

M E M O R A N D U M

DATE: May 17, 2023

TO: Board of Directors
The Long Beach Community Investment Company

FROM: Christopher Koontz, President *CK*

SUBJECT: **Approval of an Amended Loan to Excelerate Housing Group for the Development of The 26 Point 2 Affordable Rental Housing Project. (District 4)**

RECOMMENDATION:

1. Approve a \$500,000 increase to the permanent Low-and Moderate-Income Housing Asset Funds (LMIHAF) loan to Excelerate Housing Group (Excelerate) for the development of the 26 Point 2 Project;
2. Authorize the President to negotiate an Amendment to the Affordable Housing Loan Agreement with Excelerate; and,
3. Authorize the President to negotiate and execute any and all documents necessary related to the Loan Amendment.

DISCUSSION

On January 4, 2022, the Board approved a LMIHAF loan of up to \$4 million to Excelerate for development of The 26 Point 2 Project located at 3590 E. Pacific Coast Highway (Project). A copy of the staff report is attached for reference (Attachment A). The project will provide 76-units of permanent supportive housing for extremely low- and low-income individuals experiencing homeless, or who are at risk of homelessness.

The Project is currently under construction and is estimated to be completed early 2024. As the result of unforeseen remediation requirements related to three abandoned oil wells on the Project site, and the drastic increase in interest rates, the Project has experienced significant construction cost increases totaling \$2.86 million above contingencies.

All three oil wells on site, abandoned and inactive for approximately 100 years, needed remediation to current standards. One well, located under the building, required re-abandonment using the City of Long Beach's (City) equivalency standards. When construction began, and the wells were unearthed and opened, their final location and condition did not conform to the available documentation and public records previously assessed by the developer and City engineers and consultants during the design and plan check process. The re-abandonment took three months longer than initially anticipated and the building had to be modified to maintain the required clearances.

The remediation resulted in a \$1.3 million increase in hard costs above contingency. The Project also had a \$1.56 million soft cost increase above its soft cost contingency including: (a) \$1.2 million in additional construction loan interest (rates increased from 2.9% to approximately 7 percent); and (b) a \$360,000 increase for oil well related design/engineering, permitting, monitoring, and additional legal and financing costs. The total hard and soft cost increases total \$2.86 million.

Per the terms of the approved LMIHAF loan, The Long Beach Community Investment Company (LBCIC) disbursed \$3 Million at the start of construction and held \$1 million as a contingency loan to be disbursed, if needed, during construction. Excelerate was required to apply for, and was awarded, Federal Home Loan Bank of California Affordable Housing Program (AHP) funds to be used to repay any LBCIC at construction completion for any funds disbursed over \$3 million.

To date, the LBCIC has not disbursed any funds from the contingency loan as the Project was awarded AHP funds. Furthermore, Excelerate has identified additional permanent financing including \$1.1 million in additional investor equity from National Equity Fund, \$1.0 million from the County of Los Angeles, and increased deferred developer fee in the amount of \$260,000. These increases total \$2.36 million, leaving a remaining financial gap of \$500,000.

Excelerate submitted a request for the LBCIC to disburse the \$1 million contingency loan to cover the remaining gap during construction, and a request to repay only \$500,000 at construction completion, resulting in a \$3.5 million permanent loan from the LBCIC.

As a matter of policy, staff generally does not support loan increases additional expenditures once a project enters the construction stage, however the facts and in circumstances with this specific project are extraordinary and beyond the control of the developer project sponsor. Staff recommends that the LBCIC should continue to limit post-closing expenditures and increases, but however extraordinary and exceptional circumstances do occur and can be considered on a case-by-case manner.

Based on the aforementioned factors, staff recommends an increase in the amount of the permanent LMIHAF loan from \$3 million to \$3.5 million. The proposed project supports the implementation of the City's Certified Housing Element Program 4.1 (Affordable Housing Development Assistance); therefore, staff supports the approval of the loan amendment.

SUGGESTED ACTION:

Approve Recommendations.

CK:MS:SM