency. In fact, the Developer has applied for funds from the Community Development Commission of the County of Los Angeles (LACDC) in the amount of \$2.6 million, and for funds from the State Department of Housing and Community Development Multifamily Housing Program in the amount of \$987,600. Both of these programs require the project to serve persons with special needs, which is not the type of project that has been contemplated.

As this staff report was being finalized, staff learned that the Developer was awarded the \$2.6 million by LACDC. That is great news; however, the LACDC financing is not included in the budget presented here, and it imposes a requirement that the affordable units be reserved for persons with special needs. Staff asked the Developer to provide alternative financing structures for review, which are attached for your information (Attachment 3). These alternatives require further analysis and consideration by the President and staff.

Based on KMA's analysis, staff recommends approval of a HOME loan of up to a total of \$1,650,000, contingent upon the competitively awarded Low-Income Housing Tax Credits and Affordable Housing Program (AHP) funds. If approved, the loan will be structured as a residual receipts note with a 1% simple interest rate and a 55-year term. Staff also recommends authorizing the President to work with the Developer to evaluate optional financing structures that may reduce the LBCIC loan and/or provide additional funding for the project. This is necessary in order for the Developer to submit a tax credit application by March 5, 2014.

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If the Developer obtains funding as planned the project will break ground in December 2014.

**SUGGESTED ACTION:**

Approve Recommendation.

AJB:PU:MS

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- Attachments:
1. November 7, 2012 Staff Report
  2. February 14, 2014 KMA Analysis
  3. Alternative Financing Structures